USDA

United States Department of Agriculture

2006 Performance and Accountability Report

Investing in our Nation's Food, Nutrition, Rural Communities and Natural Resources to Create a World of Opportunities

Table of Contents

Message from the Secretary

The United States Department of Agriculture (USDA) appreciates this opportunity to share with all Americans, Congress and the Executive Branch information on the progress made on your behalf during the past year.

From enhancing economic opportunities for agricultural producers, to protecting the Nation's food supply, to improving nutrition and health, to protecting the Nation's natural resources and environment, USDA has a proud record of accomplishment in FY 2006. We are pleased to share the highlights of our efforts in this *FY 2006 Performance and Accountability Report*.

USDA and its more than 100,000 employees touch the lives of every American every day. The 143-year-old USDA is one of the most complex departments in the Federal Government, with more than 300 programs. Annually, we spend more than $75 billion of our fellow Americans' money. In 2006, these resources helped:

- Aid U.S. agricultural producers battered by severe weather conditions;
- Expand economic opportunities and security for farmers, ranchers and rural communities by implementing the Farm Security and Rural Investment Act of 2002;
- Provide access to a healthy diet for needy households;
- Improve the health of low-income pregnant and postpartum women, infants and children;
- Enhance U.S. farm export opportunities by advancing America's commitment to free trade;
- Implement the President's Healthy Forests Initiative;
- Protect public safety, homes and resources during a severe fire season;
- 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 areas;
- Modernize the nutrition guidance we give the Nation to reflect the latest scientific information and combat our country's growing obesity epidemic;
- Further advance food safety and protect U.S. agriculture from both existing and emerging threats; and
- Leverage technology to ensure that the resources provided to us by Congress and the American people reach those who need them, with minimal expense and maximum impact.

The USDA Senior Management Control Council, co-chaired by the Deputy Secretary and the Chief Financial Officer, oversees and administers the Department's assessment of internal controls for our programs, financial systems and financial reporting relating to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). I am proud to report that USDA fully implemented the requirements to assess and report on internal control for financial reporting this year — a significant accomplishment given the scope of our activities and the complexity of our operations. Our assessment identified four material weaknesses in our financial reporting controls for which we have created and begun executing corrective actions plans. As such, I provide qualified assurance that, except for the material weaknesses described in the Management Assurances section of this report, USDA management controls, financial systems and financial reporting controls meet the objectives of FMFIA and FFMIA. The financial and performance information presented herein is complete and accurate, and in accordance with Office of Management and Budget guidance and the Reports Consolidation Act of 2000.

USDA was first called "the people's department" by President Abraham Lincoln. I believe we still live up to that title. I am proud of our employees and the positive impact their diverse efforts have had on American life during 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 I look forward to reporting even more progress in the year ahead.

Mike Johanns
Secretary of Agriculture
November 15, 2006

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 2006 Performance and Accountability Report is the year-end progress report of the United States 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. The data used by USDA to measure actual performance is collected using standardized methodology that has been vetted by Federally employed scientists and policymakers and, ultimately, by the undersecretaries of the respective mission areas, all of whom attest to the completeness, reliability and quality of the data.

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 interested in the workings of their government and USDA's ability to "manage for results" in performing its many vital public functions.

I.

Management's Discussion and Analysis

An Overview of the United States Department of Agriculture

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

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

- Enhancing economic opportunities for U.S. farmers and ranchers;
- Ensuring a safe, affordable, nutritious and accessible food supply;
- Caring for public lands and helping people care for private lands;
- Supporting the sound, sustainable development of rural communities;
- Expanding global markets for agricultural and forest products and services; and
- Working to reduce hunger and improve America's health through good nutrition.

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

This report provides information on USDA's core performance measures as described in its revised FY 2006 Annual Performance Plan/Performance Budget. There are six strategic goals that guide the Department today. Strategic goals one and two contribute to the economic opportunities for agricultural producers. They are:

- To enhance international competitiveness of American agriculture;
- To enhance the competitiveness and sustainability of rural and farm economies;
- To support increased economic opportunities and improved quality of life in rural America;
- To enhance protection and safety of the Nation's agriculture and food supply;
- To improve the Nation's nutrition and health; and
- To protect and enhance the Nation's natural resource base and environment.

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

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

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

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

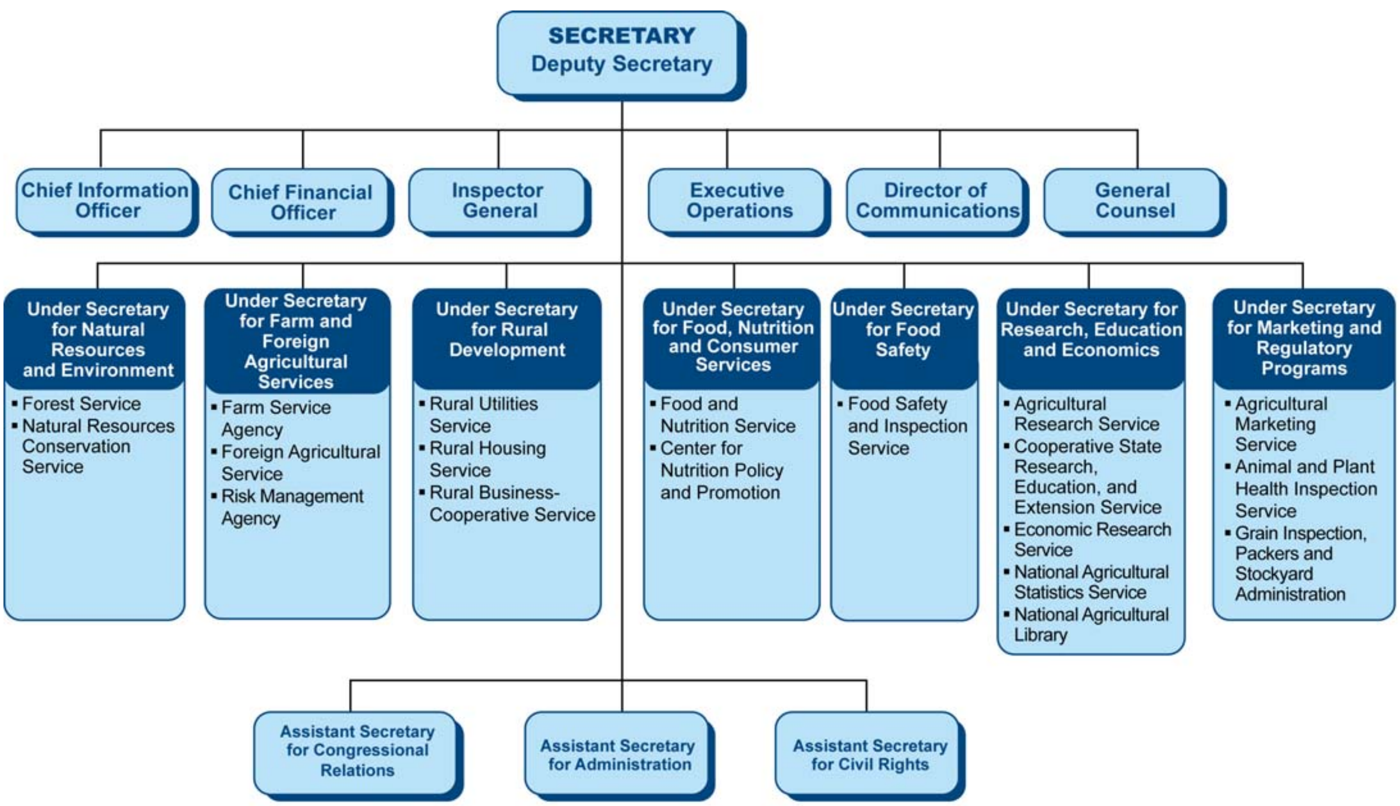


Exhibit 1: Headquarters Organization

Mission Statement

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

USDA's FY 2006 key milestones include:

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

MISSION AREAS

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

Natural Resources and Environment

The Natural Resources and Environment (NRE) mission area consists of the Forest Service (FS) and the Natural Resources Conservation Service (NRCS). These agencies work to ensure the health of the land through sustainable management. FS manages 193 million acres of national forests and grasslands for the American people. NRCS assists farmers, ranchers and other private landowners in managing their acreage for environmental and economic sustainability. Both agencies work in partnership with Tribal, State and local Governments, communities, related groups and other Federal agencies to protect the Nation's soils, watersheds and ecosystems.

Farm and Foreign Agricultural Services

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

This mission area also includes two Government-owned corporations. The Commodity Credit Corporation (CCC) works to stabilize farm income and prices to help ensure an adequate, affordable supply of food and fiber. This corporation is the financial mechanism by which agricultural commodity, credit, export, conservation, disaster and emergency assistance is provided. The

Federal Crop Insurance Corporation (FCIC) improves the economic stability of agriculture through a sound system of crop insurance.

Rural Development

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

Food, Nutrition and Consumer Services

The Food, Nutrition and Consumer Services (FNCS) mission area is comprised of the Food and Nutrition Service (FNS), which administers Federal nutrition programs, and the Center for Nutrition Policy and Promotion (CNPP), which provides science-based dietary guidance to the Nation. USDA's 15 Federal nutrition assistance programs include the Food Stamp Program, Child Nutrition Programs, such as school lunches and breakfasts, and the Special Supplemental Nutrition Program for Women, Infants and Children. These programs provide vital access to nutritious food and support for better dietary habits for one in five Americans. USDA's nutrition research and promotion efforts aid all Americans by linking cutting-edge scientific research to the nutritional needs of consumers.

Food Safety

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

Research, Education and Economics

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

Marketing and Regulatory Programs

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

DEPARTMENTAL OFFICES

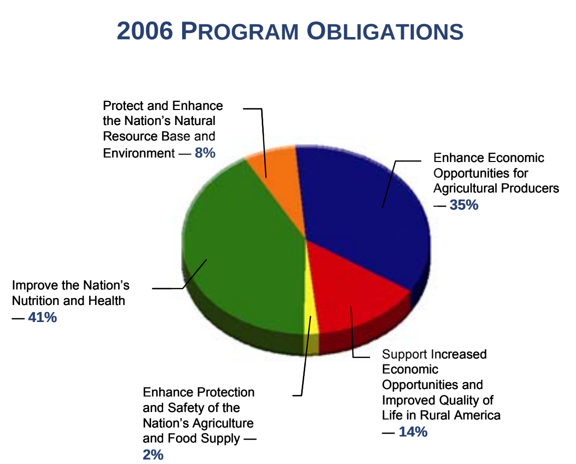
Department-level offices provide centralized leadership, coordination and support for USDA's policy and administrative functions. Their efforts maximize the energy and resources agencies devote to the delivery of services to USDA customers and stakeholders.

Resources

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

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

USDA Program Obligations Dedicated to Strategic Goals	
FY 2006 Actual	FY 2005 Actual



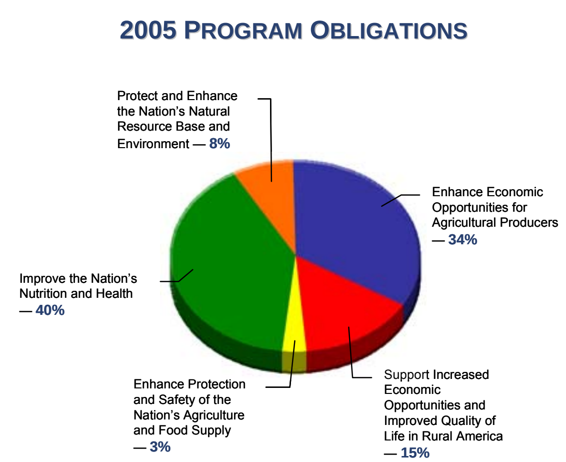
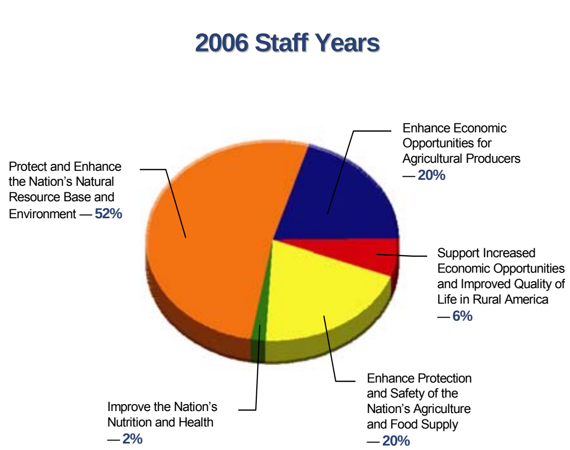
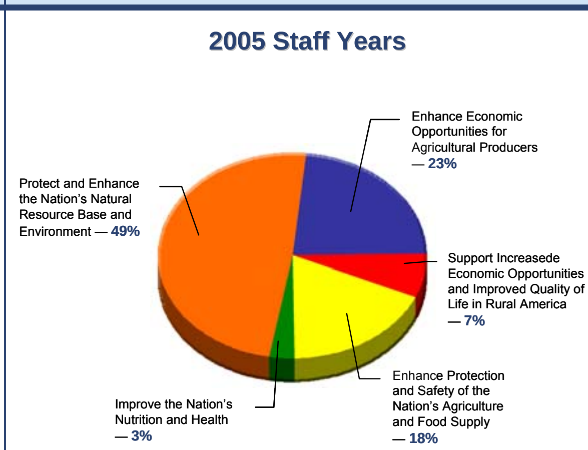


Exhibit 3: FY 2006 and 2005 USDA Staff Years Dedicated to Strategic Goals

USDA Staff Dedicated to Strategic Goals	
FY 2006 Actual	FY 2005 Actual





Performance Goals, Objectives and Results

Of the 38 performance goals contained in USDA's FY 2007 and Revised FY 2006 Budget Summary and Annual Performance Plan, 32 were met or exceeded, 1 was reported as deferred and 5 were unmet. The following Performance Scorecard table, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analyses of these results can be found in the Performance Section of this report.

Exhibit 4: USDA Scorecard for FY 2006

Performance Scorecard for FY 2006				
Objectives		**Annual Performance Goals**		**Result**
Strategic Goal 1: Enhance International Competitiveness of American Agriculture				
1.1	Expand and Maintain International Export Opportunities	1.1.1	Dollar value of agricultural trade expanded through trade agreement negotiation, monitoring, and enforcement (Non-Sanitary and Phytosanitary)	Unmet
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Number of mothers, infants and schoolchildren receiving daily meals and take-home rations under McGovern-Dole	Exceeded
		1.2.2	Number of recipient countries that make substantive improvements in national trade policy and regulatory frameworks that increase market access	Met
1.3	Improved Sanitary and Phytosanitary (SPS) System to Facilitate Agricultural Trade	1.3.1	Increase the dollar value of trade expanded through negotiation or preserved through USDA staff intervention and trade agreement monitoring activities (Sanitary and Phytosanitary) ($ in millions)	Exceeded
Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies				
2.1	Expand Domestic Market Opportunities	2.1.1	Number of items designated as biobased for Federal procurement	Met
2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems	2.2.1	Agricultural Statistics Board reports released on time	Met
2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers	2.3.1	Increase the value of Federal Crop Insurance Corporation (FCIC) risk protection coverage provided through FCIC-sponsored insurance ($ in billions)	Exceeded
		2.3.2	Increase percentage of program benefits delivered through a Web environment	Met
		2.3.3	Increase percent of loans to beginning farmers, racial and ethnic minorities, and women farmers financed	Exceeded
		2.3.4	Reduce average processing time for direct loans	Exceeded
		2.3.5	Reduce average processing time for guaranteed loans	Exceeded
Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America				
3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth	3.1.1	Jobs Created or Saved	Exceeded
3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities	3.2.1	Homeownership opportunities provided	Unmet
		3.2.2	Customers served by new or improved water and waste disposal facilities	Exceeded
		3.2.3	Customers served by new or improved community facilities	Exceeded
		3.2.4	Customers served by new or improved electric facilities	Exceeded
		3.2.5	Customers served by new or improved telecommunications facilities	Exceeded

Performance Scorecard for FY 2006				
Objectives		**Annual Performance Goals**		**Result**
Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
4.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.	4.1.1	Prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products	Exceeded
		4.1.2	Prevalence of *E. coli* 0157:H7 in ground beef	Exceeded
		4.1.3	Number of consumers reached with food safety messages	Met
4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	4.2.1	Improve the capabilities of animal and plant diagnostic laboratories	Met
		4.2.2	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	Met
		4.2.3	Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	Unmet
Strategic Goal 5: Improve the Nation's Nutrition and Health				
5.1	Improve Access to Nutritious Food	5.1.1	Eligible populations participating in the major Federal nutrition assistance programs	Met
5.2	Promote Healthier Eating Habits and Lifestyles	5.2.1	Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed)	Exceeded
5.3	Improve Nutrition Assistance Program Management and Customer Service	5.3.1	Increase Food Stamp payment accuracy	Deferred
Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment				
6.1	Protect Watershed Health to Ensure Clean and Abundant Water	6.1.1	Number of Comprehensive Nutrients Management Plans applied ▪ Conservation Technical Assistance ▪ Environmental Quality Incentives Program	Met
		6.1.2	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	Met
6.2	Enhance Soil Quality to Maintain Productive Working Cropland	6.2.1	Conservation plans for cropland written, million acres	Met
		6.2.2	Reduction in acreage of cropland soils damaged by erosion, millions of acres ▪ Conservation Technical Assistance Program ▪ Environmental Quality Incentives Program	Met
6.3	Protect Forests and Grasslands	6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	Unmet
		6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II or III outside the wildland-urban interface	Unmet
		6.3.3	Number of acres of other hazardous fuel treated that are outside the wildland-urban interface	Exceeded
		6.3.4	Conservation plans written for grazing lands	Exceeded
		6.3.5	Grazing lands with conservation applied to protect the resource base and environment, Conservation Technical Assistance, millions of acres	Exceeded
		6.3.6	Grazing lands with conservation applied to protect the resource base and environment, Environmental Quality Incentives Program, millions of acres	Exceeded

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

ACTIONS ON UNMET AND DEFERRED GOALS

USDA continuously works to improve its performance across all of its strategic goals and objectives. While substantial anecdotal information exists that USDA has been successful in pursuing its strategic objective to improve the Nation's nutrition and health, with the exception of research goals, the Department has deferred reporting on these goals until accurate and complete data are available to document the progress of these efforts in FY 2006. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, the Department consciously alters its approach in ways that enhance its service to the public, but makes a specific performance goal a less effective indicator of real progress. The Annual Performance Report section of this report offers further discussion of the Department's actions on its goals.

Management Challenges

The Office of Inspector General (OIG) prepares an annual report to the Secretary on the most serious management challenges faced by the Department (Appendix A). USDA management addresses these challenges and, if applicable, responds by providing accomplishments for the current fiscal year and/or planned actions for the upcoming fiscal year. All of the challenges identified in FY 2005 remain for FY 2006, and one new challenge was added. However, the OIG has removed issues associated with certain challenges because of the improvements made by the Department. The following table identifies only those challenges that changed from FY 2005 to FY 2006.

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

FY 2005 Management Challenges	FY 2006 Changes
	Issue New—Develop a comprehensive approach for surveillance and monitoring for outbreak of *avian influenza*, including live bird markets or other "off-farm" environments. **Issue Moved from challenge #1**—Ensure animal disease surveillance program policies and procedures are well defined and supportable. **Issue New**—Develop an information system to better track noncompliance violations related to specified risk materials. **Issue New**—Improve security and accountability of explosives and munitions.
(4) Department-wide Efforts and Initiatives on Genetically Engineered Organisms Need to be Strengthened	**Issue Removed**—Strengthen germplasm policies and procedures. **Issue New**—Develop a comprehensive strategy for increasing exports of genetically engineered crops.
	Challenge #7 Added—USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight: • Provide sufficient oversight to ensure that monies allocated for housing, food stamps, conservation and farm programs are used effectively.

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

USDA's Management Challenges

1) Interagency Communications, Coordination, and Program Integration Need Improvement

- Integrate the management information systems used to implement the crop insurance, conservation and farm programs; and
- Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.

Fiscal Year 2006 Accomplishments

- Developed a Web-based notification system to allow FSA county offices and approved insurance providers to communicate on reported discrepanices in information provided by producers and to track the progress in resolving the discrepancies.
- FSA and RMA improved the 2001 Reconciliation Process by working together on recommendations to standardize RMA and FSA common business elements and reporting requirements.
- NRCS and FSA met to strengthen interagency communication in regard to the Wetland Reserve Program (WRP) implementation, and the effect on issuing payments under the Direct and Counter-Cyclical (DCP) Program. Clarification of notification to producers for WRP participation was addressed and corrected in September 2006.

Planned Actions for Fiscal Year 2007

- USDA will pilot a Comprehensive Information Management System (CIMS) Managers' Report to identify differences in information provided by producers to RMA and FSA;
- FSA will update procedures for reconciliations, obtain data from RMA to conduct reconciliations, and provide results to RMA;
- FSA and NRCS managers will meet once a week to improve communication and to assure that one agency's actions do not adversely affect the other agency's programs;
- Publish Routine Uses for System of Records in the *Federal Register* to allow producer information to be disclosed to RMA and subsequently to approved insurance providers, their agents and loss adjusters under contract with RMA; and
- Continue to develop and implement CIMS;
- Establish a FSA/RMA working group to review and implement consistent crop reporting dates;
- Enhance FSA/RMA transition tables to compare State, county and crop data;
- Continue efforts to design, build and implement new functionality within the Conservation Programs ProTracts application to streamline and integrate program management and program payments associated with easement programs better. This new functionally will leverage cross-agency Web services;
- Develop an integrated application for USDA's Grants Management Line of Business. This initiative will establish business processes and technology-based services to improve customer access, submission processes, decision-making and reporting;
- Continue cross-agency coordination meetings to address data sharing opportunities, common development practices, increase awareness of agency information systems and help eliminate duplicate information management systems. Current data sharing efforts include geospatial, eligibility Web services, land and tract information, payment information and customer files; and
- Continue efforts to incorporate data mining technology into its business applications to detect anomalies and potential for erroneous payments.

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

- Improve Forest Service (FS) internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Planned Actions for Fiscal Year 2007

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

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

- Emphasize security program planning and management.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments

- Performed periodic on-site compliance reviews.

Planned Actions for Fiscal Year 2007

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

- Improve access controls.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

- Increase oversight of configuration control processes.

- Implement appropriate application and system software change control.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

- Increase oversight of configuration control processes within the Department.

- Develop disaster contingency (service continuity) plans.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

- Fully implement the Living Disaster Recovery Plan System.

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

- Assign sufficient resources and provide management oversight.

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

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

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

Planned Actions for Fiscal Year 2007

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

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

- Strengthen GEO field testing process.

Fiscal Year 2006 Accomplishments:

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

Planned Actions for Fiscal Year 2007

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

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

Fiscal Year 2006 Accomplishments:

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

Planned Actions for Fiscal Year 2007

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

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

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

Fiscal Year 2006 Accomplishments

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

Planned Actions for Fiscal Year 2007

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

Future Demands, Risks, Uncertainties, Events, Conditions and Trends

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

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

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

- Weather-related hardships and other uncontrollable events at home and abroad;
- Domestic and foreign macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that can impact domestic and global markets greatly at any time;
- The availability of funds for financial assistance provided by Congress and the local and national economies;
- Sharp fluctuations in farm prices, interest rates and unemployment also impact the ability of farmers, other rural residents, communities and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State and local Governments that will influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases, such as *avian influenza* and *bovine spongiform encephalopathy,* to move quickly across national and foreign boundaries;
- Potential exposure to hazardous substances, which may threaten human health and the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security and related emergency preparedness efforts;
- The risk of catastrophic fire is dependent on weather, drought conditions and the expanding number of communities in the wildland-urban interface; and
- Efforts to reduce hunger and improve dietary behaviors depend on strong coordination between USDA and a wide array of Federal, State and local partners.

USDA's Results Agenda—Implementing Federal Management Initiatives

USDA is working to strengthen its focus on results through vigorous execution of the President's Management Agenda (PMA). This agenda focuses on management improvements that help USDA consistently deliver more efficient and effective programs to its stakeholders. This process is designed to improve customer service and provide more effective stewardship of taxpayer funds. As discussed in the Department's Strategic Plan for FY 2005-2010, USDA plans to:

- Ensure an efficient, high-performing, diverse workforce, aligned with mission priorities and working cooperatively with partners and the private sector;
- Enhance internal controls, data integrity, management information and program and policy improvements as reflected by an unqualified audit opinion;
- Reduce spending and burden on citizens, partners and employees by simplifying access to the Department's information. This enhancement is added by implementing business processes and information technology needed to make its services available electronically;
- Link budget decisions and program priorities more closely with program performance and consider the full cost of programs and activities;
- Reduce improper payments by developing targets and implemented corrective action plans;
- Efficiently and effectively manage its real property;
- Transform IT enterprise infrastructure to be cost effective and consistent across all agencies and geographic regions;
- Improve its research and development investments by using objective criteria; and
- Support the essential work of faith-based and community organizations.

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

Status	HUMAN CAPITAL	Progress

The PMA calls on Federal Government leaders to think boldly and strategically about ways to improve the management and performance of government.

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

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

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

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

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

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

- Moving aggressively to improve its human capital and increase workforce capacity. These improvements have benefited employees and resulted in better systems to hire, retain and reward employees.
  - USDA recruits thousands of individuals every year. In the past, many talented individuals were lost in the recruitment process due to lengthy hiring timelines. To improve this process, USDA revamped its hiring processes leading to substantial reductions in the time it takes to hire employees. For general schedule employees, hiring timelines dropped from more than 40 days to an average of just over 21 days, making it the best hiring timeline for a Cabinet-level agency in the Federal Government. For senior executive employees, hiring timelines decreased from more than 100 days 2 years ago to only 43 days. This is also one of the best hiring timelines in government;
  - On the 2004 Federal Human Capital survey, USDA employees indicated a concern that they were not being rewarded according to level of performance. Some employees receiving satisfactory ratings were getting performance awards equal to those receiving outstanding ratings. As a first step to correct this and ensure that performance awards are given according to level of performance, all agencies in USDA have transitioned to a multi-level performance appraisal system to allow for distinctions in performance. Additionally, USDA has issued guidance that performance awards tie to level of performance;
  - Under-representation continues to improve. Last year, USDA improved in the representation of Hispanics, American Indians and Asian Americans;
  - The USDA online training system, AgLearn, continues to expand. Close to 90,000 employees have desktop access to more than 1,800 courses, some leading to certificates and university degrees;
  - USDA has 19 mission critical occupations that tie directly to the accomplishment of the strategic goals of the organization. Occupations in the areas of general biological science, soil conservation, forestry, veterinary medicine, consumer safety, nutrition, statistics, food inspection and others are critical to the success of USDA's mission. As a result of an effort to identify and close skill gaps in these mission critical occupations, USDA closed gaps in all but 1 mission critical occupation, GS-404, Biological Science Technician, to less than 3 percent; and
  - Agencies in USDA such as the Forest Service and Food Safety and Inspection Service are moving forward with new leader development training programs to ensure that leaders and managers have the skills they need to manage the workforce of the future.

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

Status	COMPETITIVE SOURCING	Progress

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

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

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

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

Actions taken by USDA to achieve this result include:

(Competitive Sourcing results are reported to Congress annually on December 31 for the preceding fiscal year. The results provided in this report are for FY 2005 as reported to Congress on December 31, 2005.)

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

Challenges

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

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

Status	FINANCIAL PERFORMANCE	Progress

USDA's Financial Performance is overseen by the OCFO, which works in partnership with all USDA agencies and staff offices to ensure the Department's financial management reflects sound business practices. The PMA requires all Federal agencies to maintain an unqualified financial statement audit opinion, which indicates a Department's financial statements are free of significant errors or misstatements. USDA financial managers have focused significant attention on enhancing internal controls, improving asset management, implementing a standard accounting system and improving related corporate administrative systems across the Department. USDA's clean audit opinion was sustained in FY 2006.

Effectively managing the use of taxpayer dollars is a fundamental Federal responsibility. USDA intends to ensure that all funds spent are accounted for properly to taxpayers, Congress and the Government Accountability Office. The OCFO works to improve financial management, in partnership with the chief financial officers (CFOs) of USDA agencies, as a core attribute of the Department's operating culture. OCFO is working closely with USDA agencies to eliminate all material weaknesses.

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

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

The FMMI investment has the following key attributes:

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

Reducing the Number of Financial System Feeders—USDA's current financial management system portfolio uses administrative systems to "feed" data into and provide an integrated financial system solution. Until the legacy applications are retired and replaced, they will be kept compliant with the Financial Systems Integration Office core financial systems requirements.

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

FSA/CCC MIDAS The Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)—MIDAS will transform the delivery of farmer benefits through a direct linkage with USDA's FMMI system. This link will help reduce erroneous payments. MIDAS will increase staff productivity through streamlined and automated farm program procedures. Fewer staff will be needed to handle the current program volume as staff will be freed from cumbersome manual processing, duplicative data entry, and daily system maintenance activities required by the legacy environment. County office employees can focus on serving the customer while meeting program requirements. MIDAS also leverages modern technology to enable Web user interface and strengthens USDA's considerable investment in geospatial technology. MIDAS will provide automated real-time centralized payment eligibility determination, thorough documentation of business ownership/participation, and automated adjustments to payments for outstanding producer obligations. This will reduce timeframes from application to receipt of benefits; add self-service channels via the Internet; and store data centrally so that the customer is not bound to a single service center. In addition, the computer system will provide a repository of data and legal transaction records that will allow real-time queries to support the needs of Congress, FSA headquarters, the Office of Management and Budget, and other Federal agencies and organizations.

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

USDA's plans to improve financial management include:

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

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

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

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

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

Status	ENHANCING EGOVERNMENT	Progress

USDA launched a Department-wide effort in 2001 to improve the methods through which its agencies collectively executed its broad mission objectives. The Department's strategies, published in *USDA's eGovernment Strategic Plan* in 2002, focus on improving the delivery of information and services and reducing costs. USDA participates in 22 of the 26 Presidential eGovernment Initiatives and 8 of the 9 lines of business.

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

USDA activities for FY 2006 support the following goals:

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

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

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

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

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

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

Status	BUDGET AND PERFORMANCE INTEGRATION	Progress

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

USDA plans to:

- Continue using performance information during all stages of the budget process;
- Systematically evaluate programs and integrate the results of those evaluations into the budget decision-making process, i.e., rely upon PART assessments in budget formulation;
- Improve measurement of program performance and efficiency improvements; and
- Develop the Department's budget focusing on achieving the goals and outcomes contained in the new strategic plan.

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

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

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

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

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

Status	REAL PROPERTY	Progress

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

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

USDA's plans include:

- Obtaining approval of the USDA Asset Management Plan (AMP), which features policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission. It is designed to optimize the level of real property operating, maintenance and security costs;
- Implementing the approved USDA AMP and accompanying agency building block plans (BBPs);
- Continuing to gather data to establish baselines and draft goals and targets for asset management performance measures;

- Identifying and analyzing best internal USDA practices for possible implementation Department-wide;
- Ensuring that agencies close any remaining data gaps for constructed asset-level reporting;
- Maintaining a comprehensive inventory and profile of agency real property, and providing timely and accurate information for inclusion into the Government-wide real property inventory database;
- Continuing to draft the three-year rolling timeline for meeting goals and objectives of the AMP and BBPs. The timeline will include an initial list of assets for disposition and an investment prioritization list for mission critical and dependent assets; and
- Actively participating in such Government-wide management vehicles as the Federal Real Property Council (FRPC). FRPC provides a forum to address critical real estate and workplace issues challenging all Federal agencies.

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

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

- Submitting and receiving approval of the comprehensive AMP, including agency-specific BBPs;
- Implementing the USDA AMP and agency BBPs;
- Establishing baselines and draft goals and targets for asset management performance measures;
- Identifying best internal USDA practices and including implementation plans in the AMP initiatives for those determined to be for Department-wide implementation;
- Ensuring that USDA agencies continued closing data gaps in constructed asset-level reporting;
- Maintaining a comprehensive inventory and profile of agency real property;
- Providing timely and accurate information for inclusion into the Government-wide real property inventory database; and
- Finalizing the three-year timeline for meeting goals and objectives of the AMP and agency BBPs, and included an initial list of assets for disposition and an investment prioritization list for mission critical and dependent assets.

Status	RESEARCH AND DEVELOPMENT INVESTMENT CRITERIA	Progress

This program initiative calls on Federal agencies to apply a framework for planning and assessing research programs using three criteria—relevance, quality and performance. USDA's research and development agencies—the Agricultural Research Service (ARS); Cooperative State Research, Education and Extension Service (CSREES); Economic Research Service (ERS); National Agricultural Statistics Service; and Forest Service Research and Development—have moved aggressively to integrate this framework into their program planning and management processes. The use of the criteria is an effective means to ensure that programs are addressing the right issues, meeting high-quality standards and accomplishing their respective goals.

USDA's plans include:

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

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

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

- CSREES completed the last of 14 portfolio reviews covering its entire program. The reviews have stimulated additional program level activity, such as preparation of new strategic plans, reallocation of resources, hiring decisions and budget requests. On-going annual self-assessments of the portfolios assess progress;
- The FS Research and Development (R&D) Division designed its program assessment process based on the R&D criteria and completed its first program review. It also completed its first customer-satisfaction survey;
- ERS completing its first program review and drawing on the recommendations to enhance the program. A second review has begun;
- ARS continuing to conduct program reviews and establishing and filling a position to coordinate the program-review process; and
- ARS and CSREES using the R&D criteria in their PART analyses.

Status	ELIMINATE IMPROPER PAYMENTS	Progress

The Improper Payments Information Act (IPIA) was implemented in FY 2004 and became a President's Management Agenda (PMA) initiative in FY 2005. IPIA requires that agencies measure their improper payments annually, develop improvement targets and corrective action plans and track the results annually to ensure that the corrective actions are effective. OCFO has issued specific policy guidance including templates and timelines for implementing IPIA and meeting the goals of the PMA initiative.

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

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

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

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

USDA's plans include:

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

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

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

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

Status	IMPROVED CREDIT PROGRAM MANAGEMENT	Progress

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

- Develop risk factors for predicting the cost of loan programs;
- Require that guaranteed lending partners have effective loan-portfolio management and loss recovery rates;
- Verify that lending partners have established quality collateral valuation processes;
- Calculate the cost of originating, servicing and liquidating loans; and
- Comply with all relevant provisions of the Debt Collection Improvement Act of 1996.

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

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

USDA's plans include:

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

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

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

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

Status	FAITH-BASED AND COMMUNITY INITIATIVE	Progress

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

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

USDA's plans include:

- Ensuring that faith-based and community organizations have equal access to USDA programs;
- Educating these organizations about any programs designed to enhance their capacity to serve their communities;
- Continuing to reduce barriers and encourage participation through improved coordination with State and local organizations;
- Seeking opportunities to meet the needs of communities through USDA programs; and
- Reporting on progress to ensure that USDA is producing real results for Americans in need.

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

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

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

Financial Statement Highlights

BUDGETARY RESOURCES AND OUTLAYS

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

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

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

Data in millions

Appropriations increased by $20.9 billion during FY 2006. Commodity Credit Corporation (CCC) received $12.7 billion in funds for its prior year realized losses.The Food and Nutrition Service (FNS) reflected an increase of $6.4 billion, which was attributed primarily to greater participation in the Food Stamp Program and for higher food costs.

Obligations and Outlays

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

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

BALANCE SHEET AND NET COST OF OPERATIONS

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

CONDENSED BALANCE SHEET DATA

As of September 30, 2006 and September 30, 2005
(in millions)

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

Total Liabilities and Net Position	$134,229	$132,984	1%

Assets

Fund Balance with Treasury

Congressional appropriations are the primary funding source for USDA operations.

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

Accounts Receivable

In FY 2005, CCC recognized a public receivable in the amount of $7.1 billion under the Tobacco Transition Payment Program (TTPP). The receivable is recorded at the present value of the remaining expected receipts in the Tobacco Trust Fund over a ten-year period beginning in 2005 and ending in 2014. In FY 2006, $.9 billion was collected from assessments levied upon manufacturers and importers of tobacco products and importers of foreign tobacco.

Loans Receivable and Related Foreclosed Property

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

Rural Development offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These represent 83 percent of the total USDA loan programs. Commodity Loans and Credit Programs administered by Commodity Credit Corporation represent 9 percent of the total. CCC's loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide foreign food assistance, expand foreign markets, and provide domestic low-cost financing to protect farm income and prices. The remaining 8 percent of loans receivable are the direct and guaranteed loan programs administered by the Farm Service Agency, providing support to farmers who are temporarily unable to obtain private, commercial credit.

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

Improvements to Land, which represent 46 percent of the net PP&E, consist primarily of forest road surface improvements. Building Improvements and Other Structures represent an additional 23 percent. Other categories of PP&E include equipment and software.

Liabilities

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

Debt-Intragovernmental

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

Loan Guarantee Liability

USDA's loan guarantee liability is affected by guaranteeing new loans, adjustments from loan activity (i.e. collecting fees, interest subsidies, claim payments), and the annual reestimate of loan costs.

Other

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

Net Position

The Net Position on the Balance Sheet represents on an accrual basis, the changes of the assets and liabilities during the year and the current year Net Cost of

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

NET COST OF OPERATIONS

CONDENSED STATEMENT OF NET COST

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

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

Systems, Controls and Legal Compliance

Management Assurances

STATEMENT OF ASSURANCE

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

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

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

Mike Johanns
Secretary of Agriculture
November 15, 2006

Federal Managers' Financial Integrity Act Report on Management Control

Background

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

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

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

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

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

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

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

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

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

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

FY 2006 Results

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

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

- **USDA Information Technology (IT)**—Management identified internal control deficiencies in the design and operating effectiveness of controls in the following four general computer control areas which aggregate to an overall IT Material Weakness: Logical Access Controls, Physical Access Controls, Software Change Controls and Disaster Recovery. Agency internal control weaknesses were aggregated and contribute to the USDA material weakness as identified below.
    - **Logical Access Control**—Weaknesses include user accounts without approved access request forms, lack of certification of access to critical files and databases, weak password parameters, lack of audit logs, lack of audit log review and terminated users whose access to IT systems has not been removed;
    - **Physical Access Control**—Weaknesses include lack of access approval documentation to data centers, and financially significant systems and software operating outside of controlled data centers;
    - **Software Change Control**—Weaknesses include changes made to software without testing, unauthorized users with the ability to update production data and incomplete change control documentation; and
    - **Disaster Recovery**—Weaknesses pertain to the lack of timely recovery capability and controls in the event of a disaster, such as established agreements for backup recovery sites.
- **USDA County Office Operations**—The Commodity Credit Corporation (CCC) issues payments and loans to farmers through the Farm Services Agency's 2,400 county offices. Given the large number of offices and the limited resources available to staff them, management acknowledged that segregation of duties and access issues exist because a single employee can record, approve and issue payments, and create and maintain producer information, and approve and issue commodity loans and receive loan repayments.
- **Financial Accounting and Reporting**—CCC and FS management reported a lack of effective preventive and detective controls around the completeness, accuracy and validity of accrual estimate calculations. While the FS was successful in downgrading accruals from a standalone material weakness, the reportable condition when aggregated at the Department level remains a material weakness.

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

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

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

Historical Data on Material Weaknesses

In FY 2005, USDA identified three material weaknesses. In FY 2006, one new material weakness and additional areas of concern for the IT material weakness were added as a result of the assessment of internal control over financial reporting.

Exhibit 5: Material Weaknesses Increased Slightly

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

Summary of Material Weaknesses

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

Material Weakness	1. USDA Information Technology	Overall Estimated Completion Date	FY 2008

Description—Weaknesses have been identified in changes made to software without testing, unauthorized users updating production data, incomplete change-control documentation, lack of timely recovery capabilities in the event of a disaster, lack of certification of access to critical files and databases, weak password parameters, lack of audit logs and reviews, users without appropriate access forms, terminated users not being removed from IT systems, and mission-critical and software operated outside of controlled data centers or in data centers without adequate physical and environmental protection.

Responsible Agency(ies)—Multiple agencies.

Initiative 1.1—Software Change Control

Critical Corrective Action Milestones:

- Evaluate options and conduct market research based on requirements analysis to determine configuration management software;
- Update policies, procedures and directives over systems design life cycle development, testing approval and implementation;
- Implement procedures, processes and tools and train all staff;
- Implement Virtual Local Area Network to install separate environments;
- Test implementation of processes and procedures regularly by selecting changes moved to production for appropriate documentation;
- Ensure new users, who require the ability to move code to production in accordance with configuration management procedures, complete an access-request form and obtain appropriate security officer approval prior to obtaining access;
- Perform quarterly reviews of access permissions to production servers, security logs, critical folders, file creation, file modification for the separate environments to ensure controls are operating effectively;
- Develop and execute a project to clean up Access Control Facility (ACF2) access rules;
- Review all systems for the presence of outdated software and update or delete any identified;
- Review all systems for missing critical patches and/or updates; and
- Review any improperly configured services, servers or systems and configure them in accordance with best practices and Federal criteria.

Initiative 1.2—Disaster Recovery

Critical Corrective Action Milestones:

- Purchase and install servers in alternate Web farm locations;
- Ensure that contigency and disaster recovery plans are in
- Review failover test results, update disaster recovery plans and implement required changes for all USDA financially significant

Material Weakness	1. USDA Information Technology	Overall Estimated Completion Date	FY 2008

compliance with NIST Special Publication 800-34.

- Develop comprehensive test plans for testing critical applications;
- Conduct annual disaster recovery failover tests for all USDA financially significant applications;

applications;

- Implement contract for recovery services on critical WebFarm applications; and
- Develop continuity of operations plan, regional service-level agreements, contracts for back-up sites and business impact analyses for critical data centers.

Initiative 1.3—Logical Access Controls

Critical Corrective Action Milestones:

- Develop procedures and provide training on approving and granting access to financially significant applications and general support systems;
- Conduct quarterly reviews of access requests to ensure compliance with procedures;
- Develop procedures and provide training to ensure that the quarterly verification process is performed by the appropriate official for user recertification of access to financially significant applications and general support systems;
- Identify user role types and definitions, and map the current users to roles by job assignments;
- Increase application password parameters to greater than six characters and enforce lockout after a limited number of failed login attempts for financially significant applications;
- Develop processes and procedures for distributing audit log report covering security violations, database administrator activity logs, network administrator activity logs and access to sensitive datasets and resources;
- Develop process to monitor the review of reports using tracking tools;
- Generate reports and notification to recipients of security reports and produce monthly status reports showing reports created and received (information security chief approves and signs the status);
- Perform independent verification to determine that audit logs are being reviewed by management and responses monitored by information security;
- Prepare cost summary and justification to fund additional servers, central processing units and storage to support audit log software;
- Implement database audit logging and initiate supervisory review of database administrator activity;
- Implement an automated process that runs nightly to identify and disable user accounts on general support systems with more than 120 days of inactivity;
- Develop an employee-transfer policy addressing handling of property, purchase cards and access to information systems;
- Establish a process to identify financially significant applications and general support systems to review against human resource report of active employees and conduct periodic reviews;
- Develop process to validate the completion of reviews and independently verify if separated or transferred employees still possess information system access;
- Ensure that all third-party connections to USDA networks are identified and conform to security standards by obtaining Interconnection Security Agreements, performing security scans prior to network connection and implementing detective controls to identify unapproved devices; and
- Revise USDA network firewall rules to restrict access to only protocols and ports specifically required for USDA-agency mission delivery.

Initiative 1.4—Physical Access Controls

Critical Corrective Action Milestones:

- Review data center physical access policies and procedures, and revise where necessary;
- Update computer room facilities or migrate to alternative approved data centers;
- Test all environmental controls regularly, at least annually;
- Perform recertification of all users with physical access to data center(s) on an ongoing basis at least annually;
- Obtain physical access request forms for all new users or users for whom an initial form was never completed;
- Test for completion of new access request forms and successful completion of data center access recertification;
- Conduct site surveys to determine county office physical access baseline;
- Develop uniform access policies for county offices; and
- Consolidate county office data centers.

Material Weakness	2. USDA County Offices Operations	Overall Estimated Completion Date	FY 2009

Description—Segregation of duties and compliance with manual controls in FSA county offices has become difficult to maintain. Controls and procedures developed to function with previous staffing are no longer effectively maintaining internal control over financial reporting.

Responsible Agency(ies)—FSA/CCC

Initiative 2.1—Management of Producer Banking Information Changes

Critical Corrective Action Milestones:

- Perform monthly spot checks of changes made to producer banking information;
- Use automated monitoring to identify potentially suspicious change activity;
- Process bank account changes centrally using Form 1199A and maintain adequate segregation of duties; and
- Automate notification to producers of banking information changes.

Initiative 2.2—Centralize Checkwriting

Critical Corrective Action Milestones:

- Conduct monthly spot checks of State and County Office Automation Project (SCOAP) disbursements for compliance policy and procedure;
- Verify check stock inventory monthly;
- Centralize the payment process through the National Processing Service and remove the paper-based certification from SCOAP;
- Implement an automated monitoring tool to ensure proper roles are maintained; and
- Remove paper checks, conduct check inventory, destroy checks and notify financial-processing institutions.

Initiative 2.3—Internal Control over Collections

Critical Corrective Action Milestones:

- Formalize remittance acceptance controls;
- Test these controls quarterly; and
- Eliminate cash collections.

Initiative 2.4—Training and Improved Accountability

Critical Corrective Action Milestones:

- Train field personnel on the nature and importance of controls and potential risks of non-compliance; and
- Provide for testing of individual accountability and relate results to the annual performance process.

Material Weakne ss	3. Financial Accounting and Reporting	Overall Estimated Completion Date	FY 2007

Description—Improvement needed in financial accounting and reporting policies, practices and procedures.

Responsible Agency(ies)— CCC and FS

Initiative 3.1—Accruals

Critical Corrective Action Milestones:

- Develop a decision-tree to define the appropriate accounting treatment for different types of accruals;
- Refine the accrual methodology to consider seasonality;
- Include additional variables into the accrual statistical model to better substantiate the correlation of unliquidation obligations and payment data;
- Review and enhance policies and procedures specific to each producer payment program to specifically describe the mechanics of the accrual calculation and key program expense drivers to be used to perform the final program accrual analytical review; and
- Reassess the frequency of review for approved accrual entries.

Initiative 3.2— CCC Financial Statements	
Critical Corrective Action Milestones: • Assess and revise the overall process used to compile and review the financial statements and notes; • Document the Statement of Financing compilation process; and	• Implement quality review procedures to comply with OMB Circular A-136, Financial Reporting Requirements.

Material Weakness	4. Funds Control Management	Overall Estimated Completion Date	FY 2007
Description—Improvements needed in funds control mechanisms.			
Responsible Agency(ies)—Department-wide			
Initiative 4.1—Unliquidated Obligations			
Critical Corrective Action Milestones: • Document CCC obligation business events and develop solutions for providing pre-authorization of funds; • Prepare system requirements documentation; • Complete systems modernization business case; • Develop the to-be process design; • Prepare a request for proposal for replacement of non-compliant processing systems;		• Select and implement software package; • Establish a Department-wide approach to ensure the effectiveness of control procedures related to unliquidated obligations; and • Implement revised policy for certification of outstanding obligations.	

Federal Financial Management Improvement Act Report on Financial Management Systems

Background

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

FY 2006 Results

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

In assessing on FFMIA conformance, USDA considered all the information available. This information included the auditor's opinions on component agencies' financial statements, the work of independent contractors and progress made in addressing the material weaknesses identified in the *FY 2005 Performance and Accountability Report* — Report on Management Controls section.

While USDA's FY 2006 and FY 2005 Consolidated Financial Statements received an unqualified audit opinion from the Office of Inspector General (OIG), the auditor's Report on Compliance with Laws and Regulations also disclosed that the Department was not substantially compliant with FFMIA requirements. As a result of the assessment of internal control over financial reporting and the financial statement audit, additional weaknesses were identified in information technology management, financial accounting and reporting, and funds control. These material weaknesses also constitute non-compliances with FFMIA. Planned corrective actions to address these material weaknesses/system non-compliances are included in the preceding FMFIA Report on Management Control. The Department made some progress in addressing its information technology weakness. However, additional effort is required to comply substantially with the Act's requirements. USDA will continue monitoring progress on plans to improve its financial systems to comply fully with FFMIA and FISMA requirements. Significant accomplishments in FY 2006 are listed in the following exhibit.

Exhibit 7: Initiatives Completed

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

[1]Completed corrective actions for this initiative aply to both Section 1 and Section 4 (information security policiies, procedures or practices) noncompliances and therefore and not repeated in Section 4.

Exhibit 8: Initiatives To Be Completed

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

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date

Sections:

FFMIA:
1 – Federal financial management system requirements.
2 – Applicable Federal accounting standards.
3 – Standard General Ledger at the transaction level.

FISMA:
4 – Information security policies, procedures or practices.

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

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

BACKGROUND

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

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

FY 2006 Results

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

Exhibit 9: Decrease in Total Open Audit Inventory

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

Audit Follow-Up Process

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

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

Exhibit 10: Audit Follow-Up Definitions

Term	Definition
Disallowed Cost	An incurred cost questioned by OIG that management has agreed should not be chargeable to the Government.
Final Action	The completion of all actions that management has concluded is necessary in its management decision with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision is accomplished.
Funds To Be Put to Better Use (FTBU)	An OIG recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: • Reductions in outlays; • De-obligation 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 identified specifically.
Management Decision	Management's evaluation of the audit findings and recommendations, and the issuance of a final decision on corrective action agreed to by management and OIG concerning its response to the findings and recommendations.

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

Quarterly interim progress reports are provided to OCFO on the status of corrective action milestones listed in the time-phased implementation plan. These reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates and explanations for any revised dates.

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

Beginning and Ending Inventory for Audits with Disallowed Costs (DC) and Funds to Be Put to Better Use (FTBU)[1]

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

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

Exhibit 11: Inventory of Audits with Disallowed Costs[1]

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

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

Exhibit 12: Distribution of Adjustments to Disallowed Costs

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

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

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

Audits with Funds to be Put to Better Use	# of Audits	Amount ($)
Beginning of the Period	30	954,103,210
Plus: New Management Decisions	4	163,191,103
Total Audits Pending	34	1,117,294,313
Less: Final Actions	12	894,116,042
Audits with FTBU Requiring Final Action at the End of the Period	22	223,178,271
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		892,774,600
FTBU Not Implemented		1,341,442
Total FTBU Amounts for Final Action Audits		**894,116,042**

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

Audits Open One or More Years Past the Management Decision Date

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

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

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

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

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

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

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

Management's Report on Audit Follow-Up

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

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

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

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

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

Conclusion

It is hoped that this overview of the Department helps inform all stakeholders of the significant efforts underway to enhance, through sound management practices, the performance of all USDA programs and the Department's stewardship of the significant taxpayer dollars entrusted to it. Through the performance and accountability process, USDA has undertaken an intensive effort to link Departmental and program management to the only result that matters: the provision of valuable programs and services delivered in a high-quality, cost-effective way to the American people. While this section has focused on overall management efforts that encompass the Department as a whole, additional information on how these initiatives impact specific programs, agencies and USDA efforts can be found in the next section, the Annual Performance Report, which offers a detailed, objective-by-objective discussion of the progress USDA made in reaching its FY 2006 goals.

2/15/2007 1:34 PM

II.

Annual Performance Report

The United States Department of Agriculture's (USDA) 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 FY 2006 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 emerging 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 health and diets via targeted nutrition assistance programs;
- Fostering better nutrition and health with dietary guidance and promotion;
- Completing new free trade agreements, opening new international markets and maintaining existing 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:

- A strategic plan that contains the Department's long-term goals and strategies (www.ocfo.usda.gov);
- An annual budget summary and performance plan that outlines strategies and targets for achieving USDA's long-term goals (www.obpa.usda.gov); and
- A performance and accountability report that illustrates to the American people and Congress how well the Department did in reaching its goals.

Most of USDA's programs and activities are represented in specific performance goals and targets. The Department 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 physical and social sciences, and the provision of that knowledge to agriculture, forestry, consumers and rural America are fundamental to the Department's success. Accordingly, selected accomplishments in research are presented throughout this report. Data collection methodology is standardized and transparent and is vetted by scientists, policymakers, and undersecretaries. Methodology is available to the public through program administrators.

As part of the President's requirements to assess the effectiveness of USDA programs, each program is measured using the Program Assessment Rating Tool (PART) review. The PART identifies how well and efficiently a program is working and what specific actions can be taken to improve its performance. Other program evaluations, which discuss the achievements or conclusions from the completion of internal and other external assessments conducted during Fiscal Year (FY) 2006 related to the measures, are also included. Only Federal employees participated in the preparation of the performance information contained in the report.

When he created the USDA, 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." The following chapters of the *USDA Performance and Accountability Report* show how the Department committed itself to keeping President Lincoln's dream alive during FY 2006.

Strategic Goal 1: Enhance International Competitiveness of American Agriculture

A prosperous food and agricultural sector contributes to the Nation's economic vitality and standard of living. The sector's success depends on the ability to expand into new markets, raise capital, protect itself against financial risk and adjust to changing markets. Increasing the efficiency of the agricultural sector and developing new uses for agricultural products are critical to the Nation's economic health.

Expanding global markets for agricultural products is critical for the long-term economic health and prosperity of the domestic food and agricultural sector. America's natural resources, technologies and infrastructure enable agricultural production beyond domestic needs. Expanding global markets will increase demand for agricultural products and contribute directly to economic stability and prosperity for America's farmers. To expand overseas markets and facilitate trade, USDA assists in the negotiation, monitoring and enforcement of trade agreements. Working with producers and commodity trade associations, USDA administers an array of market development and export promotion programs designed to build long-term markets abroad. The Department helps expand trade opportunities through technical assistance and training programs. These tools support agricultural development and growth in developing countries. They also help these countries participate in, and benefit from, international trade. USDA works to facilitate trade by adopting science-based regulatory systems and standards.

Objective 1.1: Expand and Maintain International Export Opportunities

Overview

U.S. agricultural exports rose on broad-based gains for many products to a record $68.7 billion in FY 2006, up $6.2 billion from the previous year. This included a $1.8-billion increase in horticultural exports, mostly due to strong foreign demand and higher prices for many products. Gains for tree nuts and fresh fruit especially were strong. Corn exports rose $1.5 billion mostly on increased volume supported by a large U.S. crop and reduced foreign competition. Livestock product exports rose $1.2 billion supported by gains for beef, pork and animal hides. Cotton exports jumped $800 million on record sales to China and higher prices.

The Department works with the World Trade Organization (WTO) to establish export opportunities for U.S. agricultural producers. The WTO is charged with administering trade rules among its 149 member countries and customs areas. While the goal of reaching agreement on the outline of a new multilateral trade agreement by this past summer was not reached and efforts were suspended in July 2006, USDA continues working with Office of the U.S. Trade Representative (USTR) and its trading partners to reach that goal. The Trade Representative is the lead trade negotiator for the U.S. Government.

In 2006, free trade agreements with Nicaragua, El Salvador, Honduras, Guatemala and Bahrain took effect. The Dominican Republic will follow, and Costa Rica's new government is expected to ratify the Central American Free Trade Agreement (CAFTA) soon. CAFTA is a comprehensive trade agreement among Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua and the U.S. Agreements have also been reached with Peru and Colombia. These agreements require congressional approval.

USDA also continues work on other free-trade agreements, notably with Korea and Malaysia, which are expected to create new opportunities for U.S. agricultural exports. The Department looks to conclude these agreements prior to the 2007 expiration of the Trade Promotion Authority (TPA).

USDA also continues to monitor the impact of the North American Free Trade Agreement (NAFTA), a comprehensive trade-liberalization agreement between the U.S., Canada and Mexico. U.S. agricultural exports to its NAFTA partners continue to set records. Canada remains the largest market with U.S. sales at a record $11.6 billion in FY 2006. Canada is a major market for U.S. fresh and processed fruits and vegetables, snack foods, juices, wine and many other consumer-ready products. At a record $10.4 billion in FY 2006, Mexico remains the second largest market for U.S. agricultural exports having overtaken Japan in 2005. Mexico has enjoyed strong economic growth, with increased demand for foreign goods. While Mexico is a large buyer of coarse grains, soybeans, cotton and wheat, higher-value consumer foods are increasingly important. Strong Mexican demand is behind rising sales of U.S. pork, beef, poultry, fresh and processed fruits, and snack foods.

U.S. agricultural exports to Japan were $8.2 billion, making it the third-largest market. About 60 percent of sales to Japan consist of bulk and intermediate commodities, mainly coarse grains, soybeans, wheat and animal feeds. The rest of the sales are consumer-ready foods, mainly pork, fresh and processed fruits and vegetables, and tree nuts. Japan recently announced that it will resume beef trade, which had reached an annual level of $1.3 billion before the market was closed due to a finding of *bovine spongiform encephalopathy*, a chronic degenerative disease affecting the central nervous system of cattle.

The EU remains the fourth-largest market for U.S. agricultural products. It realized sales of $7.1 billion in FY 2006, up slightly from the previous year. The EU is a major market for soybeans, tobacco and animal feeds. It is also an important market for selected consumer foods and beverages, most notably tree nuts and wine. Opportunities remain limited in most other categories due to production subsidies which keep domestic supplies high, trade barriers that limit market access, and highly-competitive processed food industries.

U.S. agricultural exports to China, the fifth-largest market, reached a record $6.7 billion in FY 2006. Exports to China have risen rapidly in the past few years, mostly due to record soybean and cotton sales. China is also the largest market for U.S. animal hides. While for the most part U.S. consumer food sales remain modest, China has become an important poultry meat market and sales are rising for fresh fruit, tree nuts and many other consumer foods. China's trade barriers are being reduced through its WTO membership, producing dividends which will continue for the next several years.

In 2006, the EU was the fifth-largest market for U.S. agricultural products with sales of $6.6 billion, down from $6.9 billion in 2005. The EU is a major market for soybeans, tobacco and tree nuts — especially almonds. Wine sales are also noteworthy; wine is among the top five U.S. agricultural exports to the EU. Opportunities remain limited in most other categories. Production subsidies in the EU keep domestic supplies high, and trade barriers limit market access. Expansion opportunities for U.S. agricultural exports to Europe remain limited.

Key Outcome

Increased Access to Global Markets for U.S. Agricultural Producers and Exporters

USDA works closely with the USTR and other government agencies to pursue new trade agreements. These groups also work to enforce the provisions of existing agreements, providing U.S. exporters and consumers with the full economic benefit of trade agreements and rules. USDA also works to maintain effective government-to-government relationships that support open trade. Open trade will lead to increased export opportunities for U.S. farmers and agribusinesses. 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.

Selected Results in Research, Extension and Statistics

Controlling Flies in Exported Hay—The opportunity to export hay to Japan has been enhanced by its acceptance of phosphine fumigation as a quarantine treatment for polyethylene wrapped bales of Timothy hay. USDA scientists developed this treatment to control Hessian flies in hay. The treatment capped three years of collaborative research with the National Hay Association. It will help support a $70 million hay export market with Japan. Additionally, certification of the quarantine treatment by the Japan Ministry of Agriculture, Forestry, and Fisheries supports a $360 million market to Pacific Rim countries.

Improved Wheat Variety for Competitive Noodle Market—South Dakota State University, with USDA funding, has developed a healthier wheat flour of hard white winter wheat. Its creation assures U.S. competition in the growing noodle markets domestically and in southeast Asia, and in the flatbread markets of the Middle East and North Africa. This variety, "Wendy," is known for high protein content, does not require sugar to be added to the dough, and is low in an enzyme that causes noodle discoloration.

Consumption and marketing patterns are changing rapidly in China, the world's largest consumer of many U.S. agricultural commodities. These changes are generating uncertainty for food marketers. A USDA-funded conference, "Assessing the Chinese Market for U.S. Agricultural Products," featured Chinese economists who provided current information and outlooks on agricultural trends. WERA-101 efforts to facilitate cooperation between scholars researching China's agriculture also have enhanced management information available to U.S. producers and processors greatly. (WERA-101 refers to conferences organized to assess important trends in China's agricultural economy.)

Facilitating Sales to Foreign Markets—Global Marketing Support Services (GMSS) has provided access to exporting resources and opportunities to companies interested in expanding international sales. Partially supported with USDA research and extension formula funding to the University of Arkansas-Fayetteville, GMSS activities have created 120 new jobs, $3.4 million in labor income and $5.5 million in value added to the Arkansas economy.

India's Emerging Global Presence—USDA research shows how commodity trade patterns are changing with India's rising income. It also shows that decreasing protectionism can further trade and improve welfare. For example, the apple report indicates that investment and open market competition that reduce high internal marketing costs and margins offer scope for significant gains in Indian apple consumption and imports.

USDA World Trade Negotiations— USDA research on trade policy provided analytical support to help inform and strengthen U.S. negotiating positions on agriculture. The analysis focused on the implications of U.S., European and other proposals for reforming global trade. USDA developed quantitative estimates of the impacts of market access and export subsidy liberalization under each of the main proposals and those on U.S. trade and farm income. Recent work examined the impacts of dairy policy reform on global dairy markets. The resulting report suggests that foreign dairy policy reform would result in lower global supplies of milk and dairy products, higher world dairy prices and higher value of dairy trade.

Challenges for the Future

USDA can increase export opportunities for the U.S. through a WTO agreement providing new rules for agricultural trade while working to complete other bilateral free trade agreements. New WTO rules would eliminate export subsidies, decrease trade-distorting domestic support and reduce market-access barriers around the world. Agriculture is a central theme for this round of WTO negotiations and a sensitive issue for most developing countries. In these countries, the food and agriculture sector is the dominant economic driver. Free trade agreements with Malaysia and Korea will lead to access to critical markets in Asia. If TPA is extended, USDA will be able to engage in even more market-opening activities. TPA is designed to enable U.S. negotiators to lead the way in completing major new trade agreements that advance the global interests of domestic agriculture. USDA will also continue to monitor the implementation of existing agreements to preserve existing trade and expand markets.

Analysis of Results

USDA did not reach its performance goal of $900 million because Costa Rica and the Dominican Republic did not ratify and implement CAFTA, and because of delays in finalization of the Peru and Colombia Free Trade Agreements. There were no large, unexpected threats addressed under Department monitoring and enforcement activities except for those related to sanitary and phytosanitary (SPS) barriers, which are accounted for separately under Objective 1.3. SPS refers to measures imposed by governments to protect human, animal and plant health from foreign pests, diseases and contaminants. The number of trade maintenance issues and their potential impact on U.S. exports depends primarily on foreign governmental action. Both the problems and the solutions are highly unpredictable. Solutions can range from a quick agreement with officials at the port of entry to a long negotiation process followed by a lengthy regulatory or legislative process. The cost of an action can range from a few thousand to billions of dollars.

USDA’s selection of this performance measure demonstrates the critical role that the negotiation and enforcement of trade agreements play in expanding and maintaining export opportunities. As the U.S. continues to negotiate new bilateral, regional and multilateral trade agreements, the challenge will be to monitor and enforce compliance. Monitoring will ensure that U.S. agriculture receives full benefits from negotiated reductions in tariff barriers.

The exact value of new markets opened through trade agreements is difficult to determine using traditional economic models. In a new market, there are little data to estimate consumer demand. 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. Therefore, it is difficult for USDA to estimate the impact of monitoring and enforcement efforts. Instead, the Department tracks only instances in which there is a clearly defined and imminent threat, which is then acted upon.

The figures in the accompanying exhibit reflect the uncertainty of trade negotiations and disruptions. Next steps include completion of the Doha Round of agriculture negotiations, various bilateral and regional free trade agreements, and continued monitoring and enforcement of existing agreements that affect U.S. agriculture. (The Doha Round refers to multilateral negotiations to liberalize trade.)

Exhibit 17: Increase U.S. Export Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
1.1.1	Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring, and enforcement (non-SPS) ($ Mil)	$900	$14	Unmet

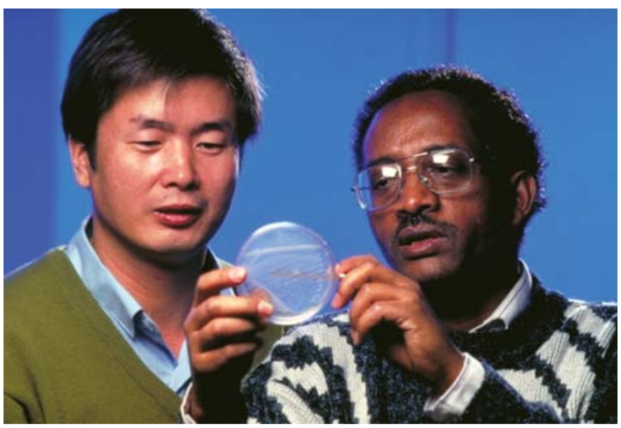
Exhibit 18: Trends in Expanding and Retaining Market Access

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
1.1.1	Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring, and enforcement ($ Mil) Baseline: 1999 = $2,567	$1,327	$2,713	$3,950	$800	$14

FYs 2002 - 2004 data is based on SPS and non-SPS related trade barriers. FY 2005 and 2006 data is based on non-SPS trade barriers.

Objective 1.2: Support International Economic Development and Trade Capacity Building

Overview



The ultimate goal for supporting developing countries is to help them become economically stable and capable of supporting their populations. USDA participates in this effort by providing food assistance and trade and development programs. The Department supports these programs along with other Federal agencies, such as the U.S. Agency for International Development. USDA technical assistance and training play a vital role in helping developing countries meet their WTO obligations, strengthen policy and regulatory frameworks, and avoid or eliminate unjustified trade barriers. Assistance in trade capacity building also supports market-infrastructure development. This development assistance includes market information, agricultural grades and standards, and the cold-chain technology by which perishables are kept cold until they reach consumers. The assistance also helps increase capacity to purchase U.S. exports. In combination with food assistance that covers gaps in supplies and keeps the population healthy, USDA deploys its unique resources and expertise in agricultural development activities. These activities help advance market-based policies and institutions, develop sustainable agricultural systems, and strengthen research and education in developing countries. Assistance focuses on improving agricultural productivity and markets as the engines for economic growth. The Department also helps developing countries increase trade and integrate the agricultural sector into the global economy through regulatory reform. Other priorities include reducing hunger and malnutrition with sustainable, productivity-enhancing technologies and supporting agricultural reconstruction in post-conflict or disaster areas.

Primary targets for USDA food assistance in developing countries are school children and their mothers. The McGovern-Dole International Food for Education and Child Nutrition Program provides for the donation of

U.S. agricultural commodities and associated financial and technical assistance for pre-school and school-based feeding programs in developing countries. McGovern-Dole also authorizes the support of maternal, infant and child nutrition programs. Its purpose is to support a healthy young population necessary for a stable society and a capable workforce. A healthy and literate workforce attracts jobs, supports a sustainable economy and helps establish a secure food supply through domestic production and imports.

Americans want a world in which all countries are stable. The 2002 National Security Strategy of the United States recognizes that the root of a foreign threat is the lack of economic development, which often results in political instability. The National Security Strategy is prepared periodically by the President for Congress and outlines the major national security concerns of the U.S., and how the administration plans to deal with them. For most developing countries, a productive and sustainable agricultural sector bolsters economic well-being. Thus, agricultural development is crucial to the National Security Strategy. In developing and transitioning economies, USDA focuses on:

- Eliminating trade and investment barriers to stimulate economic growth;
- Science and technology advancement to raise agricultural productivity in a sustainable environment to boost food availability and improve nutrition;
- Institution building to strengthen sustainable agriculture, market infrastructure and the development of market-information systems;
- Working with international standard-setting bodies to adopt science-based rules and policies; and
- Food assistance to support social stability and enhance economic development.

Recent examples of the above include progress toward adopting agricultural biotechnology in the Western Hemisphere and Southeast Asia. USDA efforts resulted in agreement by member countries of the Inter-American Institute for Cooperation on Agriculture, which agreed to develop a program on biotechnology and biosafety. Additionally, USDA, the U.S. Department of State and the 10 members of the Association of South East Asian Nations participated in a roundtable discussion on agricultural biotechnology. The group developed recommendations for continued agricultural biotechnology exchange with the U.S. The recommendations will be forwarded to the association's subcommittee on biotechnology.

Selected Results in Research, Extension and Statistics

USDA provided technical assistance and training to improve agricultural statistics programs in 10 countries. Short-term assignments supported work in Armenia, Brazil, China, Costa Rica, El Salvador, Georgia, Mexico, Mongolia, Russia and Ukraine. The Department also coordinated and/or conducted briefings and/or training programs in the U.S. for 158 visitors representing 17 countries. These assistance and training activities promote better data quality and improved access to data from other countries. Thus, U.S. analysts can understand the world supply and demand situation better. Improved analysis supports trade and more efficient marketing of U.S. agricultural products.

Challenges for the Future

Hunger and malnutrition still impact much of the world. USDA works closely with the United Nations' World

Food Program and private voluntary relief and development organizations. The program offers food assistance to natural-disaster victims, the displaced and the world's hungry and poor.

Key Outcome

Improved Ability in Developing Countries to Sustain Economic Growth and Benefit from International Trade

Trade-capacity building (TCB), or trade-related technical assistance, helps strengthen developing countries' agricultural institutions and regulatory systems, encourages compliance with international norms, and fosters the adoption of U.S. approaches to agricultural policy and regulatory procedures. TCB also supports the President's national security strategy by assisting nations in developing economic stability through free trade and open markets.

USDA's top trade policy priority — a successful conclusion to the Doha Round — recognizes the importance of trade to developing countries. Trade-capacity building gives developing countries an incentive to participate in the Doha process. By helping countries joining WTO understand and meet their new commitments, TCB builds markets for the future by fostering economic growth.

The United States is concluding a growing number of free trade agreements with developing countries. In addition to promoting market access, such agreements encourage economic growth and closer political ties with countries important to U.S. national security. Because of these linkages, technical assistance is an integral part of the negotiating package.

TCB is critical in addressing the many technical barriers that impede access for U.S. agricultural products in global markets. By helping countries develop transparent, science-based regulations and increasing understanding of the U.S. regulatory system, TCB can expand access for U.S. agricultural products. Likewise, this assistance enables recipient countries to access other world markets.

The U.S. is the world's leader in food aid, providing more than half of total worldwide assistance to combat malnutrition. U.S. food-aid programs are a joint effort across several Federal departments. USDA works with USAID, private voluntary relief and development organizations, American universities, Federal agencies and the United Nations' World Food Program to provide targeted food aid and assistance where it is needed most. Economic development activities aimed at market-capacity building for both domestic and international trade are supported through the provision of food assistance.

These activities combined with USDA technical assistance and training foster stable societies, economic growth and market-infrastructure development. Consequently, recipient countries are able to boost domestic production and, in turn, reduce their dependence on food aid. The activities aid recipient countries in building sound economic policies that support sustainable development and participation in global agricultural trade.

Analysis of Results

The performance goal was exceeded. McGovern-Dole promotes school enrollment and attendance, contributing to an educated workforce and economic growth and development. The program's primary goal of increasing school attendance can be measured with confidence. In FY 2005, McGovern-Dole used $91 million to provide 118,000 tons of food to 3.4 million children in 15 developing countries in Africa, Asia, Latin America and Eastern Europe. These efforts resulted in more children entering schools, improved student performance, and greater parental and community involvement in education. In FY 2006, McGovern-Dole used $99 million, which supported the feeding of 3.3 million women, infants and children. The target of 2.4 million was based on the effects of estimated increases in commodity and fuel prices. Price fluctuations, combined with changes in distribution, resulted in the goal being exceeded.

Exhibit 19: Support Foreign Food Assistance

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
1.2.1	Number of mothers, infants and schoolchildren receiving daily meals and take-home rations through McGovern-Dole International Food for Education and Child Nutrition Program (Mil)	2.4	3.3	Exceeded

Exhibit 20: Trends in Supporting Foreign Food Assistance

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
1.2.1	Number of mothers, infants and schoolchildren receiving daily meals and take-home rations through McGovern-Dole International Food for Education and Child Nutrition Program (Mil)	N/A	2.5	2.0	3.4	3.3

Exhibit 21: Support Improvement in Foreign Countries' Trade Policies

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
1.2.2	Number of recipient countries that make substantive improvements in national trade policy and regulatory frameworks that increase market access	6	6	Met

Note: This is a new measure; thus, trend information is unavailable.

The performance goal was met in six countries. USDA technical assistance to the Ministry of Agriculture in Montenegro resulted in establishment of a Montenegrin market information Web site. The site provides farmers access to better information and improved capacity for agribusiness and economic development. In Serbia, USDA biotechnology capacity-building activities led to a new draft law on agricultural biotechnology. The law expands on the existing one and simplifies import of biotechnology products. In Romania, with the official launch of the Good Manufacturing Practices manual, Romalimenta (the Romanian Food Industry Federation) and USDA are helping the food industry increase its capacity to produce and regulate safe food.

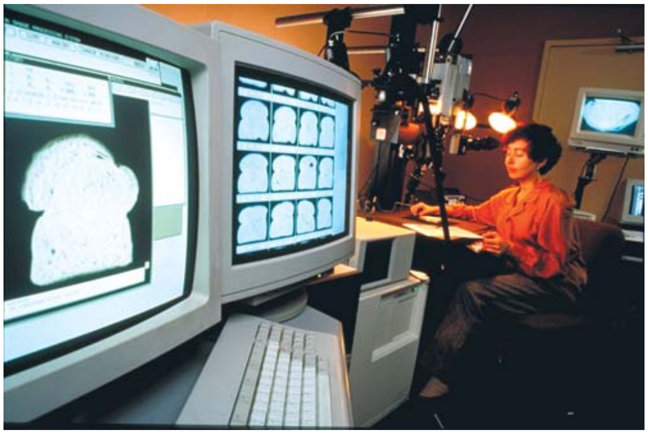
Additionally, a USDA technical review of food shelf-life standards in Egypt resulted in a commitment by the Egyptian government to amend regulations and notify WTO for comment prior to final enforcement. Mexico, after nearly losing meat export equivalence status in late 2003, made significant improvements in its meat-inspection system; USDA sponsors Mexican meat inspectors at Department training courses in the U.S.

Following a USDA diagnosis of *avian influenza (AI)* in 2006, Afghanistan launched an immediate control effort. Since then, no new *AI* cases have been reported. This was due in part to an ongoing USDA program to develop an effective monitoring system in the country via workshops and training programs conducted by Department epidemiologists. Such a monitoring system helps alleviate fears that could stifle trade in poultry products.

All private voluntary organizations that offer food aid through McGovern-Dole conduct extensive operational and results surveys; USDA evaluates the results to determine the programs' effectiveness. Additionally, semi-annual reports share results and challenges. Through the use of the surveys and reports, USDA identifies strategies that address challenges and barriers.

OBJECTIVE 1.3: IMPROVED SANITARY AND PHYTOSANITARY (SPS) SYSTEM TO FACILITATE AGRICULTURAL TRADE

Overview



Sanitary and Phytosanitary (SPS) refers to measures imposed by governments to protect human, animal and plant health from pests, diseases and contaminants. These measures often hinder trade, intentionally or unintentionally, reasonably or unreasonably. USDA agencies work with other Federal agencies to address and mitigate SPS measures imposed by foreign governments.

Key Outcome

An Improved Global SPS System for Facilitating Agricultural Trade

The negative impact of some SPS measures is growing due to increasing trade in food and agricultural products. This is apparent in the growth of trade in consumer-ready products such as meats, fruits, vegetables and processed foods. The problem is compounded by the emergence of threats like *bovine spongiform encephalopathy* (BSE is a chronic degenerative disease affecting the central nervous system of cattle), poor regulatory infrastructure in many developing countries, and political pressures that cause foreign governments to implement stricter-than-needed SPS measures.

In response, USDA will work closely with other Federal agencies to strengthen regulatory coordination, address SPS measures and other technical barriers to trade, and encourage trading partners to use sound science in regulatory decision making. The Department will lead Federal efforts to monitor adherence to the SPS Agreement of the WTO and will help lead enforcement of the agreement. USDA will also continue to work through international organizations to develop stronger science-based standards to facilitate trade. Additionally, the Department will conduct regulatory capacity-building activities with selected trading partners. These activities will help protect the life and health of humans, animals and plants around the world; they will also facilitate trade through efficient regulation.

USDA has several tools to help monitor international regulatory activities. For example, WTO members submit more than 800 annual notifications of intent to alter or create import requirements related to food safety or plant and animal health. USDA maintains the official U.S. Government Enquiry Point and Notification Authority to track and respond to these notifications. The Department reacts aggressively to restrictive measures. USDA maintains a monitoring system that allows it to address problems quickly.

While some of the issues are difficult to resolve, USDA can pursue long-term solutions. *BSE* is a good example. In FY 2006, USDA reopened or expanded restricted beef markets in Japan, Mexico, CAFTA countries, Peru, Malaysia, Taiwan and Singapore. This came two years after the first domestic *BSE* case and subsequent market closures. To do this, USDA worked to develop the scientific information to support its case to revise international standards. The Department also strives to hold countries accountable for complying with their trade agreements. This will continue to be a top priority for USDA as it seeks to reopen markets for U.S. beef.

Selected Results in Research, Extension and Statistics

New Strategies Keep Fresh-cut Produce Free of Pathogens—New intervention strategies for fresh-cut produce dramatically reduce the risk of pathogen contamination, thereby promoting domestic sales and trade. USDA scientists identified a safe and effective new sanitizer that achieved a 99.999 percent reduction of *E. coli 0157:H7*, *Listeria*, and *Salmonella* on produce. The researchers optimized sanitation treatment procedures to ensure good quality of shredded carrot and fresh-cut lettuce while maintaining the sanitizer's effectiveness. These findings are especially useful to the fresh produce industry. They provide practical information in selecting a suitable sanitizer to maintain microbial safety and quality of fruits and vegetables.

New Treatment Promotes Export of Lettuce—A new ultra-low oxygen treatment that disinfests insects on lettuce will expand the commodity's export opportunities. Ultra-low oxygen treatments were developed for control of western flower thrips and lettuce aphid on iceberg lettuce with minimal or no negative effects on the vegetable's quality. This research, conducted by a USDA scientist, addresses phytosanitary barriers facing U.S. lettuce in overseas markets. The ultra-low oxygen treatment potentially can become a safe, effective alternative to traditional methyl bromide fumigation for control of western flower thrips and lettuce aphid on exported lettuce. It also should increase export of U.S. lettuce to overseas markets.

Reducing a Phytosanitary Trade Barrier for Apples—The purported presence of the southern strain of Plum Curculio (PC) in fruit-producing counties (with a second generation in the fruit at harvest) has caused the imposition of trade barriers to Virginia apples. PC is a pest of temperate fruits. USDA-funded research at Virginia Polytechnic Institute and State University is supporting cellular sequencing to determine the distribution of the northern and southern strains of PC in Virginia. The studies have found a bacterial symbiont in both strains that may cause the reproductive isolation between the two. This discovery could enable the elimination of an important phytosanitary issue that has caused a trade barrier in several European countries and several western states. Thus, the market for Virginia apples increases considerably.

Challenges for the Future

Given the increasing global flow of food and agricultural products, the ability of foreign countries to develop and implement sound science-based regulatory systems is vital to the long-term safety of U.S. agriculture and our food supply. U.S. agriculture benefits greatly from the development of regulatory frameworks in other countries. These frameworks can address technical trade barriers and SPS measures in a transparent and scientifically based manner. Besides monitoring and enforcing its rights under the WTO SPS agreement, USDA is working to support the development and adoption of science-based international standards and SPS regulatory systems. These efforts are critical to the Department's ability to bring developing countries into the global trading system so that they support further liberalization through multilateral trade negotiations.

USDA works closely with the U.S. Trade Representative and other Government agencies to pursue and enforce trade agreements. These agreements include technical regulations and measures designed to enhance food safety and protect plant and animal health. USDA staff in more than 90 countries helps open, retain and expand international markets for U.S. food and agricultural products. This staff includes veterinarians, economists, marketing experts, plant pathologists, and others. While this group represents USDA overseas as its key supplier of market intelligence, it also helps solve minor trade threats before they become substantial disruptions. Staff members do this by being able to speak knowledgeably with foreign decision makers. They also help support U.S.-based technical experts who develop science-based protocols and health certification procedures for exporting food and agricultural products.

Analysis of Results

USDA met its performance goal. This was accomplished by trade opportunities preserved through monitoring and compliance enforcement, overseas advocacy and negotiations of technical protocols. The two most important successes were the European Union's indefinite postponement of new requirements on wood-packaging material that exceeds the agreed-upon international standard and the reopening of the Japan market for U.S. beef.

Trade issues and their impact on U.S. exports depends primarily on foreign action, sometimes in response to such events in the U.S. as a livestock disease outbreak. Both the problems and the solutions are unpredictable. Solutions can range from a quick agreement with officials at the port of entry to a long negotiation process followed by a lengthy regulatory or legislative process in the country in question. The impact of an action can range from a few thousand dollars to billions of dollars. While USDA can establish priorities in advance for known constraints, additional events will occur that will require realigning priorities.

USDA's selection of this performance measure demonstrates the growing importance of addressing SPS barriers to maintain or expand trade. As the U.S. Government continues to negotiate new bilateral, regional and multilateral trade agreements, the challenge will be to monitor and enforce compliance with both trade and technical commitments. This monitoring will ensure that U.S. agriculture receives full benefits from negotiated reductions in non-tariff barriers.

Exhibit 22: Increase U.S. Export Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
1.3.1	Increase the dollar value of trade expanded through negotiation or preserved through USDA staff intervention and trade agreement monitoring activities (Sanitary and Phytosanitary) ($ Bil)	$2.2	$2.6	Exceeded

Exhibit 23: Trends in Expanding and Retaining Market Access

Trends		Fiscal Year 2006[1]				
		2002	2003	2004	2005	2006
1.3.1	Increase the dollar value of trade expanded through negotiation or preserved through USDA staff intervention and trade agreement monitoring activities (Sanitary and Phytosanitary) ($ Mil) Baseline: 1999 = $2,567	$1.327	$2,713	$3,950	$2,000	$2,600

[1] FYs 2002 - 2004 data is based on SPS and non-SPS related trade barriers. FY 2005 and 2006 data is based on SPS trade barriers.

The figures reflect the uncertainty of trade disruptions. Just weeks after Japan resumed imports of beef in December 2005, it re-imposed the ban after finding beef that violated the recently agreed-upon technical protocol. After U.S. negotiations and inspection of processing facilities, the Japanese market reopened in June 2006.

Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies

Rural America is home to 60 million people, but only 2 million are directly engaged in production agriculture. Most rural income comes from forestry, mining, recreation, manufacturing, support services, and renewable energy. Thus, rural America is of critical importance to the Nation's prosperity and technological advancement. It is in the Nation's best interest to support rural America, and USDA enhances the competitiveness and sustainability of rural and farm economies by, among other things, expanding domestic market opportunities, increasing the efficiency of domestic agricultural production and marketing systems, and providing risk management and financial tools to farmers and ranchers.

OBJECTIVE 2.1: EXPAND DOMESTIC MARKET OPPORTUNITIES

Key Outcome

- *Increased use of biobased products throughout the agricultural sector*

Overview

Section 9002 of the Farm Security and Rural Investment Act of 2002 (FSRIA) authorized the Federal Biobased Products Preferred Procurement Program (FB4P). The funding level for FY 2006 is $1.0 million in mandated Commodity Credit Corporation funds and $1.5 million in appropriated funding. The Office of Energy Policy and New Uses (OEPNU) is implementing it through successive rulemakings. (OEPNU) assists the Secretary of Agriculture in developing and coordinating Departmental energy policy, programs and strategies. FB4P authorizes the preferred procurement of biobased products that fall under items (generic groupings of products) designated by rulemaking. Creating a demand for biobased products supports the farm and rural sectors by expanding and stabilizing the demand for agricultural commodities. To designate by rulemaking, USDA must provide information on environmental and health effects of the product and life-cycle costs. The Department also can set a minimum biobased content for the item. USDA must identify products and manufacturers. It also must gain their voluntary support in providing test information on those products to enable the Department to begin item designation. A voluntary labeling program also is available. Manufacturers of qualifying products can use it to carry the USDA Certified Biobased Product label and logo.

Congress created the FB4P to:

- Spur demand growth for new biobased products;
- Increase domestic demand for agricultural commodities;
- Encourage development of processing and manufacturing in rural communities;
- Capture environmental benefits; and
- Enhance the Nation's energy security.

The final rule establishing the guidelines under which the program operates was published January 11, 2005. The first of a series of rules to designate items (generic groupings of biobased products) for preferred

procurement was published as a proposed rule in the *Federal Register*, July 5, 2005. The final rule was published, March 16, 2006. Six items (mobile equipment hydraulic fluids, biobased roof coatings, water-tank coatings, diesel fuel additives, penetrating lubricants; and bedding, bed linens and towels) were designated in this rule. Manufacturers of products falling under those items have posted product and contact information on an FB4P electronic catalog for qualifying products under designated items.

The two proposed rules were published in the Aug. 17, 2006, *Federal Register.* The rules designated 20 items as generic groupings of biobased products. The new items included: Adhesive and mastic removers; Insulating foam for wall construction; Hand cleaners and sanitizers; Composite panels; Fluid-filled transformers; Biodegradable containers; Fertilizers; Metalworking fluids; Sorbents; Graffiti and grease removers; Two-cycle engine oils; Lip care products; Biodegradable films; Stationary equipment hydraulic fluids; Biodegradable cutlery; Glass cleaners; Greases; Dust suppressants; Carpets; and Carpet and upholstery cleaners.

Technical information to support each proposed rule is available at the Federal Biobased Products Preferred Procurement Program Web site at www.biobased.oce.usda.gov.

The two proposed rules announced are part of a series of rules that will be issued designating biobased items. USDA has identified about 170 items for which it is collecting test data needed for the additional designations of items. These designations will extend preferred procurement status to include all qualifying biobased products.

Previously, USDA had issued final guidelines for the biobased procurement program. It also developed a model procurement program of training and education to help Federal procurement officials and users of biobased products identify and purchase qualifying biobased products. Information on the guidelines and the model program are available at http://www.usda.gov/biobased.

The benefits of this program are broad. Some accrue directly to the private sector through the program's operation. Others may accrue indirectly via the public sector. FB4P defines qualified biobased products as:

- Those consistent with definition in statute;
- Products for which the biobased content is known;
- Information is on the environmental and health effects of product use are available;
- Product performance, as tested against industry recognized standards, is known; and
- Designation is based on providing reliable and relevant information to Federal agency.

For Federal agencies, FB4P encourages the purchase of more environmentally sustainable products. It also helps agencies identify those products, increases the availability and diversity of biobased products, and helps agencies reduce environmental footprint.

For manufacturers and vendors, FB4P creates a preferred market for biobased products, provides large-scale demonstration of biobased products performance in use, spurs development of new biobased products and develops alternatives to fossil-energy-based products.

Collectively, the benefits from FB4P creates an information database that both the private and public sectors can use to evaluate designated items to make an informed purchasing/procurement decision. This information also helps reduce the dependence of petroleum-based products and improve the environment. FB4P increases the demand for processing facilities in rural areas. It also boosts the demand for biomass material from agricultural, marine and forest sources. Currently, USDA is working to implement the program fully. Once implemented, the aforementioned benefits will be realized.

Challenges for the Future

USDA is looking for ways to develop an infrastructure to support the efficient and economically viable development of biobased products. Other challenges include:

- 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 managing the carbon cycle more effectively;
- The development and evaluation of measures that identify and assess the benefits of 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 the material and data necessary to test and evaluate the biobased content, environmental attributes and life-cycle costs 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 designated by rulemaking for preferred procurement within the program to cooperate with USDA in publicizing their availability.

This can be done by vendors voluntarily posting 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.

In response to these challenges, USDA is creating regulations and operating procedures for the Bioenergy Program and the FB4P. 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 USDA Office of Procurement and Property Management will announce the model procurement program once 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.

Selected Results in Research, Extension and Statistics

Biobased Lubricants—Improved germplasm will expand production and marketing opportunities for biobased lubricants. Commercialization of *Lesquerella* – whose seeds contain oil rich in hydroxy fatty acids, an important raw material for making resins, waxes, nylons, plastics, lubricating greases, and cosmetics – is impeded by a lack of superior germplasm for crop production. USDA scientists released a new variety of *Lesquerella* with higher oil content than any other variety. The new line provides public and private researchers additional sources of genetic diversity for future breeding and an alternative domestic source of hydroxy fatty acids for lubricants currently made from imported castor oil.

Analysis of Results

Rules are being issued designating biobased items.

FB4P is expected to significantly increase the use of biobased products within the Federal Government. This increased usage, in turn, will encourage the production of biobased products for that market. The program calls for Federal agencies to give preference to designated biobased products in Government purchases within one year of publication of the final designation rule.

Exhibit 24: Increase the Use of Biobased Products

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
2.1.1	Number of items designated as biobased for Federal procurement.	Publish 6 items in Final Rule	Published 6 items in Final Rule	Met

Note: This measure changes annually; thus, trend information is not available.

OBJECTIVE 2.2: INCREASE THE EFFICIENCY OF DOMESTIC AGRICULTURAL PRODUCTION AND MARKETING SYSTEMS

Key Outcome

Agricultural Producers Who Compete Effectively in the Economic Market

Overview

USDA improved market competitiveness and increased the efficiency of agricultural marketing systems. The Department provided greatly enhanced access to marketing information for producers and marketers of farm products, and those in related industries, by initiating the *Market News* portal. The portal provides electronic access and custom report capability on current market data for fruits and vegetables, livestock and grain. Additional commodities will be added to the portal as resources allow. *Market News* is the only nationwide mechanism for gathering and publishing price data on specific agricultural commodities. This timely, accurate and unbiased market information covers local, regional, national and international markets. The information is designed to help traders of U.S. agricultural products decide where and when to sell, and at what price. USDA also distributes *Market News*, which reports current data on supply, movement, contractual agreements, inventories and prices for many agricultural commodities. It does this by collecting, analyzing and disseminating market information for numerous agricultural commodities. Electronic access and e-mail subscriptions for all commodities are available at http://marketnews.usda.gov/. Federal and cooperating State reporters obtain market information, which USDA analyzes, compiles and disseminates immediately to all interested parties.

Market News provides agricultural producers access to the necessary information for determining contract values, dispute resolution and reporting under trade agreements. *Market News* reports are used in judicial proceedings and when the International Trade Commission is considering dumping allegations with respect to agricultural commodities and products entering the country. U.S. Customs and Border Protection use USDA price data to assess the value of imports. Agricultural commodity and product contracts are routinely linked to prices reported by *Market News*. The Market News portal provides a Web-based search engine that allows users to find market information and tailor reports by commodity, variety, shipping point and destination market.

USDA worked closely with the rapidly expanding organic agriculture industry to refine the definitions and requirements for organic production and labeling. USDA's National Organic Program conducted an organic dairy symposium and public comment and rulemaking activities relating to access to pasture, the use of synthetics, import equivalency, aquaculture and pet food.

This program originated from the Organic Foods Production Act of 1990. It is designed to establish national standards governing the marketing of agricultural products as organically produced, to assure consumers that organically produced products meet a consistent standard, and to facilitate commerce in fresh and processed food that is produced organically. Before the program's creation, individual states established their own organic production and labeling requirements. The nationwide program provides a more efficient and competitive system for the marketing of organic agricultural products within the U.S. and for exports.

Additionally, USDA launched a new Farmers Market Promotion Program, updated the Farmers Market Resource Guide, established a Farmers Market Consortium, created a new Web site on Farmers Market resources and participated in the Farmers Market Coalition. More information on all of these is available at http://www.ams.usda.gov/farmersmarkets/. The program's marketing experts provide technical advice and assistance to States and municipalities interested in creating or upgrading wholesale market facilities, auction and collection markets and retail farmers markets. They also conduct feasibility studies in cooperation with the private sector, not-for-profit organizations and other Government agencies to evaluate and suggest efficient ways to handle and market agricultural commodities. USDA researches marketplace changes to assist States, localities, market managers/operators and growers in making strategic decisions for future business development.

The program facilitates distribution of U.S. agricultural products, identifies marketing opportunities, provides analysis to help take advantage of those opportunities and develops and evaluates solutions. Marketing solutions include improving farmers markets and other direct-to-consumer marketing activities, researching and developing marketing channels, providing information and education, encouraging adoption of improved post-harvest technology, and designing market facilities. The program benefits agricultural producers by providing solutions to marketing problems so that they can remain financially viable. Consumers benefit from increased availability and alternative, cost-efficient sources.

Selected Results in Research, Extension and Statistics

USDA is taking advantage of the latest broadcast technology by becoming one of the first federal agencies to offer podcasts. The same audio stories that are distributed to farm broadcasters and posted on the USDA Web site now are available via podcast. Podcasting is a method of publishing and syndicating audio broadcasts through the Internet. It allows users to download audio files to be played on computers or portable music players.

USDA conducts the Agricultural Resources Management Survey (ARMS) annually. ARMS data travels through numerous Federal statistical agencies. The Department estimates the largest cash receipts among the States. Meanwhile, the Bureau of Economic Analysis (BEA) produces county estimates using ARMS data in combination with the U.S. Census of Agriculture data. BEA data are used as a basis for distributing billions of Federal dollars back to the States and counties.

USDA continues to work closely with the World Agricultural Outlook Board (WAOB) to provide short- and long-term projections of U.S. and world agricultural production, consumption, and trade. WAOB serves as USDA's focal point for economic intelligence and the commodity outlook for U.S. and world agriculture. For the FY 2007 President's Budget, USDA used stochastic budgeting based on a Department project. USDA incorporated stochastic price and production information into its 10-year budget baseline projections. (Stochastic budgeting helps analysts create a probability distribution of possible funding needs.) The Commodity Credit Corporation outlay projections for countercyclical payments, marketing loan benefits and milk income loss contract payments were based on stochastic information generated by a USDA Food and Agricultural Policy Simulator (FAPSIM) model on feed grains (corn, barley, sorghum, oats, wheat, rice, upland cotton, soybeans and dairy). FAPSIM is an annual econometric simulation model.

The *Structure and Finance of U.S. Farms: 2005 Family Farm Report*, published in 2006, provides research examining the status of family farms. Most U.S. farms—98 percent in 2003—are family owned. They are organized as proprietorships, partnerships or family corporations. Even the largest farms tend to be family farms. While very large family farms account for a small share of farms, they represent a large—and growing—

share of farm sales. While small family farms account for most farms, they produce a modest share of farm output. Median income for farm households is 10 percent greater than that for all U.S. households. Small-farm households also receive substantial off-farm income.

Farm-level data have been collected for use in assessing the relationship between approaches to management and farm financial success. This work examined the management structure of farms to determine who controls farm assets. Management units that make decisions for farms were described, extending information about how farms control and guide their businesses. Results suggest that the size and nature of the management team along with the complexity of the farm system have important implications for the operation's success.

Ten years after the first generation of genetically modified (GM) varieties became commercially available, USDA reviewed the adoption of domestic GM crops. It examines the three major stakeholders of agricultural biotechnology and finds that (1) the pace of research-and-development activity by GM-seed producers (the seed firms and technology providers) has been rapid, (2) farmers have adopted some GM varieties widely and quickly and benefited from such adoption, and (3) the level of consumer concerns about foods that contain GM ingredients varies by country, with European consumers being most concerned.

One of the most successful management strategies for improving yield in corn is the use of increased plant populations. To realize this yield advantage, growers must find ways to offset decreases in stalk diameter and root mass. North Carolina State University conducted USDA-funded research that indicated that the use of starter fertilizer treatments featuring nitrogen and phosphorus led to significant improvements in stalk diameter and root mass. These improvements resulted in yield increases of 22 bushels per acre. The number of growers using high population corn systems increased dramatically in 2005 (the latest year for which data is available) in North Carolina counties where corn is an important crop. Sixty percent of the corn growers are using higher populations, resulting in an economic gain of $1,200,000 in 2005.

With USDA funding, Oregon Extension livestock specialists taught producers to feed their animals more scientifically by using: (1) ration formulation software; (2) a library of Oregon feeds and forages, developed for use with the formulation software; and (3) other resources such as the new "Winter Feeding Workbook." Participating producers report saving an average of $21 per head by using these technologies.

New heat-tolerant germplasm with excellent fiber quality will provide opportunities to expand U.S. cotton production. USDA partnered with a manufacturing firm to release three improved lines of upland cotton to the public for use in breeding new varieties. For the first time, these lines combine some of the excellent fiber quality of Acala-type cottons with the heat tolerance of Delta-type cottons. They can be used as resources for breeders trying to improve the fiber quality of mid-south and southeast cottons. Those attempting to improve heat tolerance of Acala cottons for the western U.S. also can use these materials.

The ability to produce fresh strawberries for fall and winter will expand production and marketing opportunities. Though there is market demand for fresh strawberries in the fall and winter, most current strawberry production methods produce fruit only in the spring. USDA scientists have developed a new transplant-propagation technique. This technique causes strawberry plants to flower within four weeks after field establishment. It also can be used to grow strawberries that develop in both the fall and the spring. This propagation technique stretches the picking season to late fall when the price is greatest. It also lessens the risk of weather-related crop loss.

Analysis of Results

USDA published the 2006 Agricultural Statistics Board (ASB) calendar early in FY 2006. The calendar lists release dates and specified times for USDA's national agricultural statistics reports. These reports cover more than 120 crops and 45 livestock items. All of the 487 agricultural statistics reports scheduled by ASB were released on-time to achieve the 100-percent performance target in FY 2006. Also, there were no errors published in FY 2006. USDA issues an official errata notice if the errors in the report were determined to be “market sensitive.” Reports with cosmetic and non-data errors or “non-market sensitive errors” are also tracked, documented and corrected. Revisions to preliminary data series, forecasts or estimates are part of USDA’s standard operating procedures and are not considered errors. ASB prepares and issues official national and State forecasts and estimates relating to crop production, stocks of agricultural commodities, livestock products, dairy products, poultry products, agricultural prices, agricultural wage rates, chemical usage, and other related subjects.

USDA strives to release its ASB reports on time 100 percent of the time each year. It is imperative to deliver high-quality, objective, relevant, timely and accurate statistics to producers and other data users. Such statistics allow users to make sound decisions. Official agricultural statistics promote a level playing field in production agriculture with impartial information available to all at a publicized time. These data, provided throughout the year, are important to the commodity and agricultural markets, and help provide a fair and equitable environment. The data are also used by public officials to make informed decisions. USDA policymakers and Congress use this information to enable a strong, sustainable U.S. farm economy.

Exhibit 25: Agricultural Statistics Reports Released On-Time

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
2.2.1	Agricultural Statistics Board reports are released on time 100 percent of the time.	Agricultural Statistics Board reports are released on time 100 percent of the time	Agricultural Statistics Board reports were released on time 100 percent of the time	Met

Exhibit 26: Trends in Agricultural Statistics Reports Released On-Time

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
2.2.1	Agricultural Statistics Board reports are released on time 100 percent of the time.	99.8%	100.0%	99.2%	99.8%	100.0%

OBJECTIVE 2.3: PROVIDE RISK MANAGEMENT AND FINANCIAL TOOLS TO FARMERS AND RANCHERS

USDA helps the Nation's farmers and producers mitigate the risks involved in agricultural production. The Department continually works to improve its programs to better serve the needs of producers better, and reach out to new farmers and underserved populations. An economically prosperous agricultural sector contributes to the Nation's economic vitality and standard of living. Consumers benefit from efficiently produced and marketed agricultural products that minimize their food costs and maximize their choices. The success of U.S. agriculture depends on the ability to expand into new markets, obtain adequate capital, protect against financial risk and adjust to changing conditions. This success also depends on the economic well-being of producers. Producers must be able to increase production, either through increased farm acreage or other methods, maintain their farms and equipment, and utilize tools to mitigate the risks associated with various aspects of production.

Key Outcome

Economically Sound Agricultural Production Sector

There is much diversity in the farm sector due to differences in resources, climate, individual preferences and even lifestyles. The needs, concerns and opportunities of larger, commercially oriented farms differ from those of smaller, intermediate farms, regardless of location. Thus, USDA has a variety of farm-related programs designed to enhance the economic opportunities for all agricultural producers, while providing options for individual producers. The Department helps meet the credit needs of farmers and ranchers through its farm loan programs. It also provides income stability to keep producers economically viable through such economic safety-net programs as crop insurance, direct and counter-cyclical payments, marketing-assistance loans and other commodity support programs.

Providing access to capital is one of USDA's primary objectives. USDA makes direct and guaranteed farm ownership and operating loans to farmers and ranchers temporarily unable to obtain commercial credit from a bank, Farm Credit System institution or other lender at reasonable rates and terms. These loans can be used to purchase land, livestock, equipment, feed, seed and supplies, construct buildings or make farm improvements. USDA loans are particularly important to beginning, minority and women farmers, groups that have been underserved by the commercial lending industry. Additionally, their limited cash flow may prevent them from qualifying for a commercial loan. USDA also helps established farmers who have suffered financial setbacks from natural disasters or whose resources are too limited to maintain profitable farming operations.

The Department provides outreach and technical assistance to beginning, minority and women farmers and ranchers to help them establish and maintain profitable farming operations. USDA works with other Federal, State and local agencies, non-governmental organizations, land-grant universities and other educational organizations. These groups identify and assist minority farmers and women producers, and help remove program barriers to participation. Additionally, USDA works to ensure adequate funding for direct operating loans for minority, small, beginning, limited resource and other farmers.

USDA is positioning itself for the future to serve the needs of America's farmers and ranchers, food-aid recipients, and the general public best. Although agriculture and rural America have changed substantially, the Department's field-office structure dates to the 1930s. USDA must change the way it conducts business to place limited resources where they will be needed most. To accomplish this, it is streamlining and modernizing its business processes, and working to improve program delivery and increase operational efficiency. USDA is working to make more programs and services available electronically. This step is designed to offer customers more access to programs and information.

USDA also is redesigning the way it interfaces with farmers and producers in its traditional "safety-net" programs. The Department is expanding online options while maintaining more traditional approaches. Offering programs in a Web environment will reduce the number of hours needed to verify and disburse program benefits greatly. Additionally, a Web environment also is more cost effective and increases customer satisfaction.

USDA continues to streamline procedural handbooks, information collections and regulations for the direct-loan program. This process allows the Department to focus on providing technical assistance, services, monitoring and oversight. These are essential tasks in supporting high-risk beginning and socially disadvantaged minority or women borrowers. A similar effort completed for the guaranteed loan program streamlined all business processes. This effort dramatically reduced the reporting burden for applicants and USDA. It also led to more efficient loan processing. Comparable results are anticipated for the direct loan program once the streamlining effort is complete.

The Department has responded with a number of initiatives designed to improve services for customers and save time and money for its programs. Some of USDA's Web-based tools improve internal processes and permit information sharing among agencies. Other improvements allow customers to complete electronic transactions themselves, improving customer satisfaction. Currently, USDA is developing the Farm Loan Program Information Delivery System (FLPIDS). This Web-based system will house all farm-loan programs and provide multiple improvements to operational efficiency. For example, producer data will only have to be entered once. Then, they will be available for any application needed for that producer. Additionally, FLPIDS will contain such enhanced decision-making tools as a workflow system that will provide improved workload data for managers.

In FY 2001, USDA implemented the Service Center Information Management System. The system transfers producers' names and addresses from a local database to a national Web-based system accessible to all service center employees. This application is the foundation on which USDA's enterprise initiatives are built. Data are available centrally to automate business rules fully for payment limitations, eligibility and other functions that require nationwide data access. The Department is using cutting-edge technology for a number of initiatives. These initiatives are designed to decrease the amount of administrative processing time significantly for many programs, enhance program delivery and allow customers to complete and submit information and forms electronically. Producers no longer have to travel to their local USDA Service Center to complete these tasks, but can view and print submitted contract options at any time. While producers still have the option to apply for the program in person at their local USDA Service Center, offering sign-up options through the Internet will help the Department serve more producers.

Financial risk partially derives from the time lag between when producers need assistance or capital and when they actually receive the funds or credit. USDA is working to reduce the amount of time required to process its direct and guaranteed loan programs to get funds to producers in a timelier manner. Reducing loan-processing time ensures that financial resources are funneled more quickly where needed. This effort allows recovery from setbacks and improves operational efficiency. The Department also plans to increase the percentage of transactions completed electronically. Electronic transactions greatly reduce the number of hours needed to verify and disburse program benefits. Several USDA programs already are Web-enabled. This feature allows producers to file applications and paperwork electronically, eliminating trips to USDA offices and expediting the administrative process. Getting funds to producers more quickly and efficiently will improve customer service and satisfaction. Thus, the Department will be able to meet the needs of operators, farmers and the consumers who depend upon the results of the Nation's agricultural sector better.

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. In FY 1998, the program insured 181.8 million acres. Since that time, insured acreage has grown steadily, and is currently at 245.8 million acres. Since FY 2000, insured acreage in the program has increased 39.4 million acres or 19.1 percent. Federal crop insurance is available to producers solely through private insurance companies that market and provide full service on policies upon which they share the risk with USDA. Principally, the Standard Reinsurance Agreement (SRA) defines the amount of risk they share. The SRA calls for insurance providers to deliver risk management insurance products to eligible entities under certain terms and conditions. Providers oversee all aspects of customer service and guarantee payment of producer premiums to the Federal Crop Insurance Corporation (FCIC). In return, FCIC reinsures the policies and provides premium subsidy to producers. It also provides reimbursement for administrative and operating expenses associated with the companies delivering the insurance products. FCIC is a wholly owned Government corporation created in 1936 to provide for the nationwide expansion of a comprehensive crop insurance program.

In 2005, USDA renegotiated the SRA. These changes are estimated to generate average annual Government savings of $37 million. They also promote policy sales in less-profitable areas and reduce program fraud, waste and abuse. The number of participating companies is up to 16. Most of these companies have requested authorization to increase the amount of premium they underwrite and the number of States they intend to serve. USDA continues to receive inquiries from additional insurance companies interested in joining the program. The value of risk protection provided to agricultural producers through FCIC-sponsored insurance exceeded $49.9 billion in FY 2006. As recently as FY 1998, the value of risk protection provided agricultural producers was less than $28 billion.

USDA launched two new Pasture, Rangeland and Forage pilot insurance programs at the Texas A&M Beef Cattle Short Course Annual Cattlemen's College. Approximately 1,500 livestock producers attended the exhibition. USDA co-hosted a workshop for ranchers to explain the new pilot programs. Producers also could visit the USDA booth for personal demonstrations of the new products. The exhibition attracted substantial media attendance and coverage. Reporters interviewed ranchers and Department personnel regarding the new products. Various cattle organizations attended the exhibition and obtained information to distribute to their membership.

USDA also announced new agricultural risk management partnership agreements totaling $25.05 million. The agreements provide funds for projects to develop new risk management tools for farmers and ranchers. They also provide outreach and education opportunities to limited-resource and other traditionally underserved farmers and ranchers. About $6.97 million was allocated to 64 partnerships with community-based, educational and not-for-profit organizations. The funds are used to educate women, limited-resource and other traditionally underserved farmers and ranchers to manage and mitigate agricultural risks. About $4.40 million was used to fund cooperative agreements to deliver crop insurance education to producers in 15 historically underserved States. Specialty crop, livestock, nursery and horticulture producers will benefit from $5.24 million in education partnership agreements for 40 commodity partnership programs.

When natural disasters strike, the Department reacts quickly to help affected producers recover. USDA partners with commercial lenders to guarantee ownership and operating loans. It also makes direct loans to producers and provides capital in times of emergency. Additionally, the Department provides income stability. This assistance includes direct and counter-cyclical payments, marketing-assistance loans and other commodity support programs. USDA supports research to identify new uses and more efficient technology for producing and marketing agricultural products.

Challenges for the Future

Local and national economies impact USDA's ability to meet the credit needs of producers and the delivery of services. Training, human-capital planning and organizational efficiency are priorities as the Department works to provide greater awareness of its programs and inform its customers of participation requirements. USDA farm loan programs are reviewed regularly. These reviews ensure that customers are receiving services efficiently and effectively, and that service staff are trained to assist farmers during economic crises and natural disasters.

While a USDA strategic goal is to convert more of its programs to Web-based transactions, many producers are neither ready nor able to use new technologies. In many areas of the U.S. high-speed Internet access is unavailable. The Department recognizes the need to provide education and support to customers converting to electronic transactions. At the same time, USDA must continue to provide traditional, face-to-face program delivery for its customers. Thus, for the foreseeable future, service center staff must face the challenge of operating in a dual environment of old and new processes and procedures.

USDA will continue to increase the availability of eGovernment initiatives to allow producers to have around-the-clock access to farm programs. While USDA offers many programs that can be accessed through the Internet, its ability to offer services electronically depends upon continual updating and improvement of its technological and physical infrastructure. Without constant maintenance and upgrading, USDA's ability to offer more services online will be constrained. Improving equipment and technology and training staff in its use will be essential for the Department to achieve its goal of more Web-based transactions for customers.

USDA is evaluating contracts for the development of new and innovative risk management solutions for insuring pasture, rangeland, forage and hay. The contracts include developing a new plan that uses such tools as a satellite-based vegetative index, and another based on a Temperature Constrained Normalized Difference Vegetation Index (NDVI) approach. NDVI uses data derived from satellite-based remote sensing imagery. This system describes the seasonal growth dynamics of vegetation for target areas. One such tool is a Seasonal Growth Constrained Rainfall Index. This index uses a weighted warm season/cool season indexing period and the National Oceanic and Atmospheric Administration rainfall data system. Another one is the Precipitation Index, which bases itself on a weighted average amount of precipitation during a particular time period. FCIC will determine which of these approaches meets the criteria for effective risk management coverage and will then approve, modify or reject each approach for pilot testing in specific areas.

Analysis of Results

In FY 2006, USDA met or exceeded each of its performance targets for providing risk management and financial tools to farmers and ranchers.

USDA introduced two new pasture, rangeland and forage products that will be available for FY 2007. The Rainfall Index Insurance and the Vegetation Index Insurance Programs will allow livestock producers to purchase insurance protection for losses of forage produced for grazing or harvested for hay. USDA will test the former program in 220 counties in Colorado, Idaho, North Dakota, Pennsylvania, South Carolina and Texas. This program is based on rainfall indices used to measure expected production losses. The Department will test the latter program in 110 counties in Colorado, Oklahoma, Oregon, Pennsylvania, South Carolina and South Dakota. This program is based on satellite imagery that determines the productivity of the acreage as a means to measure expected production losses. Together, these pilot programs will be available to provide coverage on approximately 160 million of the 640 million acres of grazing land and hay land in the U.S.

USDA also reviewed program participation in States previously determined to be underserved by the Federal Crop Insurance Program. This review confirmed the significant progress made in increasing participation in many of the underserved States. In FY 1998 for example, crop insurance covered only 30 percent of the planted acreage of major crops in the underserved States. By FY 2005, the last year for which figures are available, participation had increased to 54 percent. Likewise, participation at buy-up levels of coverage increased from 41 percent to 77 percent during this period. This review further confirmed that every crop of economic significance already has widespread insurance availability, except for pasture, rangeland and forage. The review also confirmed that, with a few exceptions, programs already exist for the major crops in the States ostensibly underserved by program. It is apparent that addressing participation concerns in underserved States largely requires a focus on USDA's existing product portfolio. This is particularly true for extensive education and marketing, and improvements to existing products. The Department is looking to secure outside expertise to help identify improvements needed in existing products for underserved States. It also is continuing work on other efforts that may offer a cost-effective approach to delivering risk management products to various small-value and specialty crops.

USDA set a target to have 33 percent of its programs Web-enabled in FY 2006. It met this target. For programs to be considered as such, producers and ranchers must have access to the relevant program software from their home or office. USDA met this goal with three programs (Loan Deficiency Payment, Direct and Countercyclical Payment Program, and Tobacco Successor-In-Interest Contracts). Another program, the Milk Income Loss Payments Program, while Web-enabled at all USDA county offices, remains unavailable to individual producers.

USDA is attempting to reduce administrative costs and increase customer satisfaction as it moves from an antiquated "legacy" platform to a Web-based system for administering programs and disbursing payments. Customers have the option of applying for Loan Deficiency Payments (LDPs) online or going to a service center. Currently, USDA makes payment on approved electronic LDP applications within 48 hours. The previous manual process could take up to eight weeks for payment. Less than 1 percent of LDPs currently are delivered through a Web-based environment. USDA will increase the percentage to 100 percent by FY 2007. By using the Web-based system, USDA will realize substantial administrative savings. Additionally, when fully implemented, customers will no longer be required to visit USDA Service Centers to complete transactions. This should increase customer satisfaction and reduce the average processing time for delivering program benefits.

USDA exceeded the annual goal for the percentage of beginning farmers, women, and racial and ethnic minorities financed by the Department. In FY 2006, 46 percent of farm operating and ownership loan dollars went to these groups, surpassing the 40-percent target and matching the record result achieved in FY 2005. The FY 2006 results continue the long-term trend of providing increased assistance to these farmers and ranchers.

The Department exceeded the processing time performance goals for both Direct and Guaranteed Loan programs. In the Direct Loan Program, the average processing time in FY 2006 was 31 days, exceeding the 35-day target. The average processing time for Guaranteed Loans decreased from the FY 2005 level of 14.5 days to 12.63 days in FY 2006. Processing times for both loan programs have decreased significantly in the past several years, with direct loans decreasing by 10 days since 2002. Guaranteed loan processing decreased by more than five days per loan since 2001. By emphasizing the need to reduce processing time within each field office, USDA now processes and administers loans to customers more efficiently. Thus, farmers can receive the financing they need in less time, and help sustain their livelihood or income levels.

Selected Results in Research, Extension and Statistics

USDA recently studied the role of farm subsidy programs on rural economic well-being. Farm subsidy programs were introduced in the 1930s largely due to concern for chronically low and highly variable incomes of U.S. farm households. Today, commodity-based support programs remain prominent, though the income and wealth of the average farm household now exceeds that of their non-farm counterparts by a large margin. Farm income continues to be highly variable. Despite this, the small set of farm households most at risk for income variability — because farm income represents more than one-third of household income — are those operating large farms. They have substantial net worth, which cushions uncertain farm income.

USDA examined the disposition of farm subsidies. Crop production is shifting to much larger farms. Since Government commodity payments reflect production volumes for program commodities, payments also are shifting to larger farms. In turn, the operators of very large farms have substantially higher household incomes than other farm households. Thus, Government commodity payments also are shifting to much higher-income households. Since the changes in farm structure appear to be ongoing, commodity payments likely, under current policies, will continue to shift to higher income households.

Exhibit 27: Providing Tools to Help Farmers and Ranchers Stay Economically Viable

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
2.3.1	Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance ($ Bil)	$40.2	$49.9	Exceeded
2.3.2	Increase percentage of program benefits delivered through a Web environment.	33.0%	33.0%	Met
2.3.3	Increase percentage of beginning farmers, racial and ethnic minorities, and women farmers financed	40.0%	45.9%	Exceeded
2.3.4	Reduce average processing time for direct loans	35 days	31 days	Exceeded
2.3.5	Reduce average processing time for guaranteed loans	14.25 days	12.63 days	Exceeded

Exhibit 28: Trends in Providing Tools To Keep Farmers and Ranchers Economically Viable

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
2.3.1	Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance. ($ Bil) Baseline: 1999 = $30.9	$37.3	$40.6	$46.7	$44.2	$49.9
2.3.2	Increase percentage of program benefits delivered through a Web environment.	NA	NA	NA	NA	33%
2.3.3	Increase percentage of beginning farmers, racial and ethnic minorities, and women farmers financed	31%	33%	34%	40%	46%
2.3.4	Reduce average processing time for direct loans (days)	NA	41	43	37	31
2.3.5	Reduce average processing time for guaranteed loans (days)	18	15	15	14	12.63

Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life In Rural America

Objective 3.1: Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth

Overview

USDA's programs support low-interest financing of rural businesses to leverage limited private sector financial resources. USDA funds promote opportunities for economic growth as measured by jobs created and saved.

One of USDA's core missions is ensuring that rural residents enjoy economic opportunities equivalent to those of other Americans. Credit limitations and other market imperfections sometimes restrain the ability of rural economies to create the jobs and incomes that would allow rural families to thrive and rural youth to remain in their communities. USDA programs serve as capital enhancement tools for rural America by providing access to capital for investment in businesses and economic infrastructure. Through capital enhancement and by implementing energy-related provisions of the 2002 Farm Bill, the Department will facilitate the expansion of economic opportunities in rural areas.

The development of the Internet-based economy provides unique opportunities for rural America. Broadband infrastructure greatly helps mitigate the limitations on business development in rural areas caused by geographical distance and a limited customer base. USDA is providing capital to finance access to broadband service for rural communities. This access is critical to enable rural businesses to participate in the developing global economy.

USDA's Business and Industry (B&I) Guaranteed Loan Program provides up to an 80-percent guarantee to commercial lenders. The program allows lenders to raise the amount of a loan. A 2-year, $10.9 million B&I guaranteed loan allowed a Florida wood products manufacturer to modernize and increase safety standards while expanding product line and sale of lumber by-products. This saved or created 176 jobs.

In Nevada, a $17.5 million B&I loan financed the construction of a 25-bed acute primary care medical center. An emergency room, operating theaters, diagnostic and imaging departments, full laboratory, physical therapy department, and heliport to accommodate patient air transport will make up the 73,681-square-foot facility. When complete, more than 140 people will staff the medical center.

In Wisconsin a $6.8 million B&I loan to a farmer-owned cooperative (515 farmers in 17 States) enabled the organic producer-distributor to expand its business and to establish a "green" headquarters building that incorporates the latest environmentally sound technologies.

A $17 million construction loan to an Iowa cold storage facility created 24 jobs. The new automated warehouse allows the business to keep national customers from abandoning the area.

Banking regulations limiting the concentration of credit prevented a bank from providing financing for expansion to an employee-owned engineering firm. A B&I loan guarantee of $4.4 million allowed this firm to consolidate headquarters facilities in Helena, Montana. Thus, the firm increased its ability to serve new and expanding client requirements. The 260 employee-owners served as the direct beneficiaries.

In Minnesota, a $13 million B&I guarantee created 57 jobs in a machine and metal fabrication business that would have closed otherwise.

USDA revolving loan programs (IRP, RBEG, RDLG) make small grants to local not-for-profits to re-lend to start-ups, typically sole proprietorships or family partnerships. The recipients usually have insufficient credit histories to qualify for commercial loans. The intermediary organization provides business education and marketing support, along with loans. Under these programs an intermediary can make small loans and usually provide consulting services as well. Typically, these are working capital loans to entrepreneurs trying to provide new services or goods. For instance, in a nine-county area of southern Kentucky, start-up funds were used to purchase equipment for an outpatient home infusion therapy center. This facility will employ 24 people and provide needed medical service.

Key Outcome

Enhanced Capital Formation for Rural Communities

Not only are rural businesses supported, but the employment opportunities in rural areas are improved. Whether a grant of $20,000 is used to improve a small town's lighting, or provides targeted training to entice an employer, all rural residents benefit from these investments. When a loan or grant is made to businesses for expansion, modernization or start-up, the local job market mix is increased and the local tax base improved. As a result of the economic stimulation, jobs are created and the economy improves enhancing the quality life for most citizens.

Challenges for the Future

Rural economies face challenges different from those of urban and suburban areas. These challenges include:

- Historical dependence on natural resources, mostly commodities, subject to cyclical trends and changing regulatory standards and oversight;
- Low profit margins on commodity sales and competition from foreign commodities;
- Large-scale changes in technology and the resulting efficiency gains in these industries along with the perceived limited skills available; and
- Inaccessibility and low-density populations.

Additionally, rural areas typically have underdeveloped public services that make it difficult to attract or retain businesses. They lack public funding for amenities that are offered in urban areas, such as dedicated business parks or expanded transportation links. Education, health care and entertainment typically are perceived to be marginally acceptable in rural areas. Every rural area has unique concerns.

USDA State and area staff work with regional and State entities, using Department dollars and other public and private funds. Some areas need more jobs, while others are being defined by new industries or commodities. USDA is sensitive to these needs.

USDA's grant programs provide funds to under-resourced rural communities to improve their local infrastructure or expertise to be more attractive to new businesses and maintain appeal to local residents. For instance, Main Street improvements are usually funded by special local business tax assessments, but in marginally viable areas an assessment would not be affordable. Frequently companies looking for a new location need special skill sets and USDA grants can fund small, targeted job training programs.

All rural residents benefit when the local economy prospers. More and better jobs, and more services, such as health care facilities, improve the quality of life and encourage young people to settle and stay. Additionally, even small economic gains can increase public infrastructure through improved schools or expanded amenities like greater entertainment options.

Selected Results in Research, Extension and Statistics

The economy of rural Appalachian communities historically is tied to the coal and steel industries. The recent decline in these industries and concerns for environmental quality has stressed rural community economic development. USDA funded a company to develop a value-added product from residual mine waste. Since funding was initiated in 2000, this company has processed and refined approximately 500 tons of mine waste to extract iron oxide for use in the pigment industry. This project reduced local environmental pollution and improved economic opportunities in rural Pennsylvania.

A total of 30,000 agricultural operations from across the Nation participated in the voluntary testing of the 2007 Census of Agriculture's questionnaire in preparation for the data collection and processing the census data in FY 2008. The 2007 Census of Agriculture is expected to be mailed to all agricultural operations in December 2007. Specific changes planned for the 2007 Census of Agriculture include expanded data on organic agriculture, new data on agriculture practices, improved coverage of small and minority operators, and electronic reporting capability for all respondents. Data from the 2007 Census of Agriculture will be released in February 2009.

Considering the high cost of doing business, New Jersey farmers cannot grow the same commodities as farmers in the Midwest competitively. Proximity to the largest consumer market in the Nation suggests that New Jersey farmers should produce high-value prepared foods. A company supported by USDA competitive grants to Rutgers University provides research, education and business-development services to New Jersey's agricultural and food industries. The company became the country's first service-based, food agricultural industry incubator model. It already has become a template for similar programs throughout the U.S.

Analysis of Results

The number of jobs created or saved is linked directly to the amount of total available USDA business program funding, amounts obligated and disbursed to awardees, and local economic conditions. Annual job targets are based on historical program operations, subsidy rates and annual appropriations. The target job numbers assume a level funding horizon and timely allocations of funds, without regard to the potential impact of major natural disasters. In FY 2006, the aftermath of Hurricane Katrina and other natural disasters in rural America hampered job growth potential. Despite this issue, USDA programs met the target for the fiscal year.

USDA exceeded its goal despite a decline in the number of loans and job numbers in one major program. A change in program operations and the impact of Hurricane Katrina delayed fund allocations to the States. This delay, in turn, suppressed demand from applicants. Yet FY 2006 funds created or saved 73,072 jobs, expanding economic opportunities for more than 500 rural communities.

Subsidy rates were low in FY 2001. The low rates caused relatively high program fund levels for some major USDA business programs. At that time, the baseline for jobs created or saved was set at 105,222. Annual budget authorities, subsidy rates and program levels have varied since resulting in general decline in annual job numbers. FY 2006 results were in line with expectations given the level of budget authority, subsidy rate and available program funds.

USDA business programs correlate the expansion of economic opportunity with job growth as measured by jobs created and saved directly related to funded programs. Through the years job information has been gathered in different ways. The business and industry program and some grant programs estimate jobs based on business plan projections. Job counts are verified when each loan or grant is closed. The major revolving loan fund uses a life-cycle formula. State offices put huge efforts into substantially improving their ability to collect, record and report job information on all programs quickly and consistently.

According to the U.S. Department of Labor, in addition to direct jobs created or saved, the overall economic benefit to the rural community is estimated to be $2.50 for every dollar in guaranteed loans closed. These investments have long-lasting positive impacts in rural communities. These impacts include bringing more dollars to downtown areas, increasing variety of goods and services available, and offering start-up working capital.

In reality, USDA funds have long-lasting direct and indirect impacts on local rural economies that are hard to measure. Thus, the Department is making a bold attempt to estimate the overall economic impact of budget dollars on rural areas.

USDA has developed a pilot information system, the Socio-Economic Benefit Assessment System (SEBAS), to enhance its ability to measure actual net program–investment effectiveness. SEBAS uses detailed information about Department loan or grant investments in conjunction with other available Federal data resources. This process enables estimates of the direct and indirect impacts of program assistance on local and regional economic performance. It also affects the quality of life in rural areas. SEBAS is being tested with several USDA programs in FY 2007. Future results will measure program effectiveness in many ways and serve as a management tool to help improve program efficiency and performance with limited resources.

Exhibit 29: Strengthen Rural Businesses

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
3.1.1	Jobs Created or Saved	72,370	73,072	Exceeded

Exhibit 30: Trends in Creating or Saving Jobs

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006

3.1.1 Jobs Created or Saved	76,301	87,619	81,030	73,617	73,072

OBJECTIVE 3.2: IMPROVE THE QUALITY OF LIFE THROUGH USDA FINANCING OF QUALITY HOUSING, MODERN UTILITIES, AND NEEDED COMMUNITY FACILITIES

Overview

USDA successfully improved the quality of life in rural America during FY 2006. The Department financed quality homes for 42,700 homebuyers, new/improved water and waste disposal facilities for 1,500,000 subscribers, new or upgraded electric service for 8,183,649 consumers, broadband telecommunications in 458 counties for 297,027 subscribers and improved community facilities for 12 million rural residents.

The availability of adequate housing is critical to a community's well-being. Ensuring that low-income families have access to decent and safe housing is a major concern in every area, whether urban or rural. USDA provides financing for low- and moderate-income rural families who cannot obtain credit from other sources to help them own homes. Owning a home provides stability for families and gives them the opportunity to strengthen their financial condition through the accrual of equity. The President has expressed his desire to increase homeownership, particularly among minorities. He has established a major initiative to increase minority homeownership nationwide. USDA is implementing an action plan aggressively to support the President's goal.

If new businesses are to operate in a rural community, that community must possess the amenities these firms require and employees desire. These amenities include access to such basic needs as clean water, adequate housing, reliable electricity and telecommunications, and such essential needs as quality education, health care, day care, public safety services and cultural activities. If a community cannot meet the public's essential needs, young people will neither stay in nor migrate to rural areas. USDA is an important source of credit and technical assistance for developing the economic infrastructure of rural America. These resources are essential if rural residents and communities are to improve their quality of life through increased economic opportunity.

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 programs provide capital to upgrade, expand, maintain and replace America's vast rural electric infrastructure. They also provide leadership, guidance and other benefits.

Key Outcome

Improved Rural Quality of Life Through Homeownership, New and/or Improved Water and/or Waste Disposal Facilities, New and/or Improved Electric Facilities and/or New or Improved Telecommunications Facilities

In FY 2006, USDA provided funds to construct, renovate or improve 1,000 essential community facilities. Rural Americans had new or improved services available from 133 health care facilities, 520 public safety facilities, 106 educational facilities, 10 energy-related facilities, 211 public buildings and improvements and a number of other essential community facilities. In this period, 12 million rural residents had new or improved services available to them through these facilities.

Water and sewer facilities impact the economic infrastructure of communities. By investing in water and sewer facilities, communities can:

- Save or create jobs;
- Leverage funds with the private sector and local and state agencies;
- Attract Federal funds from other agencies; and
- Enlarge the property tax base.

During FY 2006, USDA leveraged $918,306,538 from other sources with $1.5 billion of Department funds.

Investments in water and sewer facilities are critical in encouraging economic growth. For example, the wastewater treatment system in Rupert, Idaho, approached its design capacity and became unable to treat its waste and odor problems. Of concern was the continued viability of its industrial customers which provide employment and represents the footing of the local economy. Rupert and the Idaho Department of Environmental Quality joined forces. The city council, working with the 1,946 residential customers, 250 commercial owners and 2 large food processors, decided to upgrade the 28-year old plant. Rupert attracted Government funds and invested its own funds for a total of $13,230,000. The plant will be capable of treating 2.3 million gallons per day, providing for a 20-year growth pattern. The design enables plant expansion as needed. It increases the plant capacity 18 percent within the existing footprint of the present site. Through extraordinary cooperation, the major industry and commercial customers have laid the foundation for long-term growth and prosperity.

The Mountain City, Tennessee, sewer system suffered numerous overflows and shutdowns for years. These overflows created problems for the inmates and staff of the North East Correctional Center (NECX). NECX is Mountain City's largest employer. The town obtained USDA funding and combined it with financing from the Tennessee Department of Corrections. Upgrading the sewer line will spur growth at the Johnson County industrial park and allow NECX to expand, spurring economic growth.

Disaster Relief Assistance, Hurricanes Katrina and Rita

On September 29, 2006, the electric programs approved the following requests to defer certain debt service payments on outstanding Rural Utilities Service notes under Section 12 of the Rural Electrification Act. Singing River Electric Cooperative, Inc., of Lucedale, Mississippi, will defer principal in the amount of $5.7 million on twelve loans. The deferment is for 3 years; and the final maturity of each note will be extended 3 years and Jefferson Davis Electric Cooperative, Inc., of Jennings, Louisiana, will defer principal and interest in the amount of $4.9 million on two loans. The deferment is for five years and the final maturity of each note will be extended five years. These deferments and extension of maturity dates will provide financial assistance to these two cooperatives whose systems were significantly damaged by Hurricane Katrina.

USDA electric programs are responsible for the engineering aspects of its borrowers. These aspects include standards, specifications, and other requirements with respect to the design, construction, and technical operation and maintenance of power-plant, distribution, and transmission systems and facilities, including load management, energy conservation and communications. Engineering practices, policies, standards and guidelines relating to electric borrowers systems are developed; analyses are conducted and guidance is provided on matters relating to fuels for electric generating stations and develops related policies and procedures for the electric programs. Criteria, procedures and analyses are developed for the improvement of the operating performance of electric borrowers and for the forecasting of borrowers' power requirements. These standards and specifications enabled cooperatives that were not affected by Hurricane Katrina to assist those that were by sending supplies, equipment and crews. Electricity to cooperative rural residents was re-established quicker than it could have been if the crews and personnel were unfamiliar with the design of the system and lacked the proper replacement equipment.

The Town of Nickelsville, Virginia took advantage of USDA telecommunications funding to implement a Fiber Optic Network. Town officials are hoping the new service will lead to new business prospects and economic development in their community. The project will enable the provision of broadband services, including affordable high-speed Internet access, digital television and telephone services, to households and businesses in the Town of Nickelsville and the surrounding areas. In addition, a new public Internet access site connected to the fiber optic network has been established at the Nickelsville Community Center.

The new Nickelsville center provides free public access computers with fast broadband connections to local residents during specific hours of operation. According to press accounts, the importance of the new fiber network far outweighs its benefits to local residents. The availability of fast broadband helps to level the economic development playing field by allowing rural communities like Scott County to offer the same services as those in larger areas. The introduction of the fiber optic network is expected to draw small companies to rural areas like Nickelsville.

Challenges for the Future

Challenges to this objective continue to be the increased cost of housing and other building costs. Rising building costs result in fewer homes, community facilities and water and waste systems. A challenge USDA faces regarding water and wastewater is assisting 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 factors present unique problems in developing utility systems. Solutions are expensive, resulting in the need for additional grant funds to develop projects.

USDA single-family housing programs assist low- and moderate-income rural residents in becoming homeowners. These programs are designed to strengthen families and communities, enhance wealth creation and contribute to a more broadly based ownership society.

USDA housing program assistance reaches large numbers of rural Americans with services critical to a better quality of life. The program provides direct and guaranteed loans to help rural households achieve homeownership. More than 22,838 low-income rural Americans achieved the dream of homeownership though these programs in FY 2006 which have made a special effort to increase the number of minority homeowners. To stretch resources, the programs' loans and loan guarantees are supplemented with resources from private-sector banks, not-for-profit agencies and State housing finance agencies.

The capital made available through the electric programs ensures that low-cost, reliable electric power is available to rural consumers, businesses, schools, health facilities and other consumers. The consumer density in rural areas is a fraction of that in urban areas. This difference necessitates access to lower cost capital to provide a comparable level of service. The electric program finances the construction of electric generation, transmission and distribution facilities serving 39 million rural residents in 2,500 of the country's 3,100 counties. While rural electric cooperatives deliver about 12 percent of the total kilowatt hours sold in the country, they serve 75 percent of the landmass. Cooperatives service 6.5 consumers per mile of distribution line compared to 33.5 for investor-owned utilities and 43.7 for municipal-owned systems. They also generate $12,000 per mile of distribution compared to $58,981 for investor-owned utilities.

Water programs are a leading source of credit for water and waste projects in rural America. They provide low-interest and guaranteed loans, grants and technical assistance to rural communities to develop essential water and waste infrastructure. With dependable infrastructure, communities can sustain economic development or improve the quality of life for their residents. Rural Americans may enjoy the same high standards of living and full participation in the global economy as their urban or suburban counterparts. Thus, the goal of water programs is to make funds available to small communities most in need of drinkable water and ensure that facilities used to deliver drinking water are safe and affordable.

In FY 2006, the programs invested over $1.6 billion in direct and guaranteed loans and grants to help rural communities develop 1,207 water and waste disposal facilities. These facilities provided new or improved water and waste disposal services to 1,637,554 subscribers.

Selected Results in Research, Extension and Statistics

The Nurturing Homes Initiative, a collaborative effort between the Mississippi State University supported by

USDA funds and the Mississippi Department of Human Service's Office for Children and Youth, provides educational programming and technical assistance to family home providers for the estimated 57 percent of Mississippi's young children in unlicensed child-care settings. The program provides time-efficient and economically feasible training. Significant improvements occurred in the quality of childcare provided by all of the participants. Post-assessment scores revealed that 82 percent of the providers scored above the national median score of the Family Day Care Rating Scale. The scale is designed to assess family child-care programs conducted in a provider's home.

Low- to-moderate income families face many challenges when trying to build assets. USDA, the North Carolina A&T University Cooperative Extension, North Carolina Housing and local lending institutions joined forces to help families in Randolph and Davidson Counties achieve homeownership. This partnership resulted in the availability of no- and low-interest loans, and in financial education classes to help resolve financial issues that could prevent them from qualifying for a loan. Twenty-six participants attended the first financial education workshops. Thirteen successfully obtained an interest-free loan of $50,000 to purchase homes from USDA for a total of $650,000.

USDA research on non-metro population change focused on the future impact of the baby boom on rural migration, the relationship between Hispanic in-migration and economic restructuring, and the growing number of African-American retirees choosing to live in non-metro areas. Demographic trends also reflect a relentless geographic expansion of U.S. metro areas, a steady rise in the number of long-distance commuters and rapid population growth in adjacent, non-metro counties. In contrast, more than 1,000 counties experienced overall population loss since 2000, most of which are sparsely populated and isolated from metro regions. With natural increase in non-metro areas now at historically low levels, migration will dominate future rural demographic trends. Thus, the fortunes of rural America in this new century are linked even more to events beyond its boundaries and with the social, economic, technological and political forces that shape those events. USDA research will continue to focus on the changing economic and social conditions of rural residents as they move through large-scale, demographic transitions.

Analysis of Results

The targets were selected based on the Department's expectations for loan obligations. The expectations were based on the anticipated price of housing and the probable continuation of the low-interest-rate environment prevalent in 2004 and 2005.

While the Section 502 guaranteed loan program has obligated more funding than last year, the actual number of new homeowners is less than anticipated. The reason for this is that escalating home prices and rising interest rates have made housing less affordable for low- and moderate-income borrowers. Higher home prices and higher interest rates make it more difficult for low- and moderate-income borrowers to qualify for a loan. Those that do qualify need larger loans to purchase their homes, hence, more funding was obligated than last year despite a lower number of new homeowners.

The difficulties from higher interest rates and home prices shifted some of the demand to the direct program because of the payment assistance feature and slightly longer loan terms, making the direct program the only affordable option for many households. The Section 502 direct program fully utilized its appropriated funds plus some additional funding obtained to assist with the recovery efforts from the 2005 hurricane disasters. Thus, the direct program was able to provide more assistance than originally anticipated.

The water program far exceeded this year's goal because of various factors both internal and external to the agency. Demand was much stronger than expected. The loan-to-grant ratio also increased over last year which allowed more loans to be made. Another reason the goal was exceeded was because of USDA state offices funding more projects. The offices had their full allocations in place and semi-annual pooling redistributed funding among the States earlier than previous years. Additionally, supplemental appropriation of $45 million for hurricane-affected areas in the Gulf resulted in additional subscribers being served.

The community facilities program exceeded its goal to provide needed community facilities to rural Americans because of the division's emphasis on public safety and health care facilities. USDA staff has provided outreach at national, State and regional conferences, emphasizing its ability to provide facilities at reasonable rates and terms for rural Americans.

The electric programs exceeded their performance goal target for fiscal year 2006 by 6,583,649 consumers. The 2006 underestimation was due to a change in the interpretation of consumers receiving new or upgraded electric service. Other than in the year 2002, the electric programs have not put into its results the number of generation and transmission borrowers' consumers receiving new or upgraded electric service. The estimation for 2006 was made excluding an estimation of generation and transmission borrowers' consumers receiving new or upgraded electric service. After making the estimation, the electric programs re-evaluated their methods of calculation of consumers. A method was developed which enabled the generation and transmission borrowers' consumers to be included in the calculation and eliminate double-counting consumers. Therefore, the estimation did not include generation and transmission borrowers' consumers while the results included the generation and transmission borrowers' consumers. Even if the electric programs had not changed their calculation of consumers, the target goal of 1,600,000 would still have been met.

The telecommunications program exceeded its goal of customers served by new or improved telecommunications facilities by 28,563. The telephone loan lending authority was fully utilized. Although the Broadband Loan Program obligations target was unmet, the Broadband Program exceeded its target for customers served by new or improved telecommunications facilities by more than 100 percent.

USDA continues to fund the deployment of advanced telecommunications facilities in rural America. This continued investment results in many financial and technical benefits for the borrowers. One result is the availability of new or improved service for the borrowers' customers, the residents and businesses that they serve. In some cases, the financing provided by USDA reduces the operating and capital costs of the borrower, without a direct increase in the number of subscribers. Thus, the number of customers served by new or improved telecommunications facilities has fluctuated over the last few years, but a substantial number of customers continue to receive the benefit of these investments in infrastructure made possible by USDA's rural development programs.

Exhibit 31: Improving Rural Quality of Life Through Homeownership Opportunities

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
3.2.1 Homeownership opportunities provided	43,500	40,517	Unmet

Exhibit 32: Trends in Rural Home Ownership

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006
3.2.1 Homeownership opportunities provided	43,036	44,130	48,894	43,224	40,517

Exhibit 33: Improving Rural Quality of Life Through Water and Waste Disposal Facilities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
3.2.2	Number of program borrowers' subscribers (or customers) receiving new and/or improved water and/or waste disposal service.	570,000	1,500,000	Exceeded

Exhibit 34: Trends in Water and Waste Disposal Service

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
3.2.2	Number of program borrowers' subscribers (or customers) receiving new and/or improved water and/or waste disposal service.	796,768	593,582	965,780	1,325,000	1,500,000

Exhibit 35: Improving Rural Quality of Life Through Community Facilities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
3.2.3	Customers served by new or improved community facilities (Mil)	12	15.2	Exceeded

Exhibit 36: Trends in Community Facilities

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
3.2.3	Customers served by new or improved community facilities (Mil)	7.2	7.2	12	12.9	15.2

Exhibit 37: Improving Rural Quality of Life Through Electric Facilities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
3.2.4	Customers served by new or improved electric facilities	1,600,000	8,183,649	Exceeded

Exhibit 38: Trends in Electric Facilities

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
3.2.4	Customers served by new or improved electric facilities	11,524,931	3,745,559	4,325,985	2,360,477	8,183,649

Exhibit 39: Improving Rural Quality of Life Through Telecommunications Facilities

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
3.2.5	Customers served by new or improved telecommunications facilities	268,464	297,027	Exceeded

Exhibit 40: Trends in Telecommunications Facilities

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
3.2.5	Customers served by new or improved telecommunications facilities	N/A	382,229	373,813	232,249	297,027

Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply

USDA provides a secure agricultural production system and healthy food supply to consumers. The Department accomplishes this task by protecting the food supply 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 meat, poultry and egg products imported from other countries are produced by a system equivalent to USDA's.

Ensuring the safety of America's meat, poultry and egg products requires a strong infrastructure. Thus, USDA has stationed public-health servants throughout the country and in laboratories, plants and import houses. USDA will take an enhanced risk-based approach to inspection. Through these efforts, the Department will reallocate its resources to focus more closely on food safety systems and preventing public health problems before they occur. This initiative advances a coordinated national and international food safety, risk management system from farm to table. A significant contribution to the risk-based approached to inspection is the development of a public health infrastructure. This infrastructure will include: improvements to public health data analysis and information exchange; advanced surveillance and detection systems; a well-trained workforce; swift, secure and multi-directional communications; and disaster preparedness and response capability.

OBJECTIVE 4.1: REDUCE THE INCIDENCE OF FOODBORNE ILLNESSES RELATED TO MEAT, POULTRY, AND EGG PRODUCTS IN THE U.S.

Overview

Protecting the Nation's food supply from potential hazards is a formidable task. To accomplish this goal, USDA requires sound science to make the appropriate decisions and policy development. Currently, a heightened public apprehension that terrorists could target the Nation's food supply exists. Additionally, there is the potential for new and emerging microbial hazards. Thus, the Department must assess and update its food safety systems continually.

During the past year, USDA has continued to eliminate foodborne illness through testing, risk assessments, partnerships with its stakeholders and policy decisions based on sound science.

USDA conducted approximately 1,350 food safety assessments in FY 2006. A food safety assessment is a comprehensive evaluation of an establishment's food-safety system, including its sanitation controls, its compliance with microbiological performance criteria, the adequacy of slaughterhouse and processing plant Hazard Analysis and Critical Control Point systems, the operation of its prerequisite programs and its response to food-safety control deviations. Enforcement, investigation and analysis officers conduct food safety assessments, usually in response to a specific cause like a positive sample.

USDA provides safe handling and preparation information to manufacturers of meat, poultry and processed egg products, and to consumers. This promotes product safety and reduces the opportunity for cross-contamination between products. For retail and food-service operations, USDA works collaboratively with the U.S. Food and Drug Administration and State programs through the Conference of Food Protection. This partnership among regulators, industry, academia, professional organizations and consumers works to identify problems, formulate recommendations and develop and implement practices that ensure food safety. These efforts ensure that the Food Code contains accurate, science-based guidance. The Food Code is the model for the establishment of State and local food regulations regarding food safety and sanitation.

The Department also supports public health by developing consumer information and education programs. These programs are structured around a set of food safety messages for the general public, are based on science, use social marketing principles and are delivered through a network of partnerships.

Challenges for the Future

USDA is continually challenged to prevent product contamination, and to educate the public on safe food handling.

One of the most significant challenges faced by USDA is that the safety of meat, poultry and egg products can become endangered after Department inspection and prior to consumption. Consequently, USDA is assessing how to limit or prevent accidental or intentional contamination.

USDA studied *Listeria monocytogenes* in ready-to-eat meat and poultry products and is developing a comparative risk assessment. This comparative risk assessment will assist USDA in targeting its efforts to public health variables that are shown to be more effective at mitigating risk.

USDA will continue to assess which retail practices present greater risk for introducing *E. coli O157:H7* into raw ground beef and then target such operations for testing. The Department believes that its regulatory verification testing program can ensure that industry and retail take steps to control food safety hazards. USDA increases targeted testing at high-risk operations.

As the statistics in *Salmonella* show, control of this pathogen continues to be a challenge for USDA. Therefore, USDA has announced the *Salmonella* initiative and the scheduling of food safety assessments to target broiler production in 2006 and 2007. While this group of pathogens is commonly associated with poultry and eggs, it is found in multiple products such as produce, dairy products and red meats.

Additional challenges faced by USDA include the continued targeting of at-risk groups, namely the very young, pregnant women, older adults, people with chronic diseases, those with weakened immune systems and underserved populations.

Selected Results in Research, Extension and Statistics

USDA estimates the societal costs of foodborne illnesses from pathogens. Department researchers updated the cost of foodborne illness from *Escherichia coli O157 (O157 STEC)*. They used the U.S. Centers for Disease Control and Prevention (CDC) estimate of annual cases and newly available data from the Foodborne Diseases Active Surveillance Network (FoodNet) of CDC's Emerging Infections Program. USDA estimates that the annual cost of illness from *O157 STEC* was $406 million in 2003, including $370 million for premature deaths, $31 million for medical care, and $5 million in lost productivity. The Department recently added the *O157 STEC* estimates to the *Foodborne Illness Calculator* to its Web site.

USDA research on traceability in food supply showed that there are many private-sector, third-party certifiers worldwide. The Department and the University of Pennsylvania conducted a workshop bringing together insurance industry representatives, third-party certifiers and standards owners, lawyers and Government food-safety experts and certifiers. The workshop examined the relation between USDA programs and third-party food safety certification, especially questions of liability. The Department learned that, while certifiers have avoided legal liability, they appear to be contributing to stricter food safety production decisions throughout the supply chain. The workshop marked a first step in assessing the importance of certification.

As consumers increasingly rely on others to prepare food, the importance of a knowledgeable and skilled workforce for all food outlets is critical in preventing foodborne illness. The Safety Awareness in the Food Environment (SAFE) program provides food workers with practical information about food safety and sanitation. In 2005, the University of New Hampshire Cooperative Extension, supported in part by USDA funds, conducted 32 SAFE programs, reaching 512 food workers. Sixty-nine percent of the participants scored 92 percent or greater on the post-workshop knowledge questionnaire. Of seven follow-up phone surveys, 86 percent of food managers in establishments sponsoring a SAFE program reported food safety practice changes in their employees.

Clostridium perfringens is a common bacterium associated with foodborne illness in the U.S. This bacterium produces a toxin termed enterotoxin. The chromosome responsible for enterotoxin production, CPE, has been strongly correlated to Type A food poisoning. Research funded through the National Research Initiative Food Safety Program determined that the bacterium containing the CPE gene survived refrigeration (4˚C) and freezing (-20˚C) temperatures better, especially in meat products. Thus, the *C. perfringens* bacterium containing the CPE gene would be more difficult to kill by conventional methods and more likely to cause sickness. While the CPE gene's role in mediating cold and heat sensitivity remains unclear, this information provides scientists a new avenue for improving food safety.

A portable assay for *E. coli O157:H7* will provide food safety regulators with additional tools. Most illness from *E. coli O157:H7* has been associated with eating undercooked, contaminated ground beef. There is an urgent need for sensitive, specific, and rapid detection of these bacteria. USDA scientists developed a new assay based on a commercially available, portable fiber optic biosensor. This assay is specific for *E. coli O157:H7* and can detect very low levels of the bacteria in ground beef within five hours. Higher levels of contamination can be detected in even less time. The biosensor and battery pack can be carried in a briefcase. Its compactness allows assays to be performed at the farm, processing plant, distribution center or retail store. This portable assay provides the food industry and regulatory agencies a new screening tool to detect foodborne pathogens and food security threats.

A new risk assessment model will help food safety regulators better address the issue of *Listeria* in ready-to-eat foods. Predicting it is a high priority for USDA, DHHS and FDA. Department scientists produced models that enable risk assessors and food safety managers to predict the *Listeria* activity in delicatessen salads at different storage temperatures and product formulations, and in commercially prepared cheeses. The models assist Federal regulatory agencies in developing risk assessment information for consumers and food companies in designing salad formulations that present lower health risks to consumers. The research also has helped food companies meet new Federal regulations.

Methods to detect bacteria will help food safety regulators to ensure the safety of seafood better. USDA scientists and collaborators developed a new, rapid, inexpensive, enzyme-based assay to detect pathogenic Vibrio bacteria in seawater and shellfish. The assay may be used in identifying peak periods when Vibrio bacteria are at their highest levels in east, west and gulf coast oysters and growing waters. This would allow regulatory agencies to control shellfish harvesting based on Vibrio bacteria levels rather than using the current fecal coliform levels as indicators of pollution. Since the assay is inexpensive and does not require major equipment, it also could screen water quality in aquaculture facilities to forewarn the producer or processor of potential problems. Thus, regulators could take remedial actions.

Key Outcome

Basing Policies on Science

USDA issued two instructions related to *Listeria monocytogenes* that clarified procedures used by consumer safety inspectors to conduct daily, routine inspections. The instructions also provided new procedures for enforcement, analysis, and investigation officers to follow. This was designed to determine the effectiveness of controls for *Listeria monocytogenes*. In March 2006 USDA began the routine testing of food-contact surfaces and the environment in addition to testing product. Testing surfaces provides a better indication of sanitary controls than product testing alone. *Listeria monocytogenes* is an environmental contaminant known to become permanently resident in establishments.

Regarding *E. coli O157:H7*, USDA is conducting a baseline study for trimmings used to make raw ground beef. Scientists serving on the National Advisory Committee on Microbiological Criteria for Foods (NACMCF) reviewed the study. NACMCF provides impartial, scientific advice to Federal food-safety agencies in developing national food-safety systems, following products from the farm to final consumption. The committee issued its recommendations in a report titled "NACMCF Response to USDA Request for Guidance on Baseline Study Design and Evaluations for Raw Ground Beef Components." The results of this study are expected to inform USDA risk managers and risk assessors about this pathogen's prevalence in trim used to produce raw ground beef.

The Department also took steps to collect production volume information at inspected beef facilities. This information, along with the results of the baseline study, will be used to develop a risk-based verification testing program.

Analysis of Results

The overall percentage of positive *Listeria monocytogenes* regulatory samples for FY 2006 was less than the targeted performance measure. USDA uses the results from the ALLRTE program (i.e., a random sampling of all ready-to-eat meat and poultry products) to reflect progress relative to *Listeria* control. USDA is pleased with the results of this program, particularly because within the sample population, products were included that are at high-risk for causing illness and for supporting the growth of *Listeria monocytogenes.* In a separate sampling program targeted at these high risk products, the overall percentage of positive samples remains lower than that of the ALLRTE sampling program.

Since an initial substantial decline in the percentage of *E. coli O157:H7*-positive raw ground beef samples, beginning in FY 2002, USDA has been able to maintain the percentage positive samples at or below the targeted performance measure. In FY 2006, the overall percentage of positive samples showed a further decline from the FY 2005 level. The Department will continue to monitor data related to human infections associated with the consumption of beef products. If there is a rise in human illness associated with this pathogen and the consumption of beef, or a rise above 0.20 percent in the regulatory testing program, USDA will take immediate steps.

USDA now collects industry data on RTE products as part of the October 2003 *Listeria* rulemaking. The Department used this data to revise its *Listeria* testing in RTE products. In FY 2006, USDA used this data as one means to identify higher risk operations and products. The Department targets its regulatory verification testing program towards operations that produce higher risk products. USDA now tests food contact surfaces and the environment routinely, in addition to product.

To illustrate the significance of these trends, the accomplishments of USDA's food safety initiatives are presented in CDC's annual 2005 report on the incidence of infections from foodborne illness. The report, which was released Spring 2006, noted significant declines from a 1996-1998 baseline in *E. coli O157:H7*-related illnesses (29 percent). CDC attributes the decline, in part, to policies USDA implemented in 2002 and 2003. In late 2003, the Department released data that showed a 25-percent drop in the percentage of positive *Listeria monocytogenes* regulatory samples from the previous year, and a 70-percent decline compared with years prior to the implementation of HACCP. The report also noted that illness associated with *Listeria monocytogenes* declined 32 percent from the baseline years of 1996-1998.

Exhibit 41: Pathogen Reduction (Food Inspection)

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
4.1.1	Prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products	0.70%	0.60%	Exceeded
4.1.2	Prevalence of *E. coli* O157:H7 in ground beef	0.20%	0.16%	Exceeded

Exhibit 42: Trends in Pathogen Reduction (Food Inspection)

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006

4.1.1	Prevalence of Listeria monocytogenes in ready-to-eat meat and poultry products	1.03% Baseline	0.0%	0.89%	0.70%	0.60%
4.1.2	Prevalence of E. coli O157:H7 in ground beef	0.77% Baseline	0.37%	0.19%	0.20%	0.16%

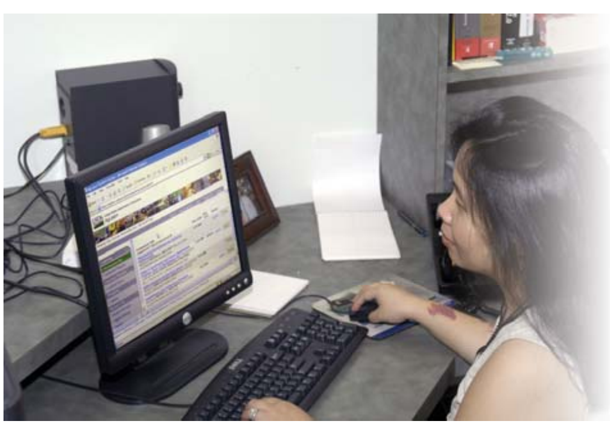
In 2005, the incidence of illnesses associated with *Listeria monocytogenes* was higher than its lowest point in 2002. It should be noted that the overall increase in illnesses reported by CDC reflected all foods, not just meat and poultry products. USDA, in 2003, issued its interim final rule on *Listeria monocytogenes* that specifically addressed control for this pathogen in ready-to-eat meat and poultry products. Since then, the percentage of positive *Listeria monocytogenes* regulatory samples has been declining in these areas.

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 public;
- Cluster targeting, which uses demographic, geographic and socio-demographic information to tailor communications to segmented audiences; and
- One-on-one interactions, through the:
    - USDA Meat and Poultry Hotline; and
    - "Ask Karen," which complements the hotline and allows USDA to expand its outreach programs, promote food safety and defense, and protect the public health.



Each component of the integrated marketing program is developed based on risk research, science drawn from epidemiological studies concerning foods and behaviors that contribute to food safety risks, and social marketing principles derived from theory, market and consumer research.

Significant work continued with the USDA Mass Media Campaign. The campaign objective is to create a program that includes an umbrella brand and campaign logo, an educational strategy for targeted audiences and a media buy plan. The campaign aims to gain acceptance of changing behaviors involving safe food handling. Through this campaign, USDA will reach educators, health officials, media, caregivers and consumers, including children and at-risk and underserved populations.

USDA also launched the "Be Food Safe" education campaign. The launch took place at the Food Safety Education Conference, "Reaching At-Risk Audiences and Today's Other Food Safety Challenges." The conference focused on education programs and strategies for those most at risk. It also updated educators on the latest in food-safety education and showcased new national education projects.

During the conference, USDA unveiled a brochure series targeted to specific audiences most at-risk for foodborne illness. The brochures covered food safety for transplant recipients, people with HIV/AIDS, diabetics, cancer patients and older adults.

Food safety publications for both industry and consumers have been translated into many languages including Spanish, Korean, Vietnamese and Mandarin Chinese. USDA also uses national television, cable networks, educational television, radio, magazines, newspapers and Web sites to enhance public education efforts. Additionally, a hotline offers Spanish-speaking food-safety specialists and Spanish-language Web sites and printed materials.

In other outreach efforts to the Hispanic community, USDA developed a brochure and poster informing that community's consumers about food safety and protecting their families from potential dangers. The Department also created a public-service announcement and launched an outreach program partnering with Hispanic organizations and supermarkets. USDA continues to work with the Partnership for Food Safety Education on their Hispanic outreach initiative. USDA also targets other underserved populations that include African-Americans, Asian-Americans, Native American Indians and Alaskan Natives, and the visually-impaired.

The Department continues its multi-year effort to provide technical assistance and compliance guidance concerning major rules, policies and directives to small and very small meat, poultry and egg processing establishments. These outreach sessions bring industry and inspection program personnel together to promote a uniform understanding of food safety regulations. Information about the outreach sessions may be found at: www.fsis.usda.gov/Science/Small_Very_Small_Plant_Outreach/index.asp.

Analysis of Results

A key outcome in reaching this goal is a significant increase in raising public health awareness. By developing consumer education programs and disseminating consumer information with food safety messages about the safe handling, preparation and storage of meat, poultry and egg products through various channels of communication, USDA is providing the tools and empowering consumers with the knowledge to prevent and reduce the risk of foodborne illness.

Exhibit 43: Public Health Awareness

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
4.1.3	Number of consumers reached with food safety messages (millions of viewings)	94	94*	Met

*end-of-year projection as of 9/19/06

Exhibit 44: Trends in Public Health Awareness

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
4.1.3	Number of consumers reached with food safety messages (millions of viewings)	90 Baseline	92	123	120	94*

*end-of-year projections as of 9/19/06

Objective 4.2: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

Key Outcome

Improve Animal and Plant Diagnostic Laboratory Capabilities

Overview

The National Animal Diagnostic Network and Plant Diagnostic Network Centers ensure timely disease detection. 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 from accidental or deliberate introduction of diseases.

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 (and insect) detection criteria have been developed for *soybean rust, sudden oak death, Ralstonia stem rot, plum pox virus, pink hibiscus mealybug* and *potato wart*. *Soybean rust* is a fungal disease that attacks the foliage of a soybean plant, causing its leaves to drop prematurely. *Sudden oak death* is a plant disease that attacks many types of plants and trees common to the Pacific Northwest. *Plum pox virus* browns the flesh and deforms stone fruit, making it unmarketable. *Pink hibiscus mealybug* is a serious insect threat to agricultural, ornamental and horticultural plants in tropical and sub-tropical areas. *Potato wart* creates ugly, warty outgrowths on potato plants.

Animal disease-detection criteria have been developed for the following eight high-consequence diseases. *Foot-and-Mouth Disease* is a severe, highly contagious viral disease of cattle and swine. *Exotic Newcastle Disease* 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* and *Low Pathogen Avian Influenza* are viruses that can cause varying amounts of clinical illness in poultry. In 2006, the National Animal Health Laboratory Network (NAHLN) worked with National Research Initiative funded wild bird sampling and other wildlife surveillance efforts to provide additional cooperative detection capabilities for various strains of *Low Pathogen Avian Influenza* and *High Pathogen Avian Influenza*. *Bovine Spongiform Encephalopathy* is a chronic degenerative disease that affects the central nervous system of cattle. *Scrapie* is a fatal, degenerative disease affecting the central nervous system of sheep and goats. *Chronic Wasting Disease* attacks the central nervous system of deer and elk. NAHLN is part of a national strategy to coordinate the Nation's Federal, State and university laboratory resources.

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.

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.

Exhibit 45: Ensure the Capabilities of Plant and Diagnostic Laboratories are Improved

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
4.2.1	Improve the capabilities of animal and plant diagnostic laboratories:			Met
	▪ Specific plant diseases labs are prepared to detect	6	6	
	▪ Specific animal diseases labs are prepared to detect	8	8	

Exhibit 46: Trends Improving the Capabilities of Diagnostic Laboratories

Trends		Fiscal Year Actual		
		2003	2004	2006
4.2.1	Improve the capabilities of animal and plant diagnostic laboratories: ▪ Specific Plant diseases labs are prepared to detect	2	3	6
	▪ Specific animal diseases labs are prepared to detect	N/A	6	8

N/A = Not Available

Selected Results in Research, Extension and Statistics

A new *Chemical Distribution Rate* publication, released December 2005, contains data for agricultural chemical usage for percent of acres treated, number of treatments, rate per application and rates per crop year. Data for the 2005 field and fruit crops were incorporated into the *Agricultural Chemical Usage Field Crops Summary, May 2006,* and *Agricultural Chemical Usage Fruit Crops Summary, July 2006*. These publications provided users distribution-rate information on an accelerated schedule.

Insects and diseases reduce peanut yields and increase production costs for farmers and may be difficult and expensive to control with conventional methods. The University of Georgia, with partial support by USDA funding, have identified six plant introductions from Bolivia in the USDA Peanut Germplasm Collection and additional land race cultivars from Bolivia. These products have shown good to excellent levels of pest resistance and better yield than accessions used to create the cultivars currently being grown. Peanut-breeding programs have used these new sources of resistance to add diversity to peanut gene pools. They also have increased pest-resistance levels substantially in elite candidate peanut breeding lines. This finding will increase profitability for producers, make the food supply safer through reduced pesticide inputs and reduce the environmental impacts of pest-control activities.

Currently, *soybean cyst nematode* is the most damaging pest to U.S. soybean production. It causes $1 billion annual crop losses. Genetic resistance is the only viable means to combat the SCN pathogen. With USDA funding, the Tennessee Agricultural Experiment Station developed and released a new soybean germplasm line (JTN-5303) with resistance to multiple SCN races. JTN-5303 currently is being accessed by public and commercial breeders to incorporate SCN resistance throughout major soybean production regions. This line is resistant to every major SCN race in Tennessee, resulting in improved, sustainable crop production. An estimated $9 million in crop loss in Tennessee alone can be eliminated through SCN resistance**.**

New vaccines are being developed to protect against multiple strains of *avian coccidiosis*. Coccidiosis is a common intestinal protozoan infection of poultry that seriously impairs the growth and feed utilization of infected birds. It is caused by seven distinct species of intracellular parasites. While anti-coccidial drugs are the primary control method, drug-resistant coccidia strains

are emerging worldwide. Additionally, while vaccines provide an important alternative to anti-coccidial drug therapy, existing vaccines, which are comprised of one or more live coccidian species, do not provide cross-protection against all seven species. USDA scientists have discovered a protein named SZ1 that is present in three species. The full-length gene from *Toxoplasma gondii* was characterized and expressed in a bacterial system. Then, the protein was used to make antibodies to *T. gondii* SZ1. These antibodies are being evaluated to determine whether this protein provides cross-protective immunity across *Eimeria* strains.

USDA overseas laboratories helped identify a biological-control agent to mitigate the impact of the olive fruit fly. Invasive weeds and insect pests of foreign origin cause more than $100 billion annually in economic losses and ecological problems in the U.S. Olive fruit fly first was reported in California in 1998 and now is established in olive-growing regions in the central part of the state. The fly is capable of infesting 100 percent of the fruit on a tree, rendering the harvest unmarketable. In 2004, a project was initiated at the European Biological Control Laboratory (France). Olive fly parasitoids (small wasps) were identified and sent to the University of California-Berkeley and California Department of Food and Agriculture cooperators, who first released the bio-control agent in 2005. When established, the parasitoids are expected to suppress an insect pest that threatens the growing ($60-100 million) U.S. olive industry.

Mass production of biological control agents offers new hope for controlling the glassy-winged sharpshooter (GWSS) and *Pierce's Disease*. USDA scientists determined that an increasing proportion of GWSS adults become positive for *Xylella fastidiosa* (the cause of *Pierce's Disease*) as the insect ages, with correlate increases in concentration of the bacterium. Thus, older leafhoppers serve as a greater threat. *Pierce's Disease* plagues grapes, agronomic and horticultural crops, and landscape, ornamental and shade trees. To reduce insect numbers, USDA scientists collected and evaluated four species of GWSS egg parasitoids (an insect that parasitizes another insect). These natural enemies were shipped to the California Department of Food and Agriculture for mass rearing and release. One species, Gonatocerus triguttatus, now is established and spreading beyond the release locations.

Key Outcome

A Secure Agricultural Production System and Healthy Food Supply

Overview

To provide a secure agricultural production system and healthy food supply to U.S. consumers, USDA's goal is to reduce the number and severity of agricultural pest and disease outbreaks. This work includes:

- Safeguarding animal and plant resources against the introduction of foreign agricultural pests and diseases, while meeting international trade obligations;
- Detecting and quickly responding to new invasive pests and diseases and emerging agricultural health situations;
- Managing existing agricultural pests and diseases and wildlife damage effectively; and
- Developing and applying scientific methods that benefit agricultural producers and consumers, protect the health of animal and plant resources, and sustain agricultural ecosystems.

USDA's efforts in FY 2006 prevented the introduction of foreign animal disease that spread beyond the original area of introduction. Such a spread could cause severe economic or environmental damage, or threaten animal health. Specific programs described below were conducted successfully to protect poultry, cattle, swine and other species.

Despite USDA's efforts, three emerging plant pest programs had pests or diseases that spread beyond the quarantined areas in place at the beginning of FY 2006. These were the programs for *Emerald Ash Borer (EAB)*, *Sudden Oak Death (SOD* or *Phytophtora ramorum)*, and

Citrus Canker. EAB is an exotic beetle that nibbles on the inner bark of ash trees, disrupting the tree's ability to transport water and nutrients. SOD is a disease that is killing oaks and other plant species in the western U.S. *Citrus canker* is a highly contagious bacterial disease of citrus crops. The programs to eradicate the Asian Long Horned Beetle and manage the Glassy-winged Sharpshooter prevented outbreaks of target pests/diseases outside their quarantine areas. In collaboration with Federal and State regulatory agencies and scientists, USDA developed a Citrus Health Response Plan (CHRP). CHRP is a comprehensive framework for responding to citrus health concerns. Beginning in FY 2007, USDA will address CHRP's performance aspects.

USDA's programs designed to reduce the number and severity of pest and disease outbreaks in plants and animals contribute to the good life Americans enjoy. Due in part to the protection afforded by these programs to the health of plants and animals, U.S. consumers receive an abundance of food and fiber. They also remain relatively free of diseases that may be transmitted to them from animals (zoonotic diseases) that affect people in many countries. Protecting the Nation's plant and animal resources provides many Americans with employment in the agricultural sector and a livelihood serving farmers with needed tools, supplies, technical knowledge and money. USDA's efforts help to ensure that such allied industries as the food-processing and pharmaceutical industries, and grocery distributors receive the raw materials they need to produce their products and services. Its efforts also help to maintain public and private landholders' investments in a productive capacity, providing economic stability to American society. By protecting U.S. plant and animal resources from pest and disease outbreaks, USDA ensures U.S. agricultural resources can move freely in international trade. Because of these programs, Americans can enjoy parks, preserves and recreational areas in their healthy natural state. Americans landscape their property with healthy nursery stock and plant pure seed. The North American ecosystem depends in part on USDA's efforts to reduce the number and severity of pest and disease outbreaks. The global ecosystem depends upon international efforts to minimize the movement of harmful species. USDA participates in these efforts as a world leader, benefiting the public in many countries.

Challenges for the Future

Important challenges face USDA in its efforts to reduce the number of pest and disease outbreaks. One is to prevent harmful exotic species from entering the country. If they do enter, the bigger challenge is detecting them early enough to reduce their spread and eradicate them before they do significant damage. To help exclude and detect, USDA creates and continually updates endemic pest and disease information, and monitors and conducts surveys in cooperation with States and industry. Survey data are essential for initiating and directing programs. They also result in better pest and disease management. In the future, USDA will increase and expand monitoring and surveillance activities. This process will include identifying potential pathways for animal disease transmission and increasing the number and intensity of plant pest surveys throughout the U.S. In addition to early detection, the spread of communicable animal pests and diseases can be prevented by regulatory enforcement activities.

Once an exotic pest or disease is reported, USDA must respond immediately by investigating and taking emergency action if necessary. To meet this challenge, the Department develops pathway studies and thoroughly investigates the progression of outbreaks to determine the origin of plant and animal pests and diseases. Substantial costs are incurred as the result of outbreaks and introduction of economically significant plant and animal pests and diseases. USDA seeks to reduce these costs through enhanced, science-based, early detection and rapid response efforts.

In an emergency, the challenge is to mobilize a sizeable effort to eradicate or eliminate the disease or pest problem. USDA is continuing to enhance emergency-coordination efforts and emergency-response capabilities.

USDA will procure and strategically store materials required to respond to the most threatening foreign animal diseases. This will allow the government to provide rapid intervention in the case of an outbreak. USDA agencies are participating on a government-wide team created in FY 2006. The team develops and implements an Avian Influenza Response plan. USDA also will develop emergency management capacity to respond to emergencies involving plant pests and diseases better.

A final challenge is to minimize the economic impact of harmful diseases and pests where eradication is not feasible or will take many years to achieve. To accomplish this task, USDA monitors endemic diseases and pests through surveys. The surveys are designed to detect the location of pests and diseases. The Department also conducts inspections aimed at preventing their spread into non-infested parts of the country. Additionally, USDA works to prevent the spread of such zoonotic diseases as rabies and protects American agriculture from detrimental predators through identification, demonstration and application of the most appropriate methods of control.

USDA has several groups of programs that focus on reducing the number and severity of pest and disease outbreaks, including Pest and Disease Exclusion Programs, Plant and Animal Health Monitoring Programs, Pest and Disease Management Programs, and Scientific and Technical Services Programs.

USDA's Pest and Disease Exclusion Programs prevent the introduction of foreign plant and animal pests and diseases. The Department monitors plant and animal health throughout the world and uses the information to establish effective import policies. USDA works with other countries to control or eradicate agricultural pests and diseases abroad. It develops quarantine regulations to prevent them from being imported into the U.S. USDA works with the U.S. Department of Homeland Security to ensure compliance with those regulations at domestic ports of entry and protect American borders. USDA's exclusion programs foster a trade environment that allows for a common understanding of international animal and plant health standards. The programs in this grouping include Agricultural Quarantine Inspection, Cattle Ticks, Foreign Animal Disease/Foot and Mouth Disease, Fruit Fly Exclusion and Detection, Screwworm, Tropical Bont Tick, and Import Export (Domestic).

USDA's Plant and Animal Health Monitoring Programs quickly detect and diagnose new pests and diseases. USDA conducts surveys in cooperation with the States to detect the pests and diseases, store the information and analyze it. The Department partners with States and industry stakeholders to determine if there is a need to establish new pest or disease-eradication programs, and develop response capabilities for outbreaks. The programs in the Plant and Animal Health Monitoring grouping include Animal Health Monitoring and Surveillance, Animal and Plant Health Regulatory Enforcement, Pest Detection, Bio-surveillance, Emergency Management Systems, Highly Pathogenic Avian Influenza, Pest Detection, Select Agents, and Wildlife Disease Monitoring and Surveillance.

USDA's Pest and Disease Management Programs are cooperative efforts with States to detect, prevent and eradicate pests and diseases harmful to agriculture. USDA monitors and regulates interstate shipments of plants, livestock and related materials to prevent the spread of pests and disease and the distribution of impure, unsafe and ineffective materials and products. USDA also protects agriculture from detrimental animal predators through identification, demonstration and application of the most appropriate methods of control. The programs in this grouping include: Aquaculture; Bio-control; Boll Weevil; Brucellosis; Chronic Wasting Disease; Cotton Pests; Contingency; Emerging Plant Pests; Golden Nematode; Grasshopper; Gypsy Moth; Imported Fire Ant; Johne's Disease; Low Pathogenic Avian Influenza; Noxious Weeds; Pink Bollworm; Plum Pox; Pseudorabies; Scrapie; Tuberculosis; Wildlife Services Operations; and Witchweed.

USDA's Scientific and Technical Services Programs provide new tools and technologies to protect the health of American animal and plant resources. These programs provide diagnostic services, products and training for surveillance, prevention and control and eradication programs. They facilitate, monitor and regulate the development of biotechnology-derived products. They ensure the purity, potency, safety and effectiveness of veterinary biological products. They develop methods to control animals and pests detrimental to agriculture, wildlife, and public safety. The programs in this grouping include Biosecurity, Biotechnology Regulatory Services, Environmental Compliance, Plant Methods, Veterinary Biologics, Veterinary Diagnostics, and Wildlife Services Methods.

USDA's programs that endeavor to reduce the number and severity of pest and disease outbreaks contribute to a secure agricultural production system and healthy food supply. These programs benefit the public by providing abundant food and fiber, good personal health, freedom from zoonotic and nutritional diseases, jobs in the agricultural and related sectors, industries that receive agricultural products and convert and sell them, freely moving agricultural products in the international market place, protection of their herds, flocks, pets, crops, landholdings, parks and natural areas from invasive species, and an opportunity to enjoy a safe, beautiful and sustainable ecosystem.

As indicators of success in reducing the number and severity of pest and disease outbreaks, USDA has selected two key performance measures of broad scope.

The Animal Health Monitoring and Surveillance (AHMS) program uses performance measure 4.2.2, seen in the accompanying exhibit, to track its progress. This program's goals are to conduct monitoring and surveillance activities to rapidly detect incursions of foreign and emerging diseases, evaluate and enhance surveillance for current disease control and eradication programs, monitor domestic and foreign disease trends and threats, and provide timely and accurate animal health information. Some of its components are the National Animal Health Surveillance System (NAHSS), the National Animal Identification System (NAIS), the National Animal Health Laboratory Network, and the National Animal Health Monitoring System.

The Emerging Plant Pest (EPP) program has performance measure 4.2.3, seen in the accompanying exhibit. This program's goal is to maintain the ability to respond quickly to any emerging plant pest problem. During FY 2006, the program focused on *Citrus Canker*, *Glassy-winged Sharpshooter*, *Emerald Ash Borer*, *Asian Longhorned Beetle*, and *Sudden Oak Death (Phytophthora ramorum.)* A performance target was set at 2 of 5 programs to ensure safeguarding of U.S. plant resources.

Analysis of Results

During FY 2006, USDA met the target related to animal disease outbreaks because of the successful effort of AHMS program components. This continued a record of five years of success, broken only by the outbreak of *Exotic Newcastle Disease* (see the accompanying exhibit). By meeting these goals, USDA provided for a continually secure agricultural production system and health food supply to consumers, minimized production losses and maintained market viability for U.S. livestock.

NAHSS strives to meet the requirements of the Animal Health Safeguarding Review and Homeland Security Presidential Directive 9 (HSPD-9). HSPD-9 establishes a national policy to defend the agriculture and food system against terrorist attacks, major disasters, and other emergencies. During FY 2006, USDA joined with other federal agencies to mount a significant effort to prepare for a potential outbreak of highly pathogenic avian influenza. It concluded an enhanced *bovine spongiform encephalopathy (BSE)* surveillance program and moved to an ongoing *BSE* surveillance program. *Swine pseudorabies* and *brucellosis* surveillance activities did not disclose any infected animals in commercial production swine herds, and significant progress was made in implementing the classical swine fever plan.

Exhibit 47: Strengthen the Effectiveness of Pest and Disease Surveillance and Detection Systems

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
4.2.2 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	0	0	Met
4.2.3 Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	2 of 5 programs	3 of 5 programs	Unmet

Exhibit 48: Trends in Strengthening the Effectiveness of Pest and Disease Surveillance and Detection Systems

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006
4.2.2 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	0	0	1	0	0
4.2.3 Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	N/A	4	3	2	3 of 5 programs

During FY 2006, the National Animal Health Laboratory Network continued to increase the capacity of its laboratories to provide a secure communication, reporting and alert system. It also standardized rapid diagnostic techniques and added modern equipment and experienced personnel trained in the detection of emergent, foreign and bioterrorist agents. A new structure was proposed for the National Veterinary Accreditation Program that would establish two categories of accreditation; require that accreditation status be renewed triennially and require that participants receive continuing education to be eligible to renew accreditation credentials. Establishing the three-year renewal would ensure up-to-date contact information for the Nation's accredited veterinarian population so they could be mobilized in the event of an animal health emergency. NAIS is expected to be a fully operational system in early 2007. Two of the three components, the premises registration and animal identification number management systems, became operational and the integration of private and State animal tracking databases was established. Once implemented, NAIS will permit USDA to trace diseased animals back to their place of origin, and trace forward the animals the diseased ones are likely to have infected.

USDA failed to meet its target related to the number of emerging plant pest programs. Two emerging plant pest programs were successful in containing pests within the quarantine areas in place at the beginning of FY 2006. These were the programs for Asian Long Horned Beetle and Glassy-Winged Sharpshooter. Three of five emerging plant pest programs had outbreaks that were not contained within their quarantine areas. These were Citrus Canker, Sudden Oak Death (SOD or *Phytophthora ramorum*), and Emerald Ash Borer (EAB).

Expanded spread of citrus canker beyond existing quarantined areas associated with the unprecedented hurricanes of 2004 prompted USDA and Florida to increase their eradication efforts. Unfortunately, Hurricane Wilma, which struck in 2005, offset these actions. Subsequently, a Department study concluded that citrus canker had spread dramatically in Florida. It also found that additional spread and new detections would continue. This extensive spread prompted the Secretary of Agriculture to declare that the program in Florida would shift from eradication to management as of January 10, 2006. After consulting the State and citrus industry representatives, USDA proposed developing the Citrus Health Response Plan as an alternative to eradication. Since then, the Department has been assembling State and Federal regulators, and scientists in consultation to identify practices to safeguard the U.S. citrus industry and its trading partners from various citrus diseases. It has improved early pest detection by establishing minimum standards for all aspects of citrus production, harvesting and packing.

The U.S. Forest Service and the State of Oregon are working together to eradicate *Phytophthora ramorum,* the causal agent of SOD. A limited outbreak of the disease had struck Current County, Oregon. Overall, the program has reduced the distribution of *P. ramorum* significantly. While an additional area involving 11 square miles has been reported, the overall distribution of the disease has been reduced in Oregon. USDA regulations are directed toward preventing long-distance spread through science-based restrictions on articles that serve as pathways for *P. ramorum* spread. Thus far, these regulations have prevented the establishment of SOD outside the quarantined areas on the West Coast. USDA also is responsible for establishing and implementing the quarantines on counties when *P. ramorum* is detected in nurseries or the environment.

EAB was detected outside existing quarantine areas in 2006. USDA continues to develop technologies to improve pest detection, response and recovery. While regulations for quarantined areas are designed to prevent long-distance spread of EAB, implementation requires industries to be regulated and the general public to comply with prohibited movement of firewood, nursery stock and listed ash wood products. As survey methods improve and public outreach continues, detection of EAB populations that had gone undetected previously will occur until the true distribution has been defined.

Additional EAB funding is needed and was requested as part of the President’s FY 2007 budget proposal.

Strategic Goal 5: Improve the Nation’s Nutrition and Health

USDA made strides in promoting access to a nutritious diet and healthy eating behaviors for everyone in the U.S. Through its leadership of the Federal nutrition-assistance programs, the Department made a healthier diet available for millions of children and low-income families. The Center for Nutrition Policy and Promotion used interactive tools to motivate Americans to make positive dietary behavioral changes. These interactive tools were designed to help consumers establish and maintain healthy diets and lifestyles, consistent with the *Dietary Guidelines for Americans* and the President’s HealthierUS initiative. Key accomplishments included:

- **Promoting access to the Food Stamp Program (FSP).** Food stamps help low-income families and individuals purchase nutritious, low-cost food. FSP is the Nation’s largest nutrition assistance program serving 26.6 million people monthly in FY 2006. The program enables eligible participants to improve their diets by increasing their food-purchasing power via benefits redeemable at retail grocery stores and farmers markets across the Nation.
- **Continuing to ensure that the MyPyramid food guidance system serves the American public as an individualized approach to nutritional well-being and active living**. The high number of e-hits to MyPyramid.gov – more than 2 billion in FY 2006 – continued to show users’ interest in personalizing their diet. To date, there are more than 1.5 million registrations to the MyPyramid Tracker, the dietary and physical activity assessment tool. The new MyPyramid for Kids and *MiPirámide* materials were made available in FY 2006. And an on-line customer satisfaction survey shows that 88 percent of consumers said that the information and interactive tools at MyPyramid.gov prompted them to take action to improve their health.

- **Continuing to ensure that Food Stamp benefits are accurately issued.** The National Food Stamp Program payment accuracy rate for FY 2005, the latest year for which data is available, was 94.16 percent, an all-time high and a 34-percent improvement from just 5 years ago. This improvement is a result of strong partnerships with State administering agencies, and program simplifications and policy options provided in the 2002 Farm Bill.

In FY 2006, USDA continued to improve the quality of Americans' diet through a nutritionally enhanced food supply, and better knowledge and education to promote healthier food choices. 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, 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 ready 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: science-based dietary guidance and promotion can help them integrate these choices into a diet that promotes their long-term health. In FY 2006, 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 support and encourage good nutrition and physical activity 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 changes in our diets. Research also supports the development of new healthy and tasty food products, providing another avenue for helping consumers eat well.

Objective 5.1: Improve Access to Nutritious Food

Overview

USDA's nutrition assistance programs represent the Federal Government's core effort to reduce hunger and improve nutrition across the U.S. These programs aided one in five people in the U.S. during FY 2006. They 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, physically active population is healthier, more productive and better able to fulfill its full potential.

By working in partnership with States, USDA continues to implement effective nutrition assistance programs and deliver program benefits to eligible participants. The programs promote 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. USDA focuses 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.

In 2006, the Department continued to work with States to implement FSP provisions from the Farm Bill of 2002 that provides States with options to simplify the administration of the program. The Department also continued efforts to monitor and track outreach efforts to targeted populations to participate in the program. USDA continued 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.

While SBP provides cash assistance to States to operate breakfast programs in schools and residential child care institutions, many children who could benefit from breakfast at school do not use the program. On an average school day, while more than 50 million children had access to school lunch and about 30 million children chose to eat a program lunch, but only about 9.8 million children received a school breakfast. USDA promoted SBP by raising awareness of the program's availability with State and civic leaders, and supporting and celebrating National School Breakfast Week**.**

The Department also continued to serve those eligible for the Special Supplemental Nutrition Program for Women, Infants and Children Program (WIC) who wish to participate within authorized funding levels – about 8.1 million pregnant women, new mothers and their young children in an average month in FY 2006. WIC helps to safeguard the health of low-income women, infants and children up to age 5 who are at nutritional risk. The program provides nutritious foods to supplement diets, information on healthy eating and referrals to health care.

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.

Selected Results in Research, Education and Statistics

By allocating their food budgets in accordance with USDA's Thrifty Food Plan (TFP), low-income U.S. households can meet recommended dietary guidelines. TFP is a national standard for a low-cost nutritious at-home diet. A USDA study seeks to determine whether selected types of low-income households allocate their food budgets in accordance with the TFP. The study finds that low-income households as a whole spend about 86 percent of the TFP costs for food at home. While these households spend approximately the TFP amount on cereals and bakery goods (102 percent), they spend only 53 percent of the TFP costs on fruits and vegetables. Simulations for specific types of low-income households indicate that female-headed households with children and married couples with children are least likely to equal the TFP expenditures.

Recently, concerns about the nutritional adequacy of the diets of certain population subgroups have arisen. USDA research provides a comprehensive analysis of the nutrient adequacy of segments of the population at risk of inadequate nutrient intake, excessive intake or dietary imbalances. The analysis is based on the Continuing Survey of Food Intakes by Individuals conducted in 1994-96 and 1998. The segments included adolescent females, older adults, children and adults at risk of overweight, individuals living in food-insufficient households, low-income individuals and those targeted by and participating in food and nutrition assistance programs. The report adds to a growing literature that uses current, improved knowledge of nutrient requirements and recommended nutrient assessment methods to analyze nutrient intakes. The report indicates:

- Inadequate intake of key micronutrients, especially magnesium, calcium, folate and vitamin E;
- Energy intakes less than recommended energy requirements for adults; and
- Consumption of too much food energy from fat and not enough from carbohydrates; and inadequate intakes of fiber.

Additionally, diet adequacy deteriorates as individuals get older. Children—especially infants and young children—have diets that are more nutritionally adequate than those of adolescents and adults.

Because food stamps are designed to serve as a first-line defense against hunger, it would be ironic if food stamps were connected to America's obesity problem. Though such a connection appeared to exist in the late 1980s and early 1990s, it does not appear to hold today. USDA research finds a weakening relationship between food stamp receipt and weight status using the latest national data. This reversal is most noticeable among women, the group for which differences between participants and non-participants received the most attention and for whom previous research has found the most consistent associations between food stamps and weight. For women, multi-year data show the opposite of what we would expect to find if food stamps were behind increased obesity. For men, it appears that food stamp participants are catching up weight-wise with non-participants.

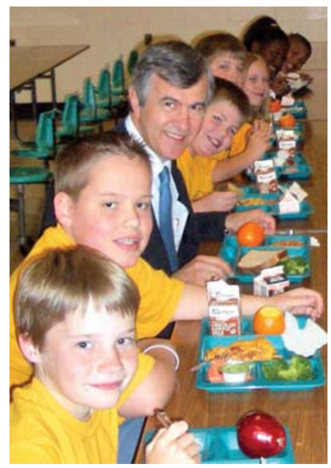
In work funded in part by USDA, the University of California, Riverside has developed technology that doubles the protein and oil content of corn grain. This is accomplished by means of a genetic modification resulting in single normal-sized kernel that contained two embryos. Because the embryo contains the majority of protein and oil of the kernel, the corn grain produced contained less starch, but more protein and oil, resulting in "low-carb" corn.

Apple consumption in the U.S. lags behind that in other countries, despite its known health benefits. Apples are a popular snack, but due to variability, bruising, and softening they do not always provide a consistent product. A breeding program at Cornell University partially supported by CSREES funding has resulted in new apples with non-browning flesh, higher vitamin C, excellent flavors, and superior crunch and juiciness.

Iron deficiency is the most common nutrient deficiency in the United States and is alleviated by iron fortification of food items. Different forms of iron can be used in fortification, but scientists didn't know which form is most beneficial. Researchers at the USDA ARS Grand Forks Human Nutrition Research Center received funding through the CSREES National Research Initiative Competitive Grants Program to resolve this question. The researchers compared an elemental iron powder to ferrous sulfate ($FeSO_4$), a well-absorbed form of iron that can cause discoloration and decreased shelf life in fortified grain products. The investigators determined elemental iron powder was not absorbed into the body as easily as $FeSO_4$ and absorption of the iron powder was less likely to be enhanced by ascorbic acid. This research provides a more comprehensive picture of how iron can be used most effectively in fortified food products.

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—is 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

The Department is committed to providing access to nutritious food through the major nutrition assistance programs for all eligible people who wish to participate. Participation has increased in FSP and SBP, and was maintained in WIC.

Analysis of Results

In general, nutrition assistance program participation reached levels as projected. As program participation is voluntary, participation projections are estimates based on economic and other factors that impact the likely behavior of eligible populations. An analysis of the most recent information available follows.

The Food Stamp Program served approximately 26.6 million participants monthly, a 3-percent increase from FY 2005 and the fourth year in a row of participation increases. USDA executed a range of efforts to support and encourage food stamp participation, including:

- Promoted the use of State policy options that promote outreach and improve access to the program;
- Continued to implement FSP public information campaign. In March 2006, 3 new paid advertisements in English began airing in 49 media markets and on 2 Statewide radio networks across the Nation. Twelve of the markets also aired two new ads in Spanish. Ads aired during March, April, July and August;
- Continued work with the Social Security Administration to implement Combined Application Projects (CAP) demonstrations, which streamline the eligibility determination process and assist in improving FSP participation among the elderly. Thirteen States have been approved to operate CAP projects, two are reviewing plans and six are planning to submit plans in the next few months;
- Awarded 15 grants to small community and faith-based organizations to conduct localized outreach activities;
- Awarded five participation grants totaling $5 million to increase access to the FSP. The participation grants focus on efforts to simplify both the application process and eligibility systems and complement the outreach grants; and
- Worked successfully with States to plan and implement 1,600 outreach activities with faith-based and community-based organizations and public agencies.

USDA also conducts studies to measure the number of people eligible for the program to determine the rate at which eligible people are participating. The most recent data indicates that about 23 million of the 38 million individuals who were eligible for food stamp benefits in an average month of 2004 participated, a participation rate of 60 percent. The program provided 71 percent of the total benefits that all eligible individuals could receive, one indicator that people who are eligible for higher benefits are more likely to participate than others. The overall participation rate increased by nearly five percentage points between 2003 and 2004, the third annual increase in participation rates after falling for seven years.

National School Lunch Program (NSLP) participation levels reached 30.1 million in FY 2006, up 1.7 percent from FY 2005 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school; more than 95,000 schools operated the program in FY 2006.

School Breakfast Program (SBP) participation levels reached 9.8 million in FY 2006, up 5 percent from a year ago and continuing a trend of increases during the last several years. SBP makes healthy, nutritious meals available to millions of children at the start of each school day. More than 49,000 schools operated the program in FY 2006. USDA continued to support and encourage SBP participation by:

- Promoting 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:
- Working with various organizations and partners to help develop strategies for program expansion;
- Developing school breakfast outreach materials for schools and parents; and
- Continuing to advance the implementation of the Child Nutrition/WIC Reauthorization Act of 2004.

In addition to the increase in the number of participating children, trend data indicate that the proportion of all children enrolled in schools 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 2006, 8.1 million participants received WIC benefits. USDA continued to work with OMB, Congress and its State cooperators to ensure that funding was available to support participation for all those eligible who wish to participate.

USDA recently implemented a new methodology to estimate the number of people eligible to participate in WIC. The most recent data available show that 57.1 percent of eligible women, infants and children participated in the program in 2003, a slight decrease from 2002 but consistent with the rate since 2000.

Exhibit 49: Improve Access to Nutritious Food

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
5.1.1 Eligible populations participating in the major Federal nutrition assistance programs			Met
▪ Food Stamp Program Avg. Monthly Participation (millions of people)	26.9 mil	26.6[1]	
▪ National School Lunch Program Avg. Daily Participation (millions of people)	30.2	30.1[2]	
▪ School Breakfast Program Avg. Daily Participation (millions of people)	9.8 mil	9.8	
▪ Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Monthly Participation (millions of people)	8.2 mil	8.1[3]	

[1] Data assessment metrics to meet the target allow for an actual number in the range 24.9 to 28.9 million.
[2] Data assessment metrics to meet the target allow for an actual number in the range 28.7 to 31.7 million.
[3] Data assessment metrics to meet the target allow for an actual number in the range 8.0 to 8.4 million.

Exhibit 50: Trends in Improving Access to Nutritious Food

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006
5.1.1 ▪ Food Stamp Program Avg. Monthly Participation (mil)	19.1	21.3	23.9	25.7	26.6
▪ National School Lunch Program Avg. Daily Participation	28.0	28.4	29.0	29.6	30.1
▪ School Breakfast Program Avg. Daily Participation (mil)	8.1	8.4	8.9	9.3	9.8

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006
▪ WIC Program Monthly Participation (mil)	7.5	7.6	7.9	8.0	8.1

Objective 5.2: Promote Healthier Eating Habits and Lifestyles

Overview

Eating healthfully 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. The Department uses Federal nutrition policy and nutrition education, both for the general public and for those served by the nutrition assistance programs, to provide scientifically based information about healthful diets and lifestyles. The Department uses, for example, the *Dietary Guidelines for Americans* and MyPyramid to help Americans make wise choices related to food and physical activity. The *Guidelines* provide advice about food choices that promote health and prevent disease, and MyPyramid provides the educational tools to help Americans take the necessary "Steps to a Healthier You."

Overweight and obesity are among the leading causes 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, as well as type II diabetes, the most common form of the disease. Thus, USDA's efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can reduce overweight, 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 overweight and obesity 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 2005 Dietary Guidelines and MyPyramid, the educational tool of the Guidelines, USDA will continue its leadership role of providing advice on patterns Americans can follow to improve overall health through proper nutrition and physical activity.

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 2006, the Department maintained its focus on providing benefits to children and low-income people that contribute to a healthful diet, with skills and motivation to encourage healthy eating and increased physical activity. For example, in the Food Stamp Program, USDA established, with the help of stakeholders, a set of guiding principles that provide the foundation for nutrition education for FSP applicants, recipients and those eligible for the Food Stamp Program. In FY 2006, the Principles were incorporated into guidance for developing State Food Stamp nutrition education plans starting with Fiscal Year 2007.

Challenges for the Future

USDA's goal of reducing obesity levels begins with understanding what constitutes a healthy diet and the appropriate balance of exercise. Ultimately, success requires individuals to change their diets by modifying their eating behavior. 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 an important step in helping Americans develop and maintain healthier diets and lifestyles, using this guidance to motivate Americans to change remains a formidable task 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, and to make use of partnerships and "information multipliers" to maximize the reach and impact of these materials. Promotional 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 significantly affect weight and health.

Key Outcome

Promote More Healthful Eating and Physical Activity across the Nation

USDA promotes healthful eating through its comprehensive nutrition assistance research and education programs. Efforts 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, and to find effective strategies to reach target populations with promotional information and messages.

USDA tracks its annual performance in promoting healthful eating and physical activity by monitoring its annual distribution of nutrition education materials. Over the longer term, USDA assesses the effect of these efforts with the Healthy Eating Index (HEI), a summary 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.

Analysis of Results

To meet the needs of the general population, USDA continued its leadership role in the promotion of nutrition guidance through educational tools that are designed to motivate Americans to "Step Up to a Healthier You." Indices of this leadership role include:

- Usage level of nutrition guidance tools was substantial for FY 2006. Nearly 2.2 billion pieces of information were distributed via MyPyramid.gov and printed materials. Visitors to MyPyramid.gov used MyPyramid interactive tools, MyPyramid for Kids and *MiPirámide*. MyPyramid for Kids is a specialized version of MyPyramid designed to promote dietary changes to children 6- to 11-years old, and *MiPirámide*, a Spanish-language version of *MyPyramid*. To date, there are 1.56 million registered users of MyPyramid Tracker[1], the assessment tool for dietary and physical activity status;
- Results from a satisfaction survey[2] of MyPyramid.gov have been positive. Over 6 months, responses by site visitors continued to confirm the usefulness of MyPyramid.gov;
- Overall, the site received a satisfaction score that ranged from 69 to 83. The score was based on site content, functionality, look and feel, navigation, search, and site performance;
- Most survey respondents to the site continued to be general consumers, students, and educators and teachers: 71 to 77 percent;
- Most survey respondents believed the level and depth of the information at MyPyramid.gov met their needs: 64 to 78 percent;
- Most survey respondents said that the information at MyPyramid.gov prompted them to take action regarding their health: 69 to 75 percent; and
- Of those who were prompted to take action, most said they changed their diet or their family's diet, reduced unhealthful eating habits, started monitoring their intake, developed a personalized plan, or established a goal for physical activity: 73 to 85 percent.

Data on the number of registrations to MyPyramid Tracker are cumulative from April 19, 2005; therefore, that information is reported separately.

[2] These data are compiled from two surveys conducted between February 2 and May 3, 2006, and two surveys conducted between June 13 and September 25, 2006. The total number of respondents was 2,242.

Exhibit 51: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
5.2.1 Application and usage level of nutrition guidance tools pieces* of nutrition guidance distributed	1.5 billion	2.18 billion	Exceeded

*Represents number of e-hits to MyPyramid.gov links and number of print materials distributed

Exhibit 52: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year 2006				
	2002	2003	2004	2005	2006
5.2.1 Application and usage level of nutrition guidance tools	N/A*	N/A*	N/A*	1.0 billion	2.2 billion

*Data was not available when the Annual Performance Plan was published.

Evidence from a range of 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

Selected Results in Research, Extension and Statistics

Americans consume a growing proportion of their calories at restaurants and fast food places, although these foods tend to be more calorie-dense and nutritionally poorer than foods prepared at home, on average. However, little is known about how the desire for a healthy diet and diet-health knowledge affect consumer behavior in the fast-growing away-from-home market. Some have even questioned whether consumers want healthful foods or apply their knowledge of health and nutrition, when making choices about where to eat out and how often to do so. This study examines the impact of the desires for health, entertainment and convenience, along with the consumer's knowledge of health and nutrition, on a consumer's frequency of eating out and the type of restaurants he or she chooses to patronize.

USDA continued development of a comprehensive consumer food consumption database comprised of the Food Consumption (per capita) Data System, food intake data gathered from the National Health and Nutrition Examination Survey (NHANES) and from proprietary datasets. USDA also finalized the development of the Flexible Consumer Behavior Survey (FCBS) in 2006, which will be fielded as a supplement to the NHANES in 2007-2008. USDA acquired three additional food consumption datasets: the 2003-4 NET (National Eating Trends) and CREST (Consumer Reports on Eating Share Trends) data from the NPD group and the AC Nielsen Homescan consumer panel data on packaged and random weight food purchases.

Researchers studied a number of popular diets and found that they have no special effect on metabolism. Four popular diets were tested for effectiveness and adherence in 160 overweight and obese subjects for weight loss over one year by USDA scientists. The diets were characterized as very low carbohydrate, high protein, very low fat, or balanced low calorie. Weight loss was mainly dependent on dietary compliance and the amount of calorie restriction rather than the type of diet. There was no distinct benefit of high protein or from limiting carbohydrates or fats.

Researchers have discovered a genetic marker for obesity that is consistent across populations. ARS scientists have, for the first time, shown that common mutations of a gene called "perilipin" modulate body weight in humans and more so in women. This genetic predisposition to obesity has been demonstrated in white Americans randomly selected from the general population as well as in Indians and Malays residing in Singapore. Identifying people with a predisposition to obesity will help in the tailoring of appropriate strategies for obesity prevention.

Research indicates that fruit and vegetable consumption lowers risk for metabolic syndrome in young adults. USDA scientists found that low fruit and vegetable consumption and high sweetened beverage intake are independently associated with the prevalence of metabolic syndrome in young adults who participated in the Bogalusa Heart Study. Metabolic syndrome, which is characterized by abdominal obesity and the inability to use insulin efficiently, is believed to be a forerunner of coronary heart disease and type II diabetes.

Smart Bodies is an interactive campaign designed to help prevent childhood obesity that is a joint venture supported partially by USDA funding to Louisiana State University and partially by the Blue Cross and Blue Shield of Louisiana Foundation. The program has been implemented in nearly 100 schools and has reached an estimated 12,000 youngsters. Preliminary results indicate the program is having a positive influence on the children. "One school said they have started ordering more fruits and vegetables for the cafeteria because they started running out after the program was implemented."

Objective 5.3: Improve Food Program Management and Customer Service

Overview

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 in the food stamp payment-accuracy rate as its key performance goal in this area.

USDA continued to improve management practices by reducing program errors and enhancing customer service. The delivery of food-stamp benefits remains a priority of the Department, as it continues to work with its State agency partners in maintaining a high level of integrity in administering nutrition assistance programs. USDA's continued focus in 2006 on improving nutrition-assistance program management and customer service reflects its long-term core commitment to prevent waste, inefficiency and abuse that diverts taxpayer resources from the core purposes and goals of these programs. 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.

Selected Results in Research, Extension and Statistics

Evidence is strong that, beginning in 1995, an increase in reported certification-related costs per Food Stamp Program (FSP) household contributed to reduced error rates. Recent research studied trends in FSP administrative costs and errors from 1989 to 2001, describing the trends and composition of FSP administrative costs. The results imply that, in the period after the Personal Responsibility and Work Opportunity Reconciliation Act of 1996, States on average had to spend more effort on certification-related activities than in previous years to achieve a given level of accuracy. Research results predict that, if a State's FSP certification budget is fixed and the number of FSP households increase, the effort per FSP household will fall and error rates will rise, if all other things are equal.

Over half of all infant formula sold in the United States is purchased through the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC). Typically, State WIC agencies obtain substantial discounts in the form of rebates from infant formula manufacturers for each can of formula purchased through the program. However, concern has been raised that the cost to the States of providing infant formula to WIC participants is increasing, a result that if sustained, could have far-reaching negative implications for the WIC program. This study found that the cost of providing infant formula to WIC participants has increased in recent years. This increase in costs coincides with the introduction of higher priced DHA- and ARA-supplemented infant formulas. Conditions may change after the market adjusts to these new formulas.

The South Carolina Food Stamp and Well-being Studies examine patterns of Food Stamp Program use and other types of in-kind assistance among current and former welfare recipients in South Carolina and the role that non-cash assistance plays in maintaining families' well-being as they transition off of welfare. People who receive public assistance confront a number of "clocks" that may affect program participation. Examples of clocks include time limits on receiving benefits and recurring deadlines for reconfirming eligibility. This report examines the role of program clocks, economic conditions, and other circumstances on participation in South Carolina's cash and food assistance programs. The study shows that South Carolina's 2-year time limit in receiving TANF benefits in any 10-year period hastens exits from and reduces returns to the program and that the State's policy of quarterly recertifications hastened exits from the FSP. In addition, annual redeterminations may contribute to TANF exits. Finding employment speeds exits from the FSP and cash assistance and delays returns to the programs. Cash assistance participation may lead to longer spells of receiving food stamps.

Another report—South Carolina Food Stamp and Well-Being Study: Transitions in Food Stamp Participation and Employment Among Adult-Only Households—focused on adult-only households. Several recent changes in the Food Stamp Program have been directed at households without children. Some of the changes, such as new work requirements and time limits for able-bodied adults without dependents (ABAWDs), are intended to encourage economic self-sufficiency and to reduce program dependence. Other changes are intended to raise low program participation rates among vulnerable groups. The study shows that households subject to ABAWD policies had shorter spells of food stamp participation, longer spells of food stamp nonparticipation, and higher rates of employment than did households not subject to the policies. In addition, adult-only households were much more likely to leave the FSP at recertification time than at other times. Finding employment hastened exits from the Food Stamp Program and delayed returns.

Challenges for the Future

Some improper payment risks are inherent to the legislatively mandated program structure. The nutrition assistance 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. Thus, the Department must work with State and local personnel to address 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 FSP payment accuracy, USDA continues to dedicate resources to this area. Significant challenges will impact future success. State budgets have been and will continue to be extremely tight. This could hurt State performance in payment accuracy. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing environment.

Key Outcome

Maintain a High Level of Integrity in the Nutrition Assistance Programs

While 2006 data are unavailable, payment accuracy reached a record high in 2005, reflecting strong efforts in this area that have resulted in significant error reductions during the past several years. Even small changes in the food stamp error rate can save millions of dollars.

Analysis of Results

The FY 2006 Food Stamp Payment Accuracy Rate will become available in June 2007 and will be reported in the *FY 2007 Performance and Accountability Report*.

The FY 2005 Food Stamp Payment Accuracy Rate posted a new high of 94.16 percent, the seventh consecutive year of improvement and a reduction in error of 34 percent from 5 years earlier. Of the total FY 2005 payment error rate of 5.84 percent, 4.53 percentage points represent the over issuance of benefits; the other 1.31 percentage points represent under issuance of benefits. Performance highlights include:

- Thirty-two State agencies, including Illinois, Pennsylvania, and Texas, achieved a payment error rate of less than 6 percent. California, with a payment error rate of 6.38 percent, continued to improve from its FY 2002 error rate of 14.84 percent; and
- Three State agencies in FY 2005 were assessed liabilities totaling an aggregate of $3.6 million for having excessive error rates for 2 consecutive fiscal years.

USDA efforts such as the Partner Web (an intranet for State Food Stamp agencies) and the National Payment Accuracy Work Group (consisting of representatives from USDA headquarters and regional offices) contributed significantly to this success by making 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 QC data. Actions are then taken by regional offices to address these situations in the individual States.

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. One of the most important factors in maintaining improved performance in this area is the need for State partners to continue and renew their leadership commitment to excellence in payment accuracy. To support State improvement, USDA will continue efforts with the National Payment Accuracy Work Group to share best practice methods and strategies. The Department also will continue to resolve quality control liabilities through settlements, which require States to invest in specific program improvements.

Exhibit 53: Increase Efficiency in Food Management

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
5.3.1	Improve Food Program Management and Customer Service			
	▪ Increase Food Stamp Payment Accuracy Rate	93.8%	N/A	Deferred

Exhibit 54: Trends in Increased Efficiency in Food Management

Trends		Fiscal Year 2006				
		2002	2003	2004	2005	2006
5.3.1	Increase Food Stamp Payment Accuracy Rate	91.7%	93.4%	94.1%	94.2%*	N/A

*The figure published in the Annual Performance Plan was an estimate and the actual figure was released in June, 2006.

Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment

Objective 6.1: Protect Watershed Health to Ensure Clean and Abundant Water

Overview

While agriculture produces the food and fiber necessary to supply the Nation's needs, much of its processes may affect the quality of water resources under and around agricultural land. For example, tilling the soil and leaving it without plant cover for extended periods of time can accelerate soil erosion. Residues of chemical fertilizers and pesticides may wash off the field into streams or leach through the soil into groundwater. Irrigation can move salt and other dissolved minerals to surface water. Livestock operations produce large amounts of waste which, if not disposed properly, can threaten human health and contribute to excess nutrient problems in streams, rivers, lakes and estuaries. According to the U.S. Environmental Protection Agency, agriculture is considered to be the leading source of pollutants that enter rivers and lakes. When pollutants degrade water quality, ecosystems are degraded and costs are imposed on ecosystems and those who rely on water for drinking, recreational opportunities and economic livelihoods. Individuals, communities and the environment then must bear the consequences and the costs for degraded water quality.

Water resources can be protected by reducing the amount of sediments, nutrients and chemicals originating from agricultural lands. Programs designed to reduce topsoil erosion, monitor nutrients and provide buffers between farmland and water sources can reduce the introduction of pollutants into rivers and lakes significantly. Buffers improve water quality and fish and wildlife populations by intercepting sediment, nitrogen and phosphorus in runoff before these pollutants enter lakes, ponds, wetlands and waterways. The buffers provide shade—thereby cooling streams and rivers—and provide conservation cover and increased wildlife habitats.

USDA conservation experts assisted agricultural producers in planning and applying conservation practices. These practices helped reduce sediment, nutrient and pesticide runoff. They also helped maintain and improve water supplies, restore wetlands and improve fish and wildlife habitat. On private land, USDA assisted people in writing or updating conservation plans for almost 9.9 million acres of working cropland and 23.9 million acres of grazing lands. The Department also helped implement conservation practices on nearly 20 million acres.

The Department also assists State, Tribal and local entities in improving water-resource conservation. Assistance provided to these entities includes advice on drought and flood control management, natural resource data collection and dissemination, and cost-share and technical guidelines. This assistance helps State and local Governments plan and implement conservation practices and mitigate drought and flood impacts.

Key Outcome

Clean and Abundant Water

In 2006, USDA helped producers develop conservation plans for millions of agricultural acres. These plans empowered producers with information on the capability of their soil, condition of their rangeland and woodlands, and requirements for irrigation. They also served as a land-use management tool to support healthy plant, animal and human communities. USDA also provided producers with conservation cost-share benefits and incentive payments. These incentives helped offset the cost of installing conservation covers and riparian and grassland buffers and maintained sound conservation practices while improving the productivity of agricultural lands.

Additionally, USDA provided technical assistance to hundreds of thousands of producers in planning and applying conservation to manage their soil and water resources better. The Department's assistance helped managers of private lands maintain soil quality, protect water and air quality, and enhance wildlife habitats. To reduce the risk of nutrients entering waterways from animal operations, USDA worked with agricultural producers to apply more than 4,400 Conservation Nutrient Management Plans on approximately 7.4 million acres. These activities provide the information and effective tools resource managers need to be good stewards of the Nation's land and water.

USDA efforts to protect the Nation's water supply also affect producers and communities. Farmers, ranchers, private forest owners and other landowners manage two-thirds of the Nation's land. Agricultural irrigation accounts for a third of the water drawn from surface water and groundwater. The Department helps these groups develop environmentally sound management practices. USDA also provides them with information on soil quality, water management and quality, plant materials, resource management and wildlife habitat. Additionally, the Department provides technical and financial assistance to agricultural producers to promote good stewardship of agricultural and environmentally sensitive lands. Land owners and managers who receive technical assistance and cost-share or incentive payments are more likely to plan, apply and maintain conservation systems that support agricultural production and environmental quality as compatible goals. These programs target land for enrollment precisely where conservation benefits are expected to have the greatest positive effect. 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. The funds provided to these communities preserve and protect the environment, which benefits society as a whole.

The environmental benefits of USDA conservation efforts to protect watersheds from agricultural runoff include healthier streams, rivers and lakes. These benefits also lead to improved ecosystems and wildlife habitats. Studies about the benefits of water-pollution reduction suggest that the annual benefits from improving water quality could total tens of billions of dollars. According to a 2003 USDA report on agricultural resources and environmental indicators, water-quality benefits from erosion control on cropland alone could total more than $4 billion annually. Improved water resources reduce water treatment costs and mean safer drinking water supplies for communities. USDA provided technical and financial assistance to enable producers to use irrigation water on 953,528 acres more efficiently. The Department also helped local communities complete the installation of 149 flood-prevention or mitigation measures.

USDA provided assistance to local groups and Governments to develop almost 900 watershed and area-wide plans. These plans address a wide range of water resources concerns. To help address flooding problems, the Department assisted in completing 121 dam-condition assessments and 13 watershed-rehabilitation plans. The assessments were made to determine the risks associated with aging flood-control structures. The plans also identified feasible strategies for mitigating identified risks.

USDA provided assistance to producers to improve irrigation water management on over 1.1 million acres. The Department assisted in the rehabilitation or removal of 4 dams determined to be at or nearing the end of their 50-year design life. Upgrading and removing these dams eliminated threats to life and property. This move also may have mitigated flood damages, enhanced wetlands and wildlife, and created recreational benefits.

USDA provided financial assistance to individuals and groups to implement structures and management systems. This move improved water management and protected watersheds, including:

- $512 million for cost-shares and incentives for water conservation and water quality.
- $5 million for Cooperative Conservation Partnership Initiative (CCPI) grants to help partners identify and solve regional, State and local natural resources concerns. CCPI provides funds for watershed or airshed-planning projects. The funds are designed for projects that address terrestrial and freshwater aquatic wildlife habitat, invasive species, livestock nutrient management, minor and specialty crop management, and agricultural air quality. CCPI also supports rapid watershed assessments that will provide watershed assessments quickly to stakeholders and partners. USDA also allocated $4.1 million in conservation innovation grants to address water quality and other priority natural resource concerns in the Chesapeake Bay Watershed.

Programs such as the Conservation Reserve Program (CRP), a voluntary program available to agricultural producers, protect millions of acres of American topsoil from erosion. CRP safeguards millions of acres of land susceptible to erosion and other environmentally sensitive cropland by placing it in long-term protective cover. Producers enrolled in the program plant long-term, resource-conserving covers (such as grasses and trees) to improve water quality, control soil erosion and enhance wildlife habitat. In return, USDA provides participants with rental payments and cost-share assistance. Once enrolled, producers enter into 10-to-15-year contracts. Current legislation requires equal consideration for soil erosion, water quality and wildlife concerns. The program addresses these natural resource concerns, providing environmental and economic benefits both on and off the farm. The Department accomplishes this by using environmental benefits indices in general sign-ups and through continuous ones that target primarily improvement of water quality and wildlife. Key benefits of the program include reduced soil erosion, increased wildlife habitat and better protected surface and ground water supplies. Acreage enrolled in the program is planted with resource-conserving vegetative covers. This process makes the program a major contributor to increased wildlife populations in many parts of the country.

CRP has accounted for nearly 40 percent of the annual 1.2 billion tons reduction in soil erosion since 1982. In 2004, CRP reduced nitrogen and phosphorus applications by 683,000 and 113,000 tons, respectively. Reduced soil erosion and fertilizer applications improve water quality. Enrollment of conservation buffers and establishing permanent cover through CRP reduces or eliminates runoff. By reducing water runoff and sedimentation, CRP protects groundwater and helps improve the condition of lakes, rivers, ponds and streams. A study by the Food and Agricultural Policy Research Institute estimated the impact of CRP enrollment on nitrogen, phosphorus and erosion leaving field edge and root zones and showed significant reductions in runoff. These reductions mean that fewer pollutants enter water resources. CRP also addresses the loss of wetlands, grassland and wildlife habitats that has occurred historically as lands were converted to agricultural uses.

Users accessed the National Water and Climate Center Web site millions of times. The site, http://www.wcc.nrcs.usda.gov/, hosts data on snowpack, hydroclimatic and soil moisture, which helps agricultural producers effectively use limited water supplies for agricultural production. The data also assist Federal, State and local agencies to manage water compacts and treaties, and mitigate drought and flood damages. Officials from municipalities can visit the site for information on operating reservoirs and supporting fish and wildlife-management activities associated with species protection. This site also provides data to the scientific community.

USDA developed and released new Web-based tools to help producers manage their operations more efficiently. These tools, which help protect water resources and reduce their energy costs, include:

- Energy Estimator for Tillage — Helps farmers and ranchers calculate diesel-fuel use and costs associated with various tillage practices. Key conservation practices include crop-residue management, nutrient management, irrigation-water management, precision agriculture, pesticide management, intensified grazing systems and windbreaks/shelterbelts;
- Energy Estimator for Nitrogen Fertilizer — Estimates savings in nitrogen-fertilizer applications and helps farmers and ranchers make practical and sound decisions regarding nitrogen fertilizer use on their farm or ranch; and
- Energy Estimator for Irrigation — Helps producers manage their irrigation water resources more efficiently. The tool provides an analysis of current water use, the reduced water use associated with various treatment options and the energy costs and savings of these treatment options based on data entered by the producer.

USDA's Plant Materials Program released 26 plants and published 308 technical documents to protect watershed health. This plant technology is used to:

- Manage and eradicate invasive species;
- Restore and enhance wetlands, grassland and wildlife habitat;
- Control erosion;
- Improve grassland condition;
- Restore stream banks; and
- Mitigate damages resulting from such natural disasters as drought, floods and fires.

Challenges for the Future

External factors present challenges to accomplishing the conservation goals set by USDA. If market prices are favorable, agricultural producers may be enticed into leaving targeted, environmentally sensitive cropland in crop production rather than establishing long-term conservation covers or buffers. High fuel prices affect farmers and ranchers by increasing overhead costs. Landowners may be more reluctant to enroll in new programs, implement new conservation practices or adopt new technologies that could decrease their bottom line. Additionally, natural disasters and prolonged drought conditions may also reduce the effectiveness of USDA's conservation programs.

Analysis of Results

USDA met its FY 2006 targets for helping producers apply comprehensive nutrient management plans (CNMPs), which are systems for animal-feeding operations designed to ensure that wastes and byproducts are collected, stored and disposed of in ways that minimize environmental damage. These actions protect soil and water, and enable agriculture to meet long-term goals for clean water. Comprehensive nutrient management plan targets were set for the Conservation Technical Assistance Program (CTA) and Environmental Quality Incentives Program (EQIP). CNMPs are complex systems that require substantial investment of time and money. The steady increase in the number of CNMPs assisted by EQIP reflects the increases in public investment in conservation authorized by the 2002 Farm Bill. The trend in CNMP work supported by CTA reflects assistance available from non-USDA sources and increasing regulatory pressures. As animal agriculture has become more concentrated, public concern has increased about the potential for damage to the environment. USDA has focused on helping producers comply with State and local regulations and minimize the potential that their operations might damage water or air resources.

In FY 2006, USDA met its performance targets and made significant progress towards ensuring cleaner water. The Department helped farmers and ranchers create new riparian and grass buffers in agricultural lands. These buffer areas intercept sediment and nutrients before they reach surface waters. The long-term goal for USDA conservation programs is to have a land-management system that maintains a highly productive resource base for future generations while meeting the needs of the present. As one indicator of its performance in reaching this goal, USDA establishes an annual target for acreage of agricultural lands to be enrolled in CRP as buffer zones. The USDA *Strategic Plan for FY 2005-2010* set a strategy of helping producers increase the number of riparian and grass buffers on agricultural lands. During the past five years, the number of acres set aside as buffer areas under the CRP program has increased steadily. In 2005, USDA exceeded its target of 1.75 million acres set aside as buffer zones, an increase of more than 110,000 acres from the previous year. In FY 2006, also helped producers create conservation plans for their privately owned land. USDA set a target of 1.85 million additional acres set aside for buffer areas and met its targeted number of acres for the year. Cumulative CRP enrollment now stands at 36.7 million acres. These acres have reduced soil erosion by 454 million tons annually, reduced nitrogen, phosphorus and sediment leaving the field by more than 85 percent, and sequestered more than 48 million metric tons of carbon.

Exhibit 55: Healthy Watersheds, High Quality Soils and Sustainable Ecosystems

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
6.1.1	Number of Comprehensive Nutrients Management Plans applied			Met
	▪ Conservation Technical Assistance	≈1,909	1900[1]	
	▪ Environmental Quality Incentives Program	≈2,552	2550[2]	
6.1.2	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	1.85 million acres*	1.86 million acres*	Met

[1] Data assessment metrics to meet the target allow for an actual number in the range 1,710 - 2,090.
[2] Data assessment metrics to meet the target allow for an actual number in the range 2,250 – 2,750.
* Cumulative

Exhibit 56: Trends in Application of Comprehensive Nutrient Management Plans

Trends		Fiscal Year Actual				
		2002	2003	2004	2005	2006
6.1.1	Number of Comprehensive Nutrient Management Plans applied					
	▪ Conservation Technical Assistance	2,292	2,132	2,372	2,420	1900[1]
	▪ Environmental Quality Incentives Program	956	948	1,055	2,032	2550[2]
6.1.2	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	1.24 million acres*	1.45 million acres*	1.65 million acres*	1.75 million acres*	1.86 million acres*

[1] Data assessment metrics to meet the target allow for an actual number in the range 1,710 - 2,090.
[2] Data assessment metrics to meet the target allow for an actual number in the range 2,250 – 2,750.
* Cumulative.

Selected Results in Research, Extension and Statistics

Programs require understanding why producers participate in the programs, what incentives encourage participation and how policies might be designed to encourage participation. Recent USDA research addresses the question regarding program participation. This report examines the business, operator, and household characteristics of farms that have adopted certain conservation-compatible practices, with and without financial assistance from government conservation programs. The analysis finds that attributes of the farm operator and household and characteristics of the farm business are associated with the likelihood that a farmer will adopt certain conservation-compatible practices and the degree to which the farmer participates in conservation programs. For example, operators of small farms and operators not primarily focused on farming are less likely to adopt management-intensive conservation-compatible practices and to participate in working-land conservation programs than operators of large enterprises whose primary occupation is farming.

Voluntary conservation payment programs must specify who is eligible to receive payments, how much can be received, for what action, and the means by which applicants are selected. Achieving program goals in a cost-effective manner hinges on the choices policymakers and program managers make when answering these questions. A set of five Economic Briefs explores specific design options these decision makers face: balancing income support and environmental objectives; whether and how to target programs to improve cost effectiveness and environmental performance; whether and how to use bidding in determining payment levels; balancing land retirement with conservation on working lands; and whether to pay for conservation practices or to link payments to environmental performance.

Low technology biofilters improve water quality by reducing nitrate in drain water from corn fields in the mid-west. Corn production in tile-drained soils leads to high nitrate concentrations in drainage water discharges to streams. USDA scientists demonstrated that a simple biofilter composed of wood chips buried in trenches adjacent to subsurface tiles can remove 60-70 percent of the nitrate from the tile drainage. The systems are easy to install and do not remove land from crop production. Biofilters could be systematically placed within fields and watersheds where contamination is highest.

New prediction technology will help producers and action agencies reduce wind erosion. USDA employees, crop consultants, and others who advise producers have a critical need for software that can predict the impact of management practices on wind erosion. USDA scientists have led in the development of a new advanced wind erosion prediction model known as the wind erosion prediction system (WEPS). The software allows growers to select the right approach to prevent erosion. In addition to predicting erosion, WEPS can also predict emission of the tiny dust particles known as PM10 that may pose risks to human health and the environment.

Researchers partially supported by USDA funds at Iowa State University's Center for Agricultural and Rural Development have developed a method for better assessing the costs and benefits of a range of conservation practices in agriculture to mitigate water pollution. State policymakers need to quantify the contributions of agriculture to the problem and what effect different land-use decisions might have on meeting water quality objectives. Annual costs of conservation practices ranged from about $300 million to $320 million, with land set-aside and conservation tillage the most costly practices. The environmental effects of different practices varied among the watersheds, with sediment decreases ranging from 6 percent in the Little Sioux River Watershed to 65 percent in the Turkey River Watershed. The results suggest a targeted approach as the most cost-effective, matching a specific watershed to its most effective conservation practice or mix of practices.

The results of a multi-state research project supported by USDA funds indicates that up to 25 percent of agricultural fields in the North-Central region are non-responsive to nitrogen fertilizer applications. They also found that farmers over-fertilized fields with up to 25 to 30 pounds of nitrogen per acre or more. Applying unneeded or excessive fertilizer to fields affects the environment and raises farmers' production costs.

OBJECTIVE 6.2: ENHANCE SOIL QUALITY TO MAINTAIN PRODUCTIVE WORKING CROPLAND

Overview

High-quality soils are the foundation of productive croplands, forest lands and grasslands, and a vibrant and productive agriculture. These soils also can filter and hold nutrients, which prevents unwanted materials from entering water resources. Soil quality is affected by management—it can be hurt by poor management or maintained and even improved by good management. Such conservation practices as residue management, cover crops, crop rotations, strip-cropping and irrigation-water management help protect and improve soil condition on cropland. Prescribed grazing and other grazing land practices are important to protecting soil quality on grassland and rangeland.

USDA has set a long-term objective for improving cropland soil condition. The soils most vulnerable to damage are those in such intensive uses as annual cropping. In 2003, 60 percent of cropland was farmed under systems that maintained or increased soil condition and soil carbon. By 2010, the goal is to increase that number to 70 percent.

USDA helps producers plan and apply conservation practices to enhance soil health. The Department assisted producers to apply conservation practices in plans covering 13.4 million acres of cropland. The most widely applied practices were residue management and conservation crop rotations. These practices protect soil quality by reducing erosion and increasing soil carbon. Soil organic matter improves soil structure and overall capacity to hold water and nutrients.

USDA helps landowners and land users plan and adopt environmentally sound management practices. Land managers who receive the Department's technical assistance are more likely to plan, apply and maintain conservation systems that support agriculture production and environmental quality as compatible goals. Thus, producers can be good stewards of the Nation's resource base. Their good management ensures that the Nation will continue to have a quality soil-resource base. Such a resource base enables the sustained production of a safe, healthy and abundant food supply.

Challenges for the Future

Economics and weather can impact producers' willingness to adopt conservation measures that improve soil condition on cropland. Weakness in the economy and rising energy costs could affect producers' abilities to invest their own funds and their willingness to take any risk associated with changing management. Natural disasters and prolonged unfavorable weather conditions also could reduce the opportunities for producers to implement conservation practices. As it relates to the soil data collection and dissemination, budget and staffing constraints in partnering Federal and State agencies, and universities could reduce the number of acres mapped and the total number of soil surveys updated.

USDA, in cooperation with other Federal, State, Tribal and local agencies, and private organizations, will work to provide producers with information and other resources they need to adopt applicable conservation measures. USDA will face challenges associated with soil data collection and dissemination. The Department will seek to strengthen partnerships and form new ones with entities having common interests. It also will use technology to improve data-collection efficiency.

Key Outcome

Enhanced Soil Quality

High-quality soils support the efficient production of crops for food, fiber and energy. Proper soil management maximizes agricultural production and improves the environment. Intensively used cropland soils are most vulnerable to degradation and damage. By helping producers reduce erosion, minimize compaction and increase soil organic matter, USDA helps producers enhance the quality of cropland soils. The Department assisted producers in making significant gains in protecting soil quality. These moves included:

USDA mapped or updated 35.5 million acres of soils. It also made 126 surveys covering 88 million acres available on the Web at: http://websoilsurvey.nrcs.usda.gov/app/WebSoilSurvey.aspx. Soil surveys offer local information on the capabilities and conservation treatment needs of soils within a given region. They provide basic information for conservation planning and represent the foundation to sound land use planning and agricultural production. USDA provides the scientific expertise to enable a uniform system of mapping and assessing soil resources across the Nation.

USDA developed and made new tools available to help producers plan cropland conservation management that improves soil quality and conserves energy. The Energy Estimator Tools for Tillage, Nitrogen, and Irrigation are Web-based tools designed to increase energy awareness in agriculture and to help farmers and ranchers identify where they can reduce their energy costs. More information on the Energy Estimator Tools can be found at http://energytools.sc.egov.usda.gov/.

USDA helped producers develop or update conservation plans covering 10.3 million acres of cropland recorded in its national conservation plan database. Additionally, technical consultations helped land managers with other decisions not recorded as a final plan in the database. To develop plans for good stewardship of soil resources, USDA conservation planners helped land managers work through a structured process to analyze and work with complex natural processes in definable and measurable terms. Conservation plans for individual fields and farms are designed in the context of the larger landscape. They enable the producer to meet economic and environmental goals.

USDA helps producers install conservation practices and systems on their land that meet established technical standards and specifications. The majority of the quantitative performance measures that USDA has established for its conservation programs are for practices implemented. Implementation feeds directly into achieving long-term outcome goals. USDA assisted in applying conservation practices on 13.4 million acres of cropland.

USDA provides financial assistance to encourage producers to adopt land treatment practices proven to provide significant public benefits. Financial assistance for practices applied primarily to address soil quality issues included:

- $150 million in cost-shares or incentives for adopting structural measures or management practices to reduce erosion and protect cropland; and
- $ 55 million in stewardship payments to producers who meet or exceed standards for maintaining soil quality.

Analysis of Results

USDA performance is within the range considered as met for its targets for helping producers plan conservation on cropland. 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. The measure includes only conservation planning supported by the Conservation Technical Assistance (CTA) program. CTA helps individual managers consider their operations within the larger landscape to which a farm or ranch belongs. The program also helps land managers consider the effects of their actions on that wider environment. Managers can avoid actions that would damage natural resources offsite while meeting their economic targets for the operation.

USDA also met its program goals for reducing the acreage of cropland soils damaged by erosion. This measure includes acres on which treatment applied in the fiscal year reduced erosion from a damaging rate to one that does not exceed the "tolerable" rate for the soil. Targets are set only for CTA and the Environmental Quality Incentives Program (EQIP). CTA provides assistance for the most widely-used, economically feasible practices such as residue management. EQIP provides cost shares for capital-intensive practices needed to solve difficult problems on environmentally sensitive land or comply with local or State regulations. Small acreages also are protected through other programs. Because conservation plans and practices may be applied with assistance from more than one program, some acres reported for one program also may be included in those reported for another program.

The progress against erosion damage is considered the best indicator of accomplishments that link directly to the long-term objective of increasing the acreage under soil-enhancing management. This measure does not include all cropland where USDA provided needed assistance. Farming is dynamic because producers frequently change crops, equipment and management practices. Thus, they need help in adjusting conservation systems even on land well protected through the previous system. The Department helped producers apply conservation practices in plans covering 13.4 million acres of cropland. The most widely applied practices were residue management and conservation crop rotations. These practices protect soil quality by reducing erosion and increasing soil carbon. Soil organic matter improves soil structure and overall capacity to hold water and nutrients. The majority of this basic soil protection was planned and applied with assistance through CTA.

Exhibit 57: Enhanced Soil Quality

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
6.2.1	Conservation plans for cropland written, million acres	11	10.3[1]	Met
6.2.2	Reduction in acreage of cropland soils damaged by erosion, millions of acres			Met
	▪ Conservation Technical Assistance Program	3.0	3.9	
	▪ Environmental Quality Incentives Program	1.5	1.7	

[1] Data assessment metrics to meet the target allow for an actual number in the range 9.9 – 12.1.

Exhibit 58: Trends in Soil Quality Protection

Trends		Fiscal Year Actual				
		2002	2003	2004	2005	2006
6.2.1	Conservation plans for cropland written, millions of acres	5.2	6.3	7.4	8.5	10.3
6.2.2	Reduction in the acreage of cropland soils damaged by erosion, millions of acres					
	▪ Conservation Technical Assistance	3.4	3.3	N/A*	3.9	3.9
	▪ Environmental Quality Incentives Program	1.0	1.0	N/A*	1.5	1.7

*Data to report performance at the program level were not captured in the NRCS' Integrated Accountability System in FY 2004; data on total for all programs was captured.

Selected Results in Research, Extension and Statistics

In response to *Asian Soybean Rust* concerns, USDA included soybean chemical usage data in the Agricultural Chemical Usage Field Crops Summary, May 2006 publication. Soybean data were summarized from the Conservation Effects Assessment Project (CEAP) data set. The data identified six active ingredients approved for soybean rust applied by producers on the 2005 crop, compared with four active ingredients applied to the previous year's soybean crop. From the CEAP data source, only regional chemical usage data were publishable. Soybeans were not a targeted crop on the Agricultural Resources Management Survey (ARMS) which prevented the data from being publishable at the individual State level.

The Agricultural Chemical Usage Field Crops Summary, May 2006 and Agricultural Chemical Usage Fruit Crops Summary, July 2006, for the first time, included data for sulfur used as a nutrient.

USDA's National Agricultural Statistics Service (NASS) created geospatial cropland data layers for Arkansas, Iowa, Illinois, Indiana, Louisiana, Missouri, Mississippi, Nebraska, North Dakota, and Wisconsin covering the 2005 crop year, and the Snake River Plain in Idaho following the final release of NASS' county estimates for these states. Through a cooperative agreement with the Wisconsin Dept of Health and Family Services, NASS released a modified and improved Wisconsin Cropland Data Layer of small acreage and non-agricultural fields. In addition, through a cooperative agreement with Towson University, NASS created a cropland data layer for the 10-state mid-Atlantic region for the 2002 crop year, which was released in January 2006. NASS is also creating a cropland data layer for Florida for the 2004 crop year for release in the fall of 2006. Washington State University, through a cooperative agreement with NASS, is planning to create a cropland data layer for eastern Washington for the 2006 crop year. The malfunction of Landsat 7 in May 2003 has hampered the ability to obtain cloud-free satellite imagery during the growing season. Additionally, Landsat 5 failed twice during the winter of 2005, making NASS look for additional sources of imagery for crop year 2006. However, alternative imagery sources such as GeoEye's ResourceSat-1 AWiFS sensor is being acquired by the Foreign Agricultural Service and NASS for analysis of the 2006 crops for acreage estimation.

Research has demonstrated that no-tillage cropping systems are as beneficial to soils as conservation grassland in sandy, semiarid soils. ARS researchers monitored a suite of critical soil parameters in conservation grasslands, conventionally tilled fields and no-tillage fields. They found that no-tillage production fields maintained soil conditions better than conventional tillage and as favorable as those in the conservation grasslands, indicating that farming with proper practices can be as beneficial as placing lands in conservation reserve.

Research has established that the use of polyacrylamide to reduce soil erosion has no negative effects on soil ecology. Polyacrylamide (PAM) has been shown to substantially reduce soil erosion, but some have expressed concern that its widespread use might have deleterious effects on soil organisms. ARS scientists tested this concern by applying PAM at a rate of 1 ton per acre, much higher than the normal rate of 10 to 20 pounds per acre. They monitored soil properties and conducted microbiological analyses for six years and found almost no difference in soil microbial activity despite the massive application rates. This demonstrates that there is no basis for concern about the effects of PAM on soil biota.

OBJECTIVE 6.3: PROTECT FORESTS AND GRASSLANDS

Overview

USDA and the U.S. Department of the Interior (DOI) are using tools and authorities provided by the President's Healthy Forests Initiative and the Healthy Forests Restoration Act of 2003 (HFRA) to expedite planning and implementation of projects to reduce fire hazards and restore forests and grasslands. HFI was launched in 2002 to reduce administrative process delays. HFRA provides improved statutory processes for hazardous fuel reduction projects and also provides other authorities and direction to help reduce hazardous fuel and restore healthy forest and rangeland conditions on lands of all ownerships. The USDA-DOI projects largely consist of removing excess vegetation and prescribed burning (collectively, hazardous fuel reduction) to reduce the risk from wildfires. In 2006, these wildfires burned more than 1.85 million acres. The integration and alignment of the hazardous fuels reduction program with other restoration programs and the overall increase in hazardous fuel treatment is expedited by HFRA authorities and USDA leadership. The Department will continue to protect the Nation's communities and natural resources by treating hazardous fuel and suppressing wildland fires.

USDA is protecting the National Forests and Grasslands by implementing HFI and HFRA through collaboration among federal, State, tribal, and local governments, and non-governmental organizations. The Department is working with communities to develop Community Wildfire Protection Plans (CWPP). CWPPs identify wildland fire hazards in areas within and surrounding communities and identify high-priority work for the Forest Service. USDA's State and local partners are leading this process, with active participation and technical assistance from USDA. Additionally, the Department is working to integrate vegetation management programs internally to achieve restoration goals. This effort will increase efficiency throughout the Department. USDA has been an active participant in Cooperative Conservation, promoting full partnership in the conservation of environmental and natural resources with States, local governments, tribes and individuals. The Department has updated the 10-year Comprehensive Strategy Implementation Plan, in cooperation with DOI, State and local governments, and non-governmental partners. This plan identifies a collaborative approach for reducing wildland fire risks to communities and the environment. Goals established in the original 10-Year Comprehensive Strategy Implementation Plan were met in fiscal year 2006, just five years after the establishment of the National Fire Plan.

Other 2006 accomplishments in addressing hazardous fuel conditions include:

- Receiving an "Adequate" rating from Office of Management and Budget's Performance Assessment Rating Tool for the Wildland Fire Management Program, an improvement over the 2002 rating of "Results not Demonstrated";
- Developing new fire and fuels performance measures to more effectively measure the impact of treatments on the landscape;
- Investing over 70 percent of the dollars available for hazardous fuel treatments in the wildland urban interface near communities;
- Continuing 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 treatments to reduce wildland fire risks across landscapes;
- Removing forest debris from Hurricanes Katrina and Rita on more than 115,000 acres of National Forests in Louisiana, Mississippi and Texas;
- Increasing wildland fire use (allowing natural ignitions to burn to meet resource objectives in areas designated in Fire Management Plans if they meet predetermined conditions) on over 172,500 acres in 2006; and
- Developing a new Hazardous Fuel Prioritization and Allocation System to help USDA managers identify and display national priorities geographically. This system incorporates Geographic Information System data across a wide range of emphasis areas, from wildfire potential to threatened and endangered species at risk from catastrophic wildfires.

Hazardous fuel-reduction treatments help protect life and property by reducing the intensity of wildland fires.

The FY 2006 fire season was considered above average, with 1,842,395 acres of National Forest Systems lands burned. Wildfires consumed more than 9.4 million acres nationally across all land ownerships. There were 14 wildfires that burned more than 100,000 acres each by the end of the fiscal year. Major fires include the Black Mountain, Sawtooth, and Rattlesnake complexes. This ongoing trend of costly and damaging wildfire seasons indicates that the USDA, along with all other land-management agencies, must increase efforts to reduce fire hazards using hazardous fuel reduction activities. Removal of excess vegetation decreases fire hazards while also improving firefighter and public safety. In 2006, USDA treated more than 2.4 million acres to remove excess vegetation. Approximately 1.4 million of these acres were treated specifically to reduce hazardous fuels. On an additional 1,102,293 acres, hazardous fuel levels were reduced through restoration and rehabilitation treatments of other programs (i.e., wildlife habitat, watershed, timber and pest management). USDA also used wildland fire use to achieve management objectives on more than 172,579 acres when naturally ignited fires met management prescriptions. To improve upon this level of accomplishment in 2007 and reduce the risk of future catastrophic wildland fires, USDA must use available resources to work collaboratively with all Federal, State, tribal and local entities.

Non-Federal lands in forest and grassland ecosystems make up almost one-half of the area of the continental U.S. Active, science-based management of vegetation ensures the health of the soil, water and wildlife resources of these ecosystems. The primary threats to the health of forest and grassland ecosystems are wildfire, invasive species, fragmentation and unmanaged outdoor recreation.

On non-Federal land, USDA provides technical and financial assistance to help forest and grazing land managers plan and apply conservation practices that reduce threats to resource condition. The Department helps land managers apply conservation practices on over 27 million acres of privately managed grazing lands and forest lands. Conservation practices applied with USDA assistance include prescribed grazing, integrated pest management, brush management, forest stand improvement and tree planting. These practices, alone and in combination with one another, provide food, cover and shelter for livestock and wildlife. They also improve animal health and productivity, maintain water quality and quantity, and reduce erosion.

Byproducts removed during hazardous fuels reduction and landscape restoration activities are often utilized in certain forest products (e.g., timber, engineered lumber, paper and pulp, furniture) and bio-energy and bio-based products (e.g., plastics, ethanol and diesel). In 2006, USDA treated 380,000 acres mechanically; of these, 41 percent have included some sort of biomass utilization. This biomass use contributes to economic diversification of resource-dependent communities and reduces the Nation’s dependency on international oil. A strategy to improve our ability to support use by community enterprises of the byproducts of fuel reduction and forest restoration for bio-energy or bio-based products has been proposed by the woody biomass utilization team, including a list of action items relative to stable supply, research and development, and partnerships with communities, stakeholders and other agencies.

As more communities develop CWPPs, there is greater opportunity for private citizens to engage in the management of public lands in a collaborative and productive manner. For many, the experience provides greater understanding of the role fire plays in ecosystem health, a chance to interact positively with federal land managers, and business opportunities.

Healthy, vigorous plant communities on rangeland, native and naturalized pasture, and forest lands protect soil quality, prevent soil erosion and provide sustainable forage and cover for livestock and wildlife. Such land also provides fiber, improves water quality, provides diverse habitat for wildlife and removes carbon. Sustaining healthy grassland, rangeland and forest ecosystems is achieved by focusing on interacting relationships between plant and animal species within a given ecosystem, and their relationship to the physical features and processes of their environment. USDA provides data and technical and financial assistance to those interested in creating, restoring, protecting and enhancing grassland, rangeland and forest lands. Technical assistance and tools are available to prevent problems and maintain good conditions.

Challenges for the Future

Future challenges include ensuring public and firefighter safety while protecting public lands and assets still threatened by fire in forests dense with ever-increasing vegetation and fuel. Additional challenges are the continued drought conditions throughout much of the Nation and the expansion of communities into previously uninhabited wildlands. This expansion makes up what is known as the wildland urban interface. 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. Another challenge is the cost of containing wildfires.

The 2002 coarse scale assessment of wildland fuels determined that approximately 56 percent of all acres managed by USDA have missed 2 or more expected fire cycles and are at elevated risk from wildland fire. The finer scale data available from LANDFIRE is expected to show an even greater departure from expected conditions in the Nation’s forests and woodlands. Commercial utilization of excess vegetation has been identified as one way to lower the cost of government forest fuel-reduction and restoration treatments. A barrier to expanding forest biomass utilization is the limited market for this material because of reduced forest products processing capacity in many Western States. 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. The Departments are developing a strategy to encourage greater biomass utilization, including as a domestic source of energy.

With regard to private land, producers' willingness and ability to implement the conservation measures that would achieve this outcome are affected by economic conditions, drought and invasive species. Much of USDA's activities on private forestland and rangeland are taken in cooperation with State agencies. Thus, State-level budget constraints that limited the assistance available from State programs would hamper USDA efforts to meet the goal for non-Federal grazing land.

Both forest and grasslands are subject to land fragmentation pressures. Private forest land is the major source of newly developed acres. Increasing fragmentation of forest and grassland landscapes will increase the risk of invasive species and wildfires. It also may threaten the overall health of forest and grassland ecosystems. To minimize problems, USDA will make more information and better planning tools available to local communities. This assistance will help them plan comprehensively for growth and resource protection.

USDA, in cooperation with other Federal, State, Tribal and local agencies and private organizations, will work to provide producers with information and other resources they need to adopt applicable conservation measures.

Protecting communities and restoring forests and grasslands involves the integration of several key USDA programs that manage vegetation. The hazardous fuel reduction program is a key piece of this effort, along with treatments to improve timber and range productivity, wildlife habitat, forest health, and watershed quality. USDA and DOI are working together to implement a seven-step framework for the Strategic Placement of Treatments (SPOTS). This approach to designing treatment patterns at landscape scales specifically to reduce fire size and severity and alter problem fire behavior while also benefiting other resources is a way to leverage funds and align multiple management objectives into a single plan for interventions tailored to site-specific needs and challenges. SPOTS approaches will support and increase the Department's ability to protect communities and resources through active management of forests and rangelands.

Key Outcome

Sustainable Forest and Grassland Ecosystems

Selected Results in Research, Extension and Statistics

There are continuing needs for new information to aid managers in the protection of the Nation's forests and grasslands. USDA conducted scientific research, developed science-based management tools, and engaged managers to bring new science into practice. A sampling of the accomplishments includes:

- Fundamental and applied research was initiated to improve fire behavior prediction models for wildlands and the wildland urban interface. This work is being advanced in collaboration with partners from national laboratories and universities in order to better understand combustion processes in our wildlands and in intermixed vegetation and structures in the wildland urban interface. The work will aid in fire risk assessment, fire suppression activities, and improved information that private citizens can use to protect their property;
- USDA research personnel supported on-going fires in real time. A combination of personnel on-site at

wildland fires and supporting scientists and technicians working from their home offices supplied state-of-the-art predictions of fire spread and economic impacts. Information from these efforts was used to brief local officials and incident management teams for fires in Arizona, California, Minnesota and Washington.

- Working with headquarters Fire and Aviation personnel, USDA refined estimates of seasonal wildland fire expenditures. Produced every two weeks through the fire season, these estimates comprised a primary information source for assessing budget impacts of wildland fire suppression activities; and
- The frequent occurrence of extensive, severe fires in recent years has elevated concern about what may happen in the future given the uncertainty of future climate and the related changes in vegetation and fire activity. USDA projections of future vegetation and fire patterns for the continental U.S. show higher levels of burned areas in all scenarios evaluated. Work continues to refine models as our understanding of climate change advances.

The Oregon State University Extension Service, partially supported with USDA funding, delivers forest land management education and information to the state's 166,000 non-industrial private forest landowners via the Master Woodland Manager (MWM) Volunteer Program. A collaborative effort between Extension, Oregon Department of Forestry, and the Natural Resources Conservation Service, volunteers visit neighboring landowners to identify opportunities for improving woodland stewardship. According to a survey of 80 forestland clients, 151 forest improvement projects were initiated as a result of MWM visits.

Research has established that properly managed livestock grazing can improve biodiversity in the Great Plains. Livestock grazing on rangelands has come under attack because grazing is believed to reduce plant biodiversity, adversely affecting environmental quality. Because of the lack of scientific information on how to manage grazing to meet biodiversity goals, USDA scientists have conducted long-term studies of plant composition under various livestock stocking rates. In both locations, moderate levels of livestock grazing resulted in the same or higher levels of biodiversity as ungrazed areas. In Montana, non-native plants were found in higher numbers in the ungrazed areas. Therefore, excluding livestock grazing on northern Great Plains rangelands is not the best strategy for improving and maintaining biodiversity and ecological health.

Research has demonstrated that no-till seeding can increase pasture productivity while reducing input costs. The economic competitiveness of American agriculture, particularly for limited-resource farmers, depends on doing more with less. In the southern Great Plains, feeding hay over the entire winter can cost limited-resource farmers as much as a third of farm income. USDA and university scientists evaluated no-till options for seeding cool-season forages into dormant warm-season pastures as an alternative to feeding hay or planting winter forages using conventional tillage. They found that no-till seeding of annual ryegrass increased annual pasture production by 19 percent and if the forage legume, Korean lespedeza, was added to the mix, forage production increased by 37 percent. The no-till pastures exceeded conventional tillage for overall production. The combination of reduced hay feeding, using legumes as a nitrogen source and less expensive no-till cultivation, reduced costs significantly.

To help achieve the targets for non-Federal forestland and grazing lands, USDA provided a portfolio of products and services, including:

- **Conservation Planning and Technical Consultation**—USDA helped producers develop or update conservation plans covering 22.8 million acres of grazing lands recorded in its national conservation plan database. Technical consultations also helped land managers with other decisions not recorded as a final plan in the database. The Department provided advice and expertise to help landowners, Tribes, communities and Federal land management agencies develop plans to achieve goals across landscapes that are a mosaic of land in many types of ownership.

- **Conservation Implementation**—USDA assisted in applying conservation practices on nearly 26.5 million acres of non-Federal grazing lands. These lands included rangeland, pastureland, grazed forest and native pasture. Through its programs, the Department also assisted on 550,000 acres of private, non-industrial forestland.
- **Financial Assistance**—USDA provides financial assistance to encourage producers to adopt land treatment practices proven to provide significant public benefits. Financial assistance for practices applied primarily to protect and enhance grazing land and forestland included:
  - $113 million in cost-shares or incentives for adoption of structural measures or management practices.
  - $15 million in easements to protect grassland ecosystems and ranching operations.
  - $4 million in grants through the Grazing Lands Conservation Initiative (GLCI) for proposals to control and manage invasive species affecting grazing lands. GLCI, a partnership of individuals and organizations, maintains and improves the management, productivity and health of the Nation's privately owned grazing land.

Analysis of Results

USDA fell short of its 2006 performance goals for protecting the health of the Nation's forests and grasslands against the risk of fire. The damage caused by Hurricanes Katrina and Rita limited USDA ability to use prescribed fire as a treatment tool in affected areas. As a result, resources were dedicated to removing the hazardous material left in the wake of these devastating hurricanes through mechanical means. The Department treated more than 115,000 acres of National Forest System land in Mississippi and Texas, providing raw material for economic recovery and building materials to the region. While mechanical treatment is of great benefit to communities, the cost of conducting these treatments compared to the cost of treatment through prescribed fire severely limited accomplishment of established goals. The Department met or exceeded fuel reduction performance goals throughout the remainder of the country.

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. USDA is increasing emphasis on the contribution of all vegetation management programs toward the restoration of fire-adapted ecosystems and reducing the threat of catastrophic fire. Activities to restore forest health, wildlife habitat, watershed condition, and timber and range productivity in fire-adapted ecosystems contributed over 1.3 million acres toward these goals in FY 2006.

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 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 since FY 2004 includes the contribution of improved Condition Class resulting from resource restoration activities and direct hazardous fuel reduction treatments.

USDA exceeded its target for assisting in planning the protection of non-Federal grazing land. Conservation plans are the essential tool enabling producers to meet their economic and environmental goals. Department technical assistance for planning enables resource managers to focus on the natural systems and ecological processes that maintain the natural resource base. This comprehensive approach considers all of the aspects of a site and sees the site as a part of a larger landscape. This approach is essential to the sustainable, productive use of natural resources. These comprehensive plans are the framework within which more specific designs for individual practices can be developed. The acreage of grazing land plans developed each year has been increasing as USDA offers more assistance for it. Rangeland managers in many States have requested advice and assistance in protecting land against drought and mitigating damages caused by drought. Comprehensive planning assistance is available primarily through CTA.

USDA also met its target for assisting in the application of conservation practices on non-Federal grazing land. In 2000, an estimated 288 million acres of non-Federal grazing land were in minimal or degrading vegetative condition. USDA's long-term goal is to reduce that by 100 million acres by 2010. The measure of acres of grazing land treated is an indicator of progress toward the goal of improved condition. The acreage treated annually is a surrogate used to indicate progress toward the long-term goal of improved condition. A surrogate annual measure is needed because improvement in condition resulting from program action generally occurs slowly over time. The moisture available to support plant growth is limited in rangeland ecosystems. The measure includes all land on which producers applied a conservation practice in the fiscal year with USDA technical or financial assistance. The conservation applied includes a wide range of practices tailored to the resource conditions and producer's operation and goals on the specific site. The conservation practices applied help protect the resource base against on-site damage and prevent that to off-site soil, water and air. High priority was given to activities to achieve the reduction of non-point source pollution in impaired watersheds, those of emissions to meet ambient air quality standards, a lower soil erosion from unacceptable levels and the promotion of habitat for at-risk species. The Environmental Quality Incentives Program provided financial and technical assistance in implementing capital-intensive measures. CTA provided assistance for measures that producers financed entirely with their own funds or with assistance from non-USDA sources.

To increase the effectiveness of its ongoing efforts to help people protect and enhance plant and animal communities, USDA is working to improve the technology for measuring conditions. The Department also is projecting the results of management options on grazing lands. Activities include accelerating the development of methodologies to measure and monitor grazing land health, developing plants with a natural resistance to pests and working with partners to address grazing land health, including efforts to control invasive species.

Exhibit 59: Hazardous Fuel Reduction

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	1,383,000	1,084,615	Unmet
6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II, or III outside the wildland-urban interface	235,000	124,183	Unmet
6.3.3	Number of acres of other hazardous fuel treated that are outside the wildland-urban interface	982,000	1,385,611	Exceeded

Exhibit 60: Trends in Treatment of Hazardous Fuel

Trends		Fiscal Year Actual (thousand acres)				
		2002	2003	2004	2005	2006
6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	764	1,114	1,712	1,649	1,241
6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II, or III outside the wildland-urban interface	N/A	293	619	480	124
6.3.3	Number of acres of other hazardous fuel treated that are outside the wildland-urban interface	N/A	N/A	274	592	1,385

Exhibit 61: Sustainable Forests and Grasslands

Annual Performance Goals and Indicators		Fiscal Year 2006		
		Target	Actual	Result
6.3.4	Conservation plans written for grazing land (millions of acres)	18.0	22.8	Exceeded
6.3.5	Grazing lands with conservation applied to protect the resource base and environment, Conservation Technical Assistance, millions of acres	9.0	12.0	Exceeded
6.3.6	Grazing lands with conservation applied to protect the resource base and environment, Environmental Quality Incentives Program, millions of acres	10.0	13.6	Exceeded

Exhibit 62: Trends in Protection of Non-federal Forests and Grasslands

Trends		Fiscal Year Actual				
		2002	2003	2004	2005	2006
6.3.4	Conservation plans written for grazing lands, millions of acres	8.1	11.7	15.1	19.2	22.8
6.3.5	Grazing lands with conservation applied to protect the resource base and environment, Conservation Technical Assistance, millions of acres	9.0	9.9	9.7	9.9	12.0
6.3.6	Grazing lands with conservation applied to protect the resource base and environment, Environmental Quality Incentives Program, millions of acres	7.7	8.7	8.5	10.3	13.6

Objective 6.4: Protect and Enhance Wildlife Habitat to Benefit Desired, At-Risk and Declining Species

Overview

Protecting the Nation's wildlife requires protecting the interacting relationships between plant and animal species within a given ecosystem. It also requires sustaining the health and vigor of such a system. Protecting specific ecosystems and landscapes — including wetlands, riparian areas, grasslands, floodplains, open water areas and certain types of forests — can help support wildlife and aquatic species and provide economic and recreational benefits to people. Fragmentation and loss of habitat resulting from urban and suburban development, and intensive agricultural uses have contributed to declines in populations of many terrestrial and aquatic species. Invasive species are second only to habitat destruction as the cause of native species declines. Improving the habitat for declining and at-risk species is key to preventing further declines. It also ensures the continued survival of those species and the overall health of the ecosystems to which they belong.

USDA's efforts to improve habitat on private lands include providing technical and financial assistance to landowners and managers. This assistance helps them manage working lands and waters to sustain wildlife, aquatic species and plant communities. USDA also acquires and manages easements to improve and restore grassland, rangeland and forest ecosystems, and wetlands and their associated upland buffers. These moves are designed to create productive, diverse and resilient habitat.

USDA assisted individuals and groups to apply management that will maintain or improve habitat on 15.4 million acres of non-Federal land. The land treated included 12.3 million acres of upland wildlife habitat management and 400,000 acres of wetland wildlife habitat management. The Department focuses on improving habitat for at-risk and declining species. USDA provided financial and technical assistance to improve and manage 3.6 million acres to benefit at-risk and declining species. USDA's goal on non-Federal land is to assist in 9 million acres of essential habitat to benefit at-risk and declining species between 2006 and 2010. USDA is supporting efforts to achieve the President's goal to restore, create, enhance and protect 3 million acres of wetlands by 2010. The Department assisted in creating, restoring or enhancing 318,000 wetland acres on non-Federal lands. Its goal is to address 1.5 million acres by 2010.

Fragmentation and loss of habitat have contributed to declines in populations of many terrestrial and aquatic species. Invasive species are second only to habitat destruction as the cause of native species declines. These adverse landscape impacts negatively affect both human and wildlife populations. Loss of habitat means fewer wildlife recreational opportunities for humans, less open space and poorer air and water quality. The development that fragments wildlife habitat can result in a landscape with a greater susceptibility to flooding. The frequency and severity of drought conditions also may increase.

Improving and protecting habitat for at-risk and declining species is key to preventing further declines. It also ensures the continued survival of those species and the overall health of the ecosystems to which they belong. Improving watershed health for wildlife species also improves conditions for humans. Humans will benefit from improved water and air quality, control of invasive species, reduced flood damage, more open space and an increased opportunity for educational and wildlife recreational opportunities. Additionally, keeping wildlife populations healthy and sustainable minimizes the need for regulatory action to protect threatened and endangered species on privately owned land.

Challenges for the Future

The ability of agricultural producers to restore, improve and protect habitat is impacted by their immediate economic situation, market conditions, weather and personal cost/benefit analyses. Weakness in the economy could affect producers' abilities to invest their own funds and their willingness to take any risk associated with changing management. Many wildlife projects are supported by a combination of Federal, State and local funds. State and local budget constraints would impact project implementation.

USDA, in cooperation with other Federal, State, Tribal and local agencies, and private organizations, will work to provide producers with information and other resources to adopt applicable conservation measures. USDA also will facilitate the development and implementation of landscape-scale habitat protection plans that provide at-risk and declining species access to water, food, shelter and corridors for seasonal migration.

Key Outcome

Improved Wildlife Habitat Quality Supporting Desired Species and Species of Concern (At-Risk and Declining Species)

Analysis of Results

USDA met its target for the creation, restoration or enhancement of wetlands. Targets were set for two USDA programs; Conservation Technical Assistance (CTA) and the Wetlands Reserve Program (WRP). On wetlands where USDA provided technical assistance through CTA, no financial assistance was provided by Department programs. In some cases, financial assistance may have been provided through non-USDA sources.

WRP is a voluntary conservation program that offers landowners the means and opportunity to protect, restore and enhance wetlands on their property. WRP participants sign an easement or agreement with USDA. Some wetlands protection activity is carried out under other USDA programs, including the CRP.

In 2003, there were 111 million wetland acres on non-Federal lands in the continental U.S. In 2004, the President set a national goal to go beyond no net loss – to restore, create, enhance and protect 3 million acres of wetlands by 2010. In support, USDA established a long-term goal of 1.5 million acres created, restored or enhanced by 2010. Reaching the target level established for WRP and CTA will contribute significantly toward meeting the long-term goal. When 2006 results are combined with 2005 results and the projected accomplishments through 2010 (strategic plan period - 2005-2010), these two programs will contribute 89 percent of the total goal.

USDA uses the acreage of wetlands created, restored or enhanced as an indicator of progress toward improved habitat for many species. Acreage is used as an indicator because there is no feasible, widely accepted methodology for documenting the quality of habitat developed or the suitability of the habitat for the target species USDA is participating in cooperative efforts to quantify the results of its conservation practices for wildlife habitat.

Selected Results in Research, Extension and Statistics

USDA opened the Agricultural Wildlife Conservation Center (AWCC) in Madison, Mississippi, to expand efforts to preserve wildlife and wildlife habitat on private lands. The center supports the development of wildlife-habitat technology through a competitive grants program available to many cooperative conservation partners, including fish and wildlife conservation groups, universities and State agencies. AWCC will ensure that new technology is available to farmers and ranchers nationwide through USDA service centers.

USDA helps farmers, ranchers, non-industrial private forest landowners and other natural resource managers consider wildlife when they plan the use of their land. These plans consider wildlife needs for shelter, access to water, food in proper amounts, locations and times to sustain wildlife populations that inhabit the area during a portion of their life cycle.

USDA assists in applying conservation practices to enhance habitat on private lands. Department conservationists provide on-site assistance to producers and other landowners in controlling invasive species, adopting practices to improve grassland or forest habitat, and managing water levels in wetlands to control vegetation. Actions to sustain and enhance aquatic habitat include applying conservation practices that filter potential pollutants and moderate stream temperatures. USDA assisted in applying practices that benefited upland wildlife in plans covering 12.3 million acres. Practices to benefit wetland species were applied in plans covering 400,000 acres.

USDA provided financial assistance to individuals and groups to implement structures and management systems. These moves to improve water management and protect watersheds included:

- $38 million for cost-shares and incentives for habitat protection;
- $38 million for easements to protect wetlands;
- $9.5 million for Wetlands Reserve Enhancement Program partnership proposals. These proposals address wetland creation and enhancement efforts on prior-year enrolled contracts, those where cooperators will contribute significantly to the Wetlands Reserve Program (WRP) delivery and technical assistance costs, and easement management projects; and
- $1.6 million in competitive grants to develop and evaluate technological tools for fish and wildlife habitat improvements. The Agricultural Wildlife Conservation Center will administer the grants.

WRP is a voluntary conservation program that offers landowners the means and opportunity to protect, restore and enhance wetlands on their property.

Exhibit 63: Improved Wildlife Habitat

Annual Performance Goals and Indicators	Fiscal Year 2006		
	Target	Actual	Result
Wetlands created, restored or enhanced, acres			
6.4.1 Conservation Technical Assistance	50,000	65.345	Exceeded
6.4.2 Wetlands Reserve Program	170,000	181,979	Exceeded

Exhibit 64: Trends in Wildlife Habitat Enhancement

Trends	Fiscal Year Actual				
	2002	2003	2004	2005	2006
Wetlands created, restored or enhanced, acres					
6.4.1 Conservation Technical Assistance	63,463	43,525	59,293	53,498	65,345
6.4.2 Wetlands Reserve Program	139,927	137,151	123,363	180,358	181,979

Program Assessment Rating Tool (PART) Evaluations

The Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the Federal government can achieve better results. The PART reviews of USDA programs help identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective. The PART therefore looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. Because the PART includes a consistent series of analytical questions, it allows programs to show improvements over time, and allows comparisons between similar programs.

The summaries below represent programs PARTed in fiscal year 2006, including programs that were reassessed because the programs' previous ratings were unsatisfactory. The programs are summarized by Strategic Objective. Further detail on USDA's PARTed programs can be found at http://www.whitehouse.gov/omb/budget/fy2006/part.html.

Strategic Objective 1.1	Expand and Maintain International Export Opportunities
Program Name	**Export Enhancement/Dairy Export Incentive Program**
Current Rating	• Moderately Effective
Lead Agency	• Foreign Agricultural Service
Major Findings/ Recommendations	• Globally, the export subsidy programs have not been able to demonstrate an ability to permanently expand exports or build U.S. market share in targeted countries. However, the Dairy Export Incentive Program (DEIP) was successful in offsetting European Union export subsidies for dairy products to Mexico which permitted the U.S to develop and sustain a market for U.S. dairy product exports there.
Actions Taken/Planned	• These programs have not been operative for several years. However, a policy paper should be developed to lay out the circumstances where future reactivation of the programs would be warranted.

Strategic Objective 1.1	Expand and Maintain International Export Opportunities
Program Name	**Trade Adjustment Assistance**
Current Rating	• Results Not Demonstrated
Lead Agency	• Foreign Agricultural Service
Major Findings/ Recommendations	• The assessment found that the program is costly to administer when considered in relation to the number of producers that have been assisted to date.
Actions Taken/Planned	• Performance baselines, based on survey results of individuals who received TAA program benefits in 2004 and 2005, will be established. After that, ambitious performance targets will be established.

Strategic Objective 2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Crop Insurance**
Current Rating	• Moderately Effective
Lead Agency	• USDA Risk Management Agency
Major Findings/ Recommendations	• 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.
Actions Taken/Planned	• Achieve proposed legislative changes to make the program more effective and efficient by covering more acres at a lower subsidy cost. • Developed other efficiency measures that incorporate the whole taxpayer cost (administrative, indemnities, underwriting gains, premium subsidies and company reimbursements) needed to run the program.

Strategic Objective 2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems
Program Name	**Commodity Purchase Services (Section 32)**
Current Rating	• Results Not Demonstrated (Results Not Demonstrated)
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• The Section 32 program has three purposes, but it lacks goals and measures in support of any of these underlying purposes.
Actions Taken/Planned	• Developing outcome-based annual and long-term performance measures, including baselines and targets that demonstrate progress towards a long-term programmatic outcome.

Strategic Objective 2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems
Program Name	**Research and Promotion**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• R&P programs are directed by industry-governed boards appointed by the Secretary of Agriculture. Federal oversight by AMS includes reviewing and approving program plans, projects, and budgets. R&P programs are designed to facilitate collective action among producers to maintain and expand markets.
Actions Taken/Planned	• Clarifying long-term and annual measures to better demonstrate progress toward performance goals.

Strategic Objective 2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems
Program Name	**Market News and Marketing Services**
Current Rating	• Adequate
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• The Marketing Services program (MSP) gathers, analyzes, and makes available market data for use among participants throughout the agricultural marketing chain. Increased information in the marketplace provides all market participants with resources to inform their business transactions.
Actions Taken/Planned	• Developing an automated system to collect and post Market News price data.

Strategic Objective 2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems
Program Name	**Packers and Stockyards**
Current Rating	• Results Not Demonstrated
Lead Agency	• Grain Inspection, Packers and Stockyards Administration
Major Findings/ Recommendations	• The program lacks well-defined internal processes to determine workload priorities, conduct effective investigations, evaluate investigative findings, and monitor industry activity to determine if regulatory reforms are needed.
Actions Taken/Planned	• Conducting business process re-engineering to improve internal controls.

Strategic Objective 2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Dairy Program Income Loss**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Farm Service Agency
Major Findings/ Recommendations	• Dairy production is increasing in the U.S., but declining on farms with fewer than 200 cows. Market forces continue to drive consolidation and increase output from larger dairies. The income payments from this program have a modest impact on slowing the decline in production on small to medium size dairy operations.
Actions Taken/Planned	• Feedback from USDA's 2007 farm bill forums will be used to examine this farm safety net program compared to other government and private sector program alternatives to mitigate risk on farm operations

Strategic Objective 2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Dairy Price Support**
Current Rating	• Results Not Demonstrated (Results Not Demonstrated)
Lead Agency	• Farm Service Agency
Major Findings/ Recommendations	• The purpose of the program is outdated. In 1933, USDA first facilitated the purchase of surplus dairy products to ensure an adequate supply of milk. Today the program remains in place, even as the U.S. industry has matured as a global leader in milk production. Overall, USDA manages the program well; however, not at the least cost to the taxpayer.
Actions Taken/Planned	• Conduct biannual evaluations of the USDA set prices for nonfat dry milk and butter. Program managers will determine whether the program is operating at least cost to the taxpayer.

Strategic Objective 2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Non-Insured Crop Disaster Assistance**
Current Rating	• Moderately Effective
Lead Agency	• Farm Service Agency
Major Findings/ Recommendations	• The noninsured crop disaster assistance program is valuable for agricultural producers as one of their risk management tools. It is delivered through local county FSA offices, which enable the greatest grassroots outreach possible in the specific county locations where intended beneficiaries live and farm. Participation in NAP has increased steadily over the years"
Actions Taken/Planned	• Eliminating shortcomings identified in financial audits by strengthening the processes and controls in the program's disbursement system.

Strategic Objective 2.2	Enhance the Competitiveness and Sustainability of Rural Farm Economics
Program Name	**Economic Opportunities and Quality of Life for Rural America**
Current Rating	• Effective
Lead Agency	• Cooperative State Research, Education and Extension Service
Major Findings/ Recommendations	• This program includes a significant number projects (earmarks) added to the Budget by the Congress. Within the limitations of total funding, the inclusion of any unrequested projects reduces funding that could be used for high priority national programs.
Actions Taken/Planned	• The agency should consider the use Grants.gov (a Web-based peer review system), as well as virtual panels to improve the efficiency of the grant review process.

Strategic Objective 3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth
Program Name	**Value-Added Producer Grants**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Rural Development
Major Findings/ Recommendations	• This program provides valuable support for emerging markets. Though there is room for improvement on how a project is selected for funding, in general, new market technologies are favored and the target audience is reached.
Actions Taken/Planned	• Increase targeting of program to emerging markets. Continue to assess the focus of the program on small and medium-sized producers.

Strategic Objective 3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities
Program Name	**Broadband**
Current Rating	• Results Not Demonstrated
Lead Agency	• Rural Development
Major Findings/ Recommendations	• Other findings include: the program is flawed as seen by the under utilization of two loan types; there are no periodic independent reviews that assess program performance; and the Rural Utilities Service is unable to track the full costs of operating the program.
Actions Taken/Planned	• Reviewing program operations and community/constituent/borrower needs to determine program improvements to increase program efficiency and demand for under utilized loan types. A new regulation is pending.

Strategic Objective 3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities
Program Name	**Community Facilities**
Current Rating	• Results Not Demonstrated (Moderately Effective)
Lead Agency	• Rural Development
Major Findings/ Recommendations	• The program is managed effectively. Data is collected and analyzed to ensure performance. Funds are tracked and spent in a timely manner using sound financial practices, and there is good collaboration with other Federal, state and local programs.
Actions Taken/Planned	• Obtaining tangible statistics to create and improve performance measures by utilizing a newly created performance related computer model developed exclusively for Rural Development programs.

Strategic Objective 3.1, 3.2	Support Increased Economic Opportunities and Improved Quality of Life in Rural America
Program Name	**Resource Conservation and Development**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• The Natural Resources Conservation Service (NRCS) has improved its management of RC&D. NRCS: (1) has coordinated a nationwide program review and has taken actions to implement its recommendations; (2) revised the RC&D manual to reflect increased emphasis on program performance and linkages to national performance goals; and (3) increased performance and reduced Federal fund expenditures.
Actions Taken/Planned	• Conducting an external, independent review that examines overall program effectiveness and makes recommendations for enhancing program efficiencies.

Strategic Objective 4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks
Program Name	**On-going Pest and Disease Management Programs**
Current Rating	• Effective
Lead Agency	• Animal and Plant Health Inspection Service
Major Findings/ Recommendations	• The program purpose is clear. It addresses a clearly defined problem, and works to effectively target resources to areas most affected by specific plant and animal infestations.
Actions Taken/Planned	• The program will continue to measure the value of damage mitigated and prevented, refining this new measure.

Strategic Objective 5.1	Ensure Access To Nutritious Food
Program Name	**Summer Food Service Program**
Current Rating	• Moderately Effective
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• The program is effectively providing nutritious meals to low income children. Program benefits are well targeted to low-income children, and meals provide the desired levels for most key nutrients and food energy.
Actions Taken/Planned	• Examine program meal patterns to address consistency with the 2005 *Dietary Guidelines for Americans*.

Strategic Objective 5.2	Promote Healthier Eating Habits and Lifestyles
Program Name	**Women, Infant, and Children**
Current Rating	• Effective
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• OMB HAS NOT PROVIDED RECOMMENDATIONS
Actions Taken/Planned	• OMB HAS NOT PROVIDED RECOMMENDATIONS

Strategic Objective 5.2	Promote Healthier Eating Habits and Lifestyles
Program Name	**National School Lunch Program**
Current Rating	• Results Not Demonstrated (Moderately Effective)
Lead Agency	• Food and Nutrition Service

Strategic Objective 5.2	Promote Healthier Eating Habits and Lifestyles
Program Name	**National School Lunch Program**
Major Findings/ Recommendations	• The program has made progress in improving the nutritional content of meals by reducing the proportion of calories from fat and saturated fat. Between 1993 and 1999 the proportion of calories from fat in the lunches was reduced from 39% to 34%.
Actions Taken/Planned	• Conducting nationally representative study updating information on the nutrient content of meals.

Strategic Objective 5.2	Promote Healthier Eating Habits and Lifestyles
Program Name	**Nutrition and Health**
Current Rating	• Moderately Effective
Lead Agency	• Agricultural Research Service
Major Findings/ Recommendations	• While this program does include a number projects added to the Budget by the Congress, the number is fewer than in other research programs. However, within the limitations of total funding, the inclusion of any unrequested projects reduces funding that could be used for high priority national programs.
Actions Taken/Planned	• The program will continue to monitor the actual use of research outputs (new knowledge and technologies).

Strategic Objective 5.3	Improve Nutrition Assistance Program Management and Customer Service
Program Name	**Child and Adult Care Food Program**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• The program is well targeted to low-income children. Most participating centers and homes provide well-balanced meals and snacks, supplying more than one-half of the Recommended Daily Allowances for calories and substantially more than two-thirds of key nutrients.
Actions Taken/Planned	• Developing new long-term measures to assess the nutrient content of meals; piloting a process to collect annual data on compliance with meal pattern requirements.

Strategic Objective 5.3	Improve Nutrition Assistance Program Management and Customer Service
Program Name	**Food Distribution Program On Indian Reservations**
Current Rating	• Adequate
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• FDPIR helps low-income Native Americans in areas with limited access to food stores meet their food needs.
Actions Taken/Planned	• Partnering with Indian tribal organizations to develop a method of allocating administrative funds that is more equitable and better supports program operations.

Strategic Objective 5.3	Improve Nutrition Assistance Program Management and Customer Service
Program Name	**Senior and WIC Farmers' Market Programs**
Current Rating	• Results Not Demonstrated
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• The programs have no standardized means to demonstrate program results. The programs do not have annual performance measures that can demonstrate progress towards achieving the programs' long term goals. Program evaluations are limited and provide no firm conclusions about the impact on participants' consumption of fresh produce.

Strategic Objective 5.3	Improve Nutrition Assistance Program Management and Customer Service
Program Name	**Senior and WIC Farmers' Market Programs**
Actions Taken/Planned	• Establishing and implementing monitoring and reporting requirements for the Senior Farmers' Market Nutrition Program.

Strategic Objective 5.3	Improve the Nation's Health and Nutrition
Program Name	**Nutrition and Health**
Current Rating	• Effective
Lead Agency	• Cooperative State Research, Education and Extension Service
Major Findings/ Recommendations	• While this program does include a number projects added to the Budget by the Congress, the number is fewer than in other research programs. However, within the limitations of total funding, the inclusion of any unrequested projects reduces funding that could be used for high priority national programs.
Actions Taken/Planned	• The agency should consider the use Grants.gov (a Web-based peer review system), as well as virtual panels to improve the efficiency of the grant review process.

Strategic Objective 6.1	Protect Watershed Health to Ensure Clean and Abundant Water
Program Name	**Emergency Watershed**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• The Natural Resources Conservation Service (NRCS) has improved its management of EWP. NRCS has: (1) revised its EWP regulation to increase program effectiveness; (2) developed State Emergency Recovery Plans that allow for rapid response; (3) improved its coordination with other emergency assistance agencies; and (4) addressed actions expressed in a number of internal and external evaluations.
Actions Taken/Planned	• Improving data management to increase program accountability and efficiency, improve financial reporting, and increase cost-effectiveness.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Natural Resource Base and Environment**
Current Rating	• Moderately Effective
Lead Agency	• Agricultural Research Service
Major Findings/ Recommendations	• This program includes a significant number projects (earmarks) added to the Budget by the Congress. Within the limitations of total funding, the inclusion of any unrequested projects reduces funding that could be used for high priority national programs.
Actions Taken/Planned	• The program should conduct an independent external retrospective panel to review the Global Change and Air Quality programs during FY 2007.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Emergency Conservation**
Current Rating	• Results Not Demonstrated
Lead Agency	• Farm Service Agency
Major Findings/ Recommendations	• ECP lacks a mechanism to effectively prioritize its limited disaster recovery funding. The program does not have a system for prioritizing recovery dollars to geographic areas or individual farmers who are most in need of assistance. Instead, funding is generally provided on a first-come-first-served basis across relatively broad geographic areas.
Actions Taken/Planned	• Developing and using improved, outcome-based performance measures, including long-term, annual, and efficiency measures.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Watershed**
Current Rating	• Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• The Forest Service lacks a nationally consistent approach to prioritize watersheds and for management activities on national forests and for providing grants to non-Federal entities. The Forest Service is working to address this.
Actions Taken/Planned	• Developing and implementing a strategy to prioritize watersheds for management activities as the basis for program allocations.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Mission Support**
Current Rating	• Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• The components of this program do not share a common purpose, beneficiary characteristics, or target populations. However, the components address specific and existing problems, interests, or needs.
Actions Taken/Planned	• Examining with OMB the viability of a PART review for a combination of program activities, determining the components of the program, and providing an alternative option to assess the components.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Conservation Operations**
Current Rating	• Moderately Effective
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• Overall, Conservation Operations (CO) operates efficiently and effectively. CO has made strides in making its state allocation process more transparent; tracking non-field level activities, including those of contractors and partnering organizations; and linking performance to state budget allocations.
Actions Taken/Planned	• Improving CO program management by identifying national program priorities and conducting an independent review of the allocation formula.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Conservation Security Program**
Current Rating	• FY 2008 - Results Not Demonstrated
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• Although CSP is the only conservation program that recognizes and rewards farmers and ranchers for ongoing high levels of environmental stewardship, it has not yet demonstrated that it effectively motivates people to achieve a higher level of conservation than they otherwise would adopt.
Actions Taken/Planned	• Conducting an external, independent review that examines overall program effectiveness.

Strategic Goal 6	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Resource Conservation and Development**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• The Natural Resources Conservation Service (NRCS) has improved its management of RC&D. NRCS: (1) has coordinated a nationwide program review and has taken actions to implement its recommendations; (2) revised the RC&D manual to reflect increased emphasis on program performance and linkages to national performance goals; and (3) increased performance and reduced Federal fund expenditures.
Actions Taken/Planned	• Conducting an external, independent review that examines overall program effectiveness and makes recommendations for enhancing program efficiencies.

Strategic Objective 6.3	Protect Forests and Grasslands
Program Name	**Wildland Fire Management**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Forest Service
Major Findings/ Recommendations	• Large wildfire costs are increasing as a result of many factors, but the Forest Service lacks an overall national management strategy for aligning incentives, improving accountability, and controlling costs by allocating resources on the basis of risk. Multiple Forest Service units spend funds without limits or regard to overall costs.
Actions Taken/Planned	• Refining program delivery by basing resource allocation on risk mitigation, emphasizing accountability for firefighting costs, improving management oversight, and ensuring fair sharing of costs.

Strategic Objective 6.3	Protect Forests and Grasslands
Program Name	**Invasive Species**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Forest Service
Major Findings/ Recommendations	• The Forest Service has implemented a cohesive national strategy for invasive species management that encourages coordination within the agency. Additional work is needed to ensure states and other cooperators link their proposed activities to the Forest Service's Strategic Plan or annual performance measures.
Actions Taken/Planned	• Continuing to implement the integrated invasive species strategy based on input from the Regions and other customers; improving outreach and delivery of research and management information.

Strategic Objective 6.4	Protect and Enhance Wildlife Habitat to Benefit Desired, At-Risk and Declining Species
Program Name	**Wildlife Habitat Incentives Program**
Current Rating	• Results Not Demonstrated (Adequate)
Lead Agency	• Natural Resources Conservation Service
Major Findings/ Recommendations	• The Natural Resources Conservation Service has improved its management of WHIP. Since WHIP underwent a PART assessment in 2002, it has: (1) adopted recommendations issued by internal and external oversight teams; (2) created new allocation and performance incentive formulas; and (3) instituted new software to track program activities and evaluate and rank applications.
Actions Taken/Planned	• Improving WHIP management by identifying national program priorities, standardizing the application selection and ranking process, and conducting an independent review of the allocation formula.

Program Evaluations

Objective	Title	Findings and Recommendations/Actions	Availability
1.1	GAO Report, December 6, 2005; GAO-06-167 — INTERNATIONAL TRADE: USTR Would Benefit from Greater Use of Strategic Human Capital Management Principals	**Findings:** GAO recommends that USTR develop a strategic human capital management system addressing the areas of strategic human capital leadership, planning, recruitment and retention, and performance management. There were no recommendations for USDA. **Actions:** No USDA action required.	Report is available at http://www.gao.gov/cgi-bin/getrpt?GAO-06-167
	GAO Report, April 30, 2006; GAO-06-596 — WORLD TRADE ORGANIZATION: Limited Progress at Hong Kong Ministerial Clouds Prospects for Doha Agreement	**Findings:** This report reviews the results of the Doha Round of WTO negotiations, and the possible completion of the negotiations in 2006. **Actions:** No USDA action required.	Report is available at http://www.gao.gov/new.items/d06596.pdf
	GAO Report, June 26, 2006; GAO-06-737 — OVERSEES STAFFING: Rightsizing Approaches Slowly Taking Hold but More Action Needed to Coordinate and Carry Out Efforts	**Findings:** While this report focuses primarily on the Department of State, it does refer to FAS' overseas presence, repositioning efforts, and staffing levels. It includes a table of FY 2007 Capital Security Cost Sharing charges. This report contains recommendations for the Secretary of State and the Office of Rightsizing. **Actions:** No USDA action required.	Report is available at http://www.gao.gov/new.items/d06737.pdf
	GAO Report, December 9, 2005; GAO-06-162 — CHINA TRADE: U.S. Exports, Investment, Affiliate Sales Rising, but Export Share Falling	**Findings:** This data-driven, informational report is intended to provide a "by-the-numbers" overview of the U.S.-China trade relationship. **Actions:** No USDA action required.	Report is available at http://www.gao.gov/cgi-bin/getrpt?GAO-06-162
1.2	OIG Report, March 15, 2006; 07016-01-At — Foreign Agricultural Service Private Voluntary Organization Grant Fund Accountability	**Findings:** OIG had 19 recommendations for FAS to improve its administration and oversight of the food aid program. **Actions:** OIG has accepted FAS' management decision on most of the recommendations, while FAS continues to work with OIG on the few remaining.	Report is available at http://www.usda.gov/oig/webdocs/07016-01-AT.pdf
2.3	OIG-05401-14-FM, Financial Statements for Fiscal Years 2004 and 2005	**Findings:** The Deloitte report on FCIC/RMA's internal control over financial reporting contains one reportable condition identified during the fiscal year 2004 audit. FCIC/RMA is in process of resolving the condition. Therefore, this report contains no recommendations. **Recommendations/Actions:** RMA has completed the actions recommended by OIG to address this matter.	Report is available at http://www.usda.gov/oig/webdocs/05401-14-FM.pdf
	OIG-05801-03-KC, Financial Management Controls over Reinsured Companies	**Findings:** Both OIG and GAO concluded that RMA had not identified the financial deficiencies of the failed reinsured company primarily because RMA emphasized past compliance and financial data, rather than future financial forecasts. OIG closed this review without recommendations because the problematic issues identified were raised in a December 3, 2003, memorandum to RMA prior to its 2005 SRA negotiations with reinsured companies, and that their findings overlapped those reported by GAO in their June 1, 2004, report.	Report is available at http://www.usda.gov/oig/webdocs/05801-3-KC.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
	OIG-05601-13-Te, New Crop Products Submitted by Private Companies	**Actions:** RMA completed actions necessary to address the issues identified in the above referenced documents. **Findings:** RMA needs to establish written procedures to monitor and review the implementation and performance of section 508(h) products. **Recommendations/Actions:** RMA completed the actions recommended by OIG to address this matter.	Report is available at http://www.usda.gov/oig/webdocs/05601-13-TE.pdf
	OIG-05099-11-SF, Prevented Planting Payments For Cotton Due to Failure of the Irrigation Water Supply in California and Arizona Crop Year 2003	**Findings:** OIG found none of the cotton producers in their sample improperly sold their water service rights, and nothing came to their attention to indicate that the pertinent controls were not operating as prescribed. However, four cotton producers in California did not meet program eligibility requirements. **Actions:** RMA is reviewing the four producers to determine whether loss payments were improperly paid to these individuals.	Report is available at http://www.usda.gov/oig/webdocs/05099-11-SF.pdf
3.1.1	Business Programs Assessment Reviews (BPARS)	**Findings:** National Office engages Farm Credit Administration to provide Commissioned Bank Examiners to assist in evaluating performance and risk inherent in performance of up to 10 states each year. In FY 2006, six State Office operations and portfolio management were reviewed. This included assessment of local offices. **Actions:** Findings, causes and recommendations vary widely state to state. Each state office undertakes corrective actions in response to the BPAR.	Banking information and borrower data is protected under Federal Bank Secrecy Laws, but redacted reports are available to the public through Freedom of Information.
3.2.2	2003 PART of Rural Water and Wastewater Grants and Loans and 2005 RePART	**Findings:** The Water Programs addressed the concerns of the Office of Management Budget (OMB) that the program needed to develop better long-term goals to quantify program success and identify solutions to better serve rural residents. **Actions:** In May 2005, the program revised its long-term measures to focus strategically on reducing rural peoples' exposure to water related health and safety hazards by FY 2010.	The program assessment is available at http://www.whitehouse.gov/omb/expectmore/summary.10000458.2005.html
	2003 PART of Rural Water and Wastewater Grants and Loans and 2005 RePART	**Findings:** OMB recommended that the Water Programs create reasonable long-term goals that measure outcomes. **Actions:** The Water Programs is in the process of developing indicators to assess the financial performance of its water and wastewater borrowers. The Water Programs will track borrowers' financial ratios to gauge the financial viability of borrowers' systems. The target is to establish the data collection format and scoring criteria for rating the borrower based on the ratios. The Water Programs will consult the Economic Research Service in identifying sources of performance data.	The program assessment is available at http://www.whitehouse.gov/omb/expectmore/summary.10000458.2005.html

Objective	Title	Findings and Recommendations/Actions	Availability
	EPA Clean Watersheds Needs Survey 2000 and the EPA 1999 Drinking Water Infrastructure Needs Survey	**Findings:** The EPA Clean Watersheds Needs Survey 2000 showed that small communities of under 10,000 have documented needs of $16 billion for wastewater systems. Needs for drinking water are significantly higher. The EPA 1999 drinking water survey showed $48.1 billion in needs for communities of 10,000 or less and $31.2 billion in needs for communities of 3,300 or less. Investments in new, high quality environmentally safe water and wastewater infrastructure or in replacing aging infrastructure reduce reductions out-migration of young people and attract new businesses. **Actions:** The Water Programs2 has developed a measure to track annually the number of borrowers; subscribers (customers) receiving new or improved services from water systems and facilities.	Reports available at: http://www.epa.gov/safewater/needssurvey/index.html http://www.epa.gov/ipbpages/archive/V7/444.htm
	2003 PART of Rural Water and Wastewater Grants and Loans and 2005 RePART	**Findings:** OMB recommended that the Water Programs develop better annual goals. **Actions:** The Water Programs developed a Loan/Grant Ratio to improve the loan to grant mix so that more loan dollars are used by systems that can afford maximum debt capacity. This result limits grant funds to the neediest systems.	The program assessment is available at http://www.whitehouse.gov/omb/expectmore/summary.10000458.2005.html
	2003 PART of Rural Water and Wastewater Grants and Loans and 2005 RePART	**Findings:** The Office of Management Budget (OMB) recommended that the Water Programs develop better annual goals to quantify program success and identify solutions to better serve rural residents better. **Actions:** The Water Programs created an annual measure to track the percent of total project costs from commercial credit and other non- agency sources for projects funded from RUS loans and grants	The program assessment is available at http://www.whitehouse.gov/omb/expectmore/summary.10000458.2005.html
	OIG audit, “Rural Utilities Service, Water and Waste Program: Grant Eligibility, #09601-6-KC, September 2003 Referrals to commercial credit	**Findings:** OIG issued a report, showing that RUS was evaluating other credit inadequately. **Actions:** The Water Programs WEP addressed commercial credit by implementing an underwriting program that identifies an applicant that has the resources and ability to use commercial credit as part of its financing package. An annual goal to measure applicant and borrower referrals to other commercial credit was developed and implemented in 2005.	The report is available at: http://www.usda.gov/oig/webdocs/09601-6-KC.pdf
3.2.3	Community Facilities Program	During FY 2006, the Office of Inspector General completed a program wide (Direct, Guaranteed, and Grant) audit (Report No. 04601-4-AT). This was a nationwide audit, even though reviews were primarily completed in North Carolina and Virginia. This audit identified no outstanding issues and OIG provide no recommendations which required a management decision. The Community Programs Staff reviewed files in five states during FY 2006 as part of a Management Control Review. No material weaknesses were identified as part of this review. Documentation and accessibility items were identified and the Agency is taking action to rectify the outstanding items.	The report is available at http://www.usda.gov/oig/webdocs/04601-4-AT.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
3.2.4 and 3.2.5	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
4.1 and 4.1	OIG-24601-0006-Ch: Food Safety and Inspection Service's In-Plant Performance System	**Findings:** FSIS' policies and procedures generally were adequate and the system improved supervision and inspector accountability. However, the review process could be strengthened in the areas of written guidance and management oversight. The final report was released to the public March 2006. **Actions:** FSIS generally agreed with these findings and continues to take action to address them.	Report available at http://www.usda.gov/oig/webdocs/24601-06-CH.pdf Additional information may be requested from the USDA's Food Safety and Inspection Service—Office of Program Evaluation, Enforcement and Review, Program Evaluation and Improvement Staff USDA-FSIS (202) 720-6735
4.2	GAO-06-132 Plum Island Animal Disease Center: DHS and USDA Are Successfully Coordinating Current Work, but Long-Term Plans Are Being Assessed, December 19, 2005	**Findings:** DHS and USDA's coordination at Plum Island Animal Disease Center has been largely successful because of the agencies' early efforts to work together to bring structure to their interactions at the island. To make more effective use of limited space, GAO recommended that DHS, in consultation with USDA, pursue opportunities to shift work that does not require the unique features of Plum Island to other institutions. **Actions:** APHIS continues to explore collaborations with other institutions to allow for the most effective use of the limited space at the Plum Island facility. In addition, access to disease specific experts and efficient use of expertise is a factor in determining projects that require use of the Plum Island location.	The report is available at http://www.gao.gov/new.items/d06132.pdf
	Audit Report: Animal and Plant Health Inspection Service Bovine Spongiform Encephalopathy (BSE) Surveillance Program – Phase II and Food Safety and Inspection Service Controls Over BSE Sampling, Specified Risk Materials, and Advanced Meat Recovery Products - Phase III, Report No. 50601-10-KC, USDA Office of Inspector General, January 2006	**Findings:** OIG evaluated the elements of the interlocking safeguards in place to protect US beef from BSE, particularly the expanded BSE surveillance program that was put in place a BSE-positive cow was found in December 2003 and the effectiveness of the controls and processes. **Actions:** APHIS and FSIS were in general agreement with the findings and recommendations and provided specific actions they had taken or planned to take as well as timeframes for implementing the proposed actions. Their joint response is included in its entirety as a separate exhibit in the OIG's report.	The OIG report is available on the Web at: http://www.usda.gov/oig/webdocs/50601-10-KC.pdf
5.1	Food Stamp Participation Rates 2004	**Findings:** This report presents the latest in a series on participation rates based on Current Population Survey and national participation rates for fiscal year 2004. The findings of this report indicate that 60 percent of the individuals eligible for food stamp benefits choose to participate. As a result, it appears that FSP is reaching the neediest eligible individuals. Although the FSP served more than 60 percent of all eligible individuals, it provided 71 percent of the benefits that all eligible individuals could receive. As a result, the FSP appears to be reaching the neediest eligible individuals. **Actions:** The report contained no recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Participation/FSPPart2004.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
	State Food Stamp Participation Rates For The working Poor in 2003	**Findings:** In general, the pattern of participation rates based on these estimates show that overall participation among the working poor vary widely across States, with some over 60 percent and some under 40 percent. In most States, participation among the working poor is significantly less among all eligible. **Actions:** The report contained no recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/Participation/WorkingPoor2003.pdf
	South Carolina Food Stamp and Well-Being Study Well-Being Outcomes Among Food Stamp Leavers	**Findings:** The study examined from a survey of families in South Carolina who left the Food Stamp Program (FSP). The study Results show that families with rising incomes are less likely than families with lower incomes to experience food hardships or other adverse events to have a negative view about life changes. **Actions:** The report contained no recommendation for action by USDA.	Available on the ERS Web site at http://www.ers.usda.gov/publications/ccr22/ccr22.pdf
	South Carolina Food Stamp and Well-Being Study Well-Being Outcomes Among Food Stamp Leavers	**Findings:** The study examined from a survey of families in South Carolina who left the Food Stamp Program (FSP). The study Results show that families with rising incomes are less likely than families with lower incomes to experience food hardships or other adverse events to have a negative view about life changes. **Actions:** The report contained no recommendation for action by USDA.	Available on the ERS Web site at http://www.ers.usda.gov/publications/ccr22/ccr22.pdf
	WIC Participant and Program Characteristics 2004	**Findings:** This report summarizes demographic characteristics of WIC participants nationwide. Actions: This report did not contain recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/WIC/FILES/pc2004.pdf
	WIC Program Coverage: How Many Eligible Individuals Participated in the Special Supplemental Nutrition Program for Women Infants, and Children (WIC): 1994 to 2003?	**Findings:** This report illustrates the methodology used to calculate the number of individuals eligible for the WIC program. In 2003, about 57% of eligible participants. **Actions:** This report did not contain recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/WIC/FILES/WICEligibles.pdf
5.2	Food Stamp Nutrition Education Systems Review	**Findings:** The report presents a comprehensive and systematic national description of food stamp nutrition education operations in the fiscal year 2004. It also provides a comparison of those operations to the standards of excellence for nutrition education developed as the Food Stamp Education Guiding Principles. **Actions:** This report did not contain recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/NutritionEducation/Files/FSNESystemsReview.pdf
	Effects of Food Assistance and Nutrition Programs on Nutrition and Health	**Findings:** This report provides a summary of a comprehensive review and synthesis of published research on the impact of USDA's domestic food and nutrition assistance programs on participants' nutrition and health outcomes. **Actions:** This report did not contain recommendations for action by USDA.	Available on the ERS Web site at http://www.ers.usda.gov/publications/fanrr19-4/fanrr19-4.pdf
	WIC Food Packages: Time for a Change	**Findings:** USDA contracted with the Institute of Medicine to evaluate the WIC food packages, and to recommend cost-neutral changes to improve the package to better meet the nutrition needs of WIC participants. **Actions:** The report recommended a range of WIC food package changes. USDA published a proposed rule that reflects these recommendations in August 2006.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/WIC/FILES/Time4AChange(mainrpt).pdf

Objective	Title	Findings and Recommendations/Actions	Availability
5.3	The Effect of Simplified Reporting on Food Stamp Payment Accuracy	**Findings:** This analysis suggests that the simplified reporting policies adopted by States in 2004 could have lowered error rates by 1.2 to 1.5 percentage points. Therefore, if all states adopted the policy of simplified reporting, the payment error rate might improve further. **Actions:** This report does not contain recommendations for action by USDA.	Available on the FNS Web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/FILES/ProgramIntegrity/SimplifiedReporting.pdf
6.1	OIG Report, September 5, 2006, OIG/10099-5-SF – Natural Resources Conservation Service Farm and Ranch Lands Protection Program in Alabama	**Findings:** OIG recommended that NRCS terminate its FY 2004 FRPP cooperative agreements with the land trust, and deobligate $1,021.438. NRCS will consult with legal counsel to consider legal remedies available concerning the trust's material noncompliance with the appraisal requirements for the FY 2003 easement transactions. **Actions:** NRCS is requesting closure from OCFO and developing Completion Plan to address pending management decisions.	Report is available at http://www.usda.gov/oig/webdocs/10099-05-SF.pdf
6.2 and 6.3	GAO Report, September 27, 2006, GAO/06-969 – USDA Should Improve Its Process for Allocating Funds to States for the Environmental Quality Incentives Program	**Findings:** GAO recommended that NRCS document its rationale for the factors and weights for its general financial assistance formula and use current and accurate data. GAO also recommended that NRCS continue to analyze current and newly developed long-term performance measures for EQIP program and use the information to make farther revisions to the financial assistance formula to ensure funds are directed to areas of highest priority.	Report is available at http://www.gao.gov/new.items/d06969.pdf
		Actions: NRCS has taken proactive steps to address the concerns of the report by contracting for an independent review of all NRCS conservation program allocation formulas, including EQIP. NRCS also continues to make significant improvements in implementing performance measures for tracking the environmental benefits produced through EQIP.	
6.3	OIG 08601-6-AT Implementation of the Healthy Forests Initiative (September 2006)	**Findings:** Develop and implement specific, national guidance for assessing risks of wildland fires in determining the benefits of fuels treatment and restoration projects. **Actions:** The Forest Service will develop national guidance for the Regions to use in assessing the risks from wildfires. **Findings:** Establish controls to ensure that the process and methodology to identify and prioritize the most effective fuels reduction projects can be utilized at all levels. **Actions:** The FS will establish controls to assist Regions in identifying and prioritizing hazardous fuels projects. Elements may include proximity to a community, fuel type, etc. **Findings:** Establish controls to ensure funds are distributed according to where the highest concentrations of priority projects are located. **Actions:** The agency is developing a regional fuels allocation strategy that will link the regional funding and associated fuels reduction projects. **Findings:** Develop, implement more meaningful outcome-oriented performance measures for reporting metrics. **Actions:** The FS developed a core set of new performance measures. One measure is "Number of acres maintained and improved by treatment category and of those improved, the percent that change condition class.	Report is available at http://www.usda.gov/oig/webdocs/08601-6-AT.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
6.3 (Cont'd)		**Findings:** Improve accomplishment reporting by including more detailed information, such as breaking down accomplishments by region, and differentiating between initial and maintenance treatments and multiple treatments on the same acres. **Actions:** The FS will update its reporting systems and documents to include more detailed information on accomplishments.	
6.4	GAO Report, April 28, 2006, GAO/06-312 – Despite Cost Controls, Improved USDA Management Is Needed to Ensure Proper Payments and Reduce Duplication with Other Programs	**Findings:** GAO recommended that NRCS review its state offices' wildlife habitat assessment criteria and develop a process to preclude and identify duplicate payments. **Actions:** NRCS has requested states to submit a copy their wildlife habitat assessment criteria for all proposed CSP watersheds for FY 2007 for review by Deputy Administrator and National Biology Team. NRCS has created an automated system within the ProTracts contracting software to conduct a comparison between existing WHIP, AMA, and EQIP with CSOP application to reveal potential areas of overlapping practices to minimize duplication of payments.	Report is available at http://www.gao.gov/new.items/d06312.pdf

III.

Financial Statements, Notes, Supplemental and Other Accompanying Information

Message from the Chief Financial Officer

USDA programs and activities affect every American, every day. Most of USDA's impact on average citizens involves food, fiber and natural resources. To facilitate these programs, the Department is entrusted with a vast amount of the citizens' resources. These resources are invested in grants, supplemental payments, loans and assets. We are keenly aware of the importance of this fiduciary responsibility and remain committed to the performance and accountability mandates put forward by the President and Congress.

This year, USDA sustained its unqualified audit opinion on the consolidated financial statements. The Department's receiving this performance benchmark is evidence of its focus and progress toward accountability, internal controls and data integrity.

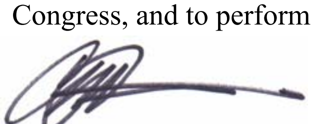
Through the individual leadership and collaborative efforts of USDA managers, employees, business partners and other stakeholders, we made significant strides in 2006 advancing the Department's record of excellence in financial management. Here are some highlights:

- The Department met the requirements for compliance with The Office of Management and Budget Circular A-123, *Management's Responsibility for Internal Control*, Appendix A. This appendix is comparable to Sarbanes- Oxley, Section 404 in the private sector. The circular covers the documentation, testing and remediation of internal controls. Although the Department received the option of a multi-year implementation to reach compliance, we decided that the potential additional cost and the delay in necessary remediation necessitated compliance within one year. Our compliance efforts found four areas of material weaknesses. The detail of the material weaknesses and the Secretary's letter of assurance can be found in the Management's Discussion and Analysis section of this document;
- USDA continues to be a sponsoring organization of shared services in the Federal Government. The economies of scale provided by shared services that support more than 130 agencies provide a vast savings to USDA and the other agencies served. These services are located at the National Finance Center (NFC) in New Orleans, Louisiana. In 2005, Hurricane Katrina forced NFC employees to deploy to various areas of the U.S. under their Continuity of Operations Plan. Not only was the plan executed successfully, but NFC added two large agencies to their systems. Early this year, the 1,288-employee NFC returned to New Orleans in a logistically complex move that required precise coordination of business operations and employees' personal needs. To further support hurricane issues,

NFC selected the Federal Center in Denver, Colorado, as the primary location for information technology. The primary location will be managed remotely from New Orleans allowing NFC to remain one of southern Louisiana's largest employers. It also will support the President's Gulf Coast rebuilding plan;

- The Department continues to focus even more on improper payments. This issue includes incorrect payments and incorrect paperwork related to payments. This year, USDA's largest program, the Food Stamp program, reported improper payments of 5.84 percent ($1.645 billion), a .04-percent decrease from the prior year. Additionally, the Wildlife Habitat Incentive, Grassland Reserve, Wetlands Reserve, Farm-Land Ranch and the Environmental Quality Incentive Programs demonstrated that the risk level for improper payment has been lowered substantially. However, FSA completed the measurement of several programs using a statistical sampling approach. FSA's results indicated a substantial increase in improper payments, which are due mostly to incorrect or missing paperwork required for payment. A few programs are still implementing plans to fully estimate the amount of improper payments due to complex program design and/or layering in the payment processes. The programs and the error rates are listed in Appendix B of this report. The leaders of the mission areas and I take improper payments seriously;
- USDA has issued a Request for Proposal (RFP) for the modernization of its financial systems. The Department currently operates nine general ledger systems that either are no longer supported by their vendors or were developed internally. The objective of this RFP is to support a Department-wide solution that will be the foundation for all USDA financial operations. The new system also will be designed to support electronic document approvals, consolidated financial reporting incorporating the Transparency Act of 2006 and shared services with other Government agencies;
- USDA developed the *USDA Strategic Plan for FY 2005 – 2010*, which guides Department efforts to align strategic direction, operating budgets and performance measures to drive continued performance enhancements, and clear accountability throughout the organization; and
- The Department developed pandemic continuity of operations plans and agency disaster-recovery plans.

While we continue to make progress in financial management, we cannot give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act, or the financial systems requirements of the Federal Financial Management Improvement Act. However, we will continue to focus our teams to resolve these deficiencies. USDA is committed to providing sound management of the resources under its stewardship, and communicating the performance of its programs through this report. USDA's results are due to the hard work and innovative leadership of skilled, career employees. These employees take seriously their responsibility for the substantial resources entrusted to them by Congress, and to perform this important work for the American people.



Charles R. Christopherson
Chief Financial Officer
November 15, 2006

Report of the Office of Inspector General

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

NOV 14 2006

REPLY TO
ATTN OF: 50401-59-FM

TO: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer
Office of the Chief Financial Officer
Planning and Accountability Division

FROM: Phyllis K. Fong
Inspector General

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2006 and 2005

This report presents the results of our audits of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2006, and 2005. 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 actions 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 audits.

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2006 and 2005 (Audit Report No. 50401-59-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 audits 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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA as of September 30, 2006 and 2005; 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.

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.

For internal control over financial reporting, we identified three reportable conditions as follows:

- Improvements needed in overall financial management across USDA,
- improvements needed in information technology security and controls, and
- improvements needed in certain financial management practices and processes.

We believe that the first two conditions are material weaknesses. Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement

USDA/OIG-A/50401-59-FM Page i

Act, the Improper Payment Information Act, and Managerial Cost Accounting practices.

In addition, the Department reported two potential Anti-Deficiency Act (ADA) violations in its fiscal year 2006 Statement of Assurance relating to the Forest Service and the Commodity Credit Corporation. The Department is working with the agencies and the Office of General Counsel to determine whether the potential ADA violations actually occurred.

Key Recommendations

OCFO has immediate and long term plans to address most of the weaknesses in its financial management systems. The key recommendations in this report were limited to additional improvements in financial management.

USDA/OIG-A/50401-59-FM Page ii

Abbreviations Used in This Report

BPMS	Budget and Performance Management System
C&A	certification and accreditation
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
FACTS	Federal Agencies' Centralized Trial Balance System
FFIS	Foundation Financial Information System
FFMI	Financial Management Modernization Initiative
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management Systems Requirements
FISMA	Federal Information Security Management Act
FS	Forest Service
FSA	Farm Service Agency
GAO	U.S. Government Accountability Office
IT	information technology
ITS	Information Technology Services
MCA	Managerial Cost Accounting
NIST	National Institute of Standards and Technology
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standard
SoF	Statement of Financing
SV	Standard Voucher
USDA	U.S. Department of Agriculture
UTN	Universal Telecommunications Network

Table of Contents

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General

To: Charles R. Christopherson, Jr.
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, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the fiscal years then ended (hereinafter referred to as the "consolidated financial statements"). 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. 06-03, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 06-03 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 USDA as of September 30, 2006 and 2005; 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 Notes 1 and 18 to the consolidated financial statements, in fiscal year 2006 USDA adopted Statement of Federal Financial Accounting Standard (SFFAS) No. 27, "Identifying and Reporting Earmarked Funds." In addition, as discussed in Note 1, USDA changed its method of accounting for and reporting stewardship land in fiscal year 2006 to adopt the provisions of SFFAS No. 29, "Heritage Assets and Stewardship Land."

The information in the Performance and Accountability Report (see exhibit D) 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 Circular No. A-136, "Financial Reporting Requirements." We attempted to apply certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, for fiscal years 2006 and 2005, we were not provided this information in time for us to complete our review. In addition, we believe that the Required Supplementary Stewardship Information related to heritage and stewardship land and the Required Supplementary Information related to deferred maintenance may not be consistent since preparation and completeness controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information. We did not audit this information and, accordingly, we express no opinion on it.

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, should be read in conjunction with this report. For internal control over financial reporting, we identified three reportable conditions as follows:

- Improvements needed in overall financial management across USDA,
- improvements needed in information technology security and controls, and
- improvements needed in certain financial management practices and processes.

We believe that the first two conditions are material weaknesses. Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement Act, the Improper Payment Information Act, and Managerial Cost Accounting practices.

In addition, the Department reported two potential Anti-Deficiency Act (ADA) violations in its fiscal year 2006 Statement of Assurance relating to the Forest Service and the Commodity Credit Corporation. The Department is working with these agencies and the Office of General Counsel to determine whether the potential ADA violations actually occurred.

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

Phyllis K. Fong
Inspector General

November 13, 2006

USDA/OIG-A/50401-59-FM Page 2

USDA

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: Charles R. Christopherson, Jr.
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, 2006 and 2005, 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 and have issued our report thereon dated November 13, 2006. 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. 06-03, "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 design effectiveness of 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. 06-03 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 audits 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. Reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation of internal control that, in our judgment, could adversely affect the agency's ability to meet the objectives of internal control. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the consolidated financial statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregation of related performance measures, 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 noted certain matters described in the "Findings and Recommendations" involving the internal control over financial reporting and its operation that we consider to be reportable conditions as follows:

- Improvements needed in overall financial management across USDA (Section 1),
- improvements needed in information technology security and controls (Section 1), and
- improvement needed in certain financial management processes and practices (Section 2).

We believe that the first two conditions are material weaknesses.

Additional Other Procedures

As required by OMB Bulletin No. 06-03, we considered USDA's internal controls over Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal controls, 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 controls over such RSSI; accordingly, we do not provide an opinion on such controls.

As further required by OMB Bulletin No. 06-03, 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 and determined whether they had been placed in operation. 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.

We did not identify any material weaknesses that were not disclosed in USDA's Federal Managers' Financial Integrity Act report.

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

Phyllis K. Fong
Inspector General

November 13, 2006

USDA/OIG-A/50401-59-FM Page 4

USDA

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: Charles R. Christopherson, Jr.
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, 2006 and 2005, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources for the fiscal years then ended (hereinafter referred to as the "consolidated financial statements"), and have issued our report thereon dated November 13, 2006. 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. 06-03, "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's compliance with certain provisions of laws and regulations and Governmentwide policy requirements, 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. 06-03, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We noted no reportable instances of noncompliance with these laws and regulations except as disclosed in this report. 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 audits, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed two instances of reportable noncompliance or potential noncompliance with 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. 06-03. (See Findings and Recommendations, Section 3, "Compliance With Laws and Regulations.")

In addition, the Department reported two potential Anti-Deficiency Act (ADA) violations in its fiscal year 2006 Statement of Assurance relating to the Forest Service and the Commodity Credit Corporation. The Department is working with these agencies and the Office of General Counsel to determine whether the potential ADA violations actually occurred.

USDA/OIG-A/50401-59FM Page 5

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

Phyllis K. Fong
Inspector General

November 13, 2006

Findings and Recommendations

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are reportable conditions in which the design or operation of the internal control does not reduce to a relatively low level the risk that errors, fraud, or noncompliance in amounts that would be material in relation to the consolidated financial statements or Required Supplementary Stewardship Information being audited, or material to a performance measure or aggregration of related performance measures, 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 **Improvements Needed in Overall Financial Management**

During fiscal year 2006, the Department continued to make significant improvements in its overall financial management. For example, the Forest Service (FS) made significant improvements in its financial reporting process. However, we noted areas where further improvements are needed. Details follow.

- During fiscal year 2005, the Office of the Chief Financial Officer (OCFO) instructed its agencies, including FS, that journal vouchers (JV) could no longer be processed. Instead, agencies had to request that new accounting entry IDs be established based on specific standard Treasury posting logic models. The OCFO generally established these as standard vouchers (SVs), which are generally used to correct errors, abnormal balances, and out-of-balance conditions.

  Through the elimination of JVs and the consolidation effort, FS continued to make progress in improving its financial management and reporting activities. However, weaknesses continued to exist in its ability to produce accurate and timely financial information. For example, FS was not identifying, researching, and correcting adjusting entries that no longer belong in the general ledger.

- In addition, at the end of fiscal year 2006, FS continued to use mass general ledger entries for delivered orders and undelivered orders that were not recorded into the various sub-systems due to the early year-

USDA/OIG-A/50401-59-FM Page 7

end cutoff. Although FS had internal controls in place, they were not operating effectively based on the errors cited above.

- FS did not perform timely research to determine the reasons for abnormal general ledger account balances for certain account relationships (i.e., budgetary receivables and payables should equal the respective proprietary receivables and payables) and make corresponding corrections.

- FS needed to improve its financial management controls to ensure that an experienced accountant reviews and takes appropriate actions on abnormal balances in all budget clearing, suspense and deposit funds at least at the end of each accounting period. The financial statement risk is that revenues and expenses are recorded in these funds as receivables or liabilities on the Balance Sheet when they should correctly be recorded as revenues and expenses on the Statement of Net Costs.

- FS needed to improve its financial management controls to ensure the effective implementation of SFFAS 21, "Reporting Corrections of Errors and Changes in Accounting Principles." It needed to establish an accounting correction management process that documents and collects known errors to determine whether, as a whole, they are material at accounting period end.

We also noted that CCC's financial accounting and reporting policies and procedures should be strengthened to ensure that errors are prevented or identified and timely corrected and that management-prepared financial statements are in accordance with generally accepted accounting principles. The issues we identified pertaining to CCC's financial accounting and reporting policies and procedures affected both the form and content of CCC's financial statements.

- For example, detailed procedures over the June 30, 2006 Statement of Financing (SoF) revealed that the mapping used by CCC for several SoF reconciling line items was not in accordance with Treasury and other related guidance, specifically the Implementation Guide to Statement of Financing in the SFFAS 7, "Accounting for Revenue and Other Financing Sources: Detail Information on the Statement of Financing (Implementation Guide)." These departures from the guidance were not adequately explained.

- We did not see evidence that management performed a technical review of the statement compilation or evaluated the substance of the reconciling items prior to providing the SoF for audit. When CCC management determined the way the general ledger accounts were to be crosswalked to the SoF line items, it did not develop an audit trail that described the rationale behind the mapping logic. In addition, CCC's SoF Methodology Guide (the Guide) did not readily consider the technical justification for specific statement line item treatment of transactions. Further, we noted that CCC's Guide was not comprehensive because it did not list all accounts or transaction identification codes that were used by CCC in the compilation of the SoF. As a result, in some instances we noted inconsistencies between the Guide and the crosswalk.

- Based on the results of KPMG's audit procedures over the SoF, CCC reclassified balances in excess of $11.3 billion to properly reflect the account activity in the SoF prepared as of September 30, 2006. In addition, material corrections were made to the statement as late as November 10, 2006. This could have impeded CCC and the Department from meeting their mandated financial statement reporting requirements.

- In addition, as noted in its prior year's audit report, CCC used the e-Funds Control system, an intranet based application functional at the national, State, and county office levels, to help monitor daily program disbursements made at CCC's State and county offices. The system compared at a summary level the amount of budgetary authority remaining for programs to disbursements made without consideration given to program obligations (specifically undelivered orders and delivered orders-unpaid). As such, the e-Funds system did not provide the necessary management information to determine the true status of net available program resources as disbursements were made.

- Based on our fiscal year 2006 audit results, CCC continued to experience significant funds control deficiencies and in this regard remained non-compliant with FFMIA.

We also noted that within USDA, abnormal balances existed at yearend without being fully researched and corrected. As of fiscal yearend, we noted that over 50 abnormal account balances existed, totaling over $360 million. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error to an account. Agencies reported that their abnormal balances were caused by a variety of reasons. The number and dollar value of abnormal account balances had been significantly reduced from last year; however, when abnormal balances exist, immediate research should be performed to identify the cause and correct the condition.

Finding 2 **Improvements Needed in Information Technology (IT) Security and Controls**

We reviewed the Department's IT security program and practices, as required by the Federal Information System Management Act[1] (FISMA). Our review disclosed that the efforts of USDA's Office of the Chief Information Officer (OCIO) and the Office of Inspector General (OIG) in the past few years have heightened program management's need to plan and implement effective IT security. The National Information Technology Center, located in Kansas City, Missouri, sustained its unqualified opinion on its general control structure. The Office of the Chief Financial Officer's National Finance Center, located in New Orleans, Louisiana, received its first unqualified opinion on the design of its general control structure. While the opinion on the effectiveness of its controls remained qualified, this was primarily attributed to the devastation caused by Hurricane Katrina. Although other agencies accelerated their efforts to comply with Federal information security requirements during the fiscal year, we continued to find significant weaknesses that can be attributed to a lack of management oversight and monitoring by both the Department and its agencies. While progress has been made, there is still much to be accomplished. An effective IT security program needs time to mature. Due to the significance of these weaknesses, the Department cannot be assured that its systems and data are adequately secured.

OCIO indicated that it was formulating a process for initiating, reviewing, and updating the Department's policies to provide guidance for improving compliance with Office of Management and Budget (OMB) requirements, National Institute of Standards and Technology (NIST) guidance, and Departmental Regulations (DR). OCIO reported that it was performing a gap analysis to prioritize required policy work and developing a program to review and update existing policies. In addition, OCIO had implemented a security review program to evaluate the accuracy of information provided by the agencies to improve the effectiveness of their security programs. However, until these controls are in place, operating, and effectively established, IT management and security remain a material internal control weakness for the Department. Details follow.

- During fiscal year 2006, OCIO implemented an annual Departmentwide IT system inventory requirement. However, we were unable to reach a conclusion on the accuracy/completeness of the inventory because OCIO relied on the agencies to report system inventory without validating the information reported. OCIO was unable to verify the accuracy and/or reliability of those agency-provided inventories.

[1] Audit Report No. 50501-7-FM, "Fiscal Year 2006 Federal Information Security Management Act," dated September 29, 2006.

USDA/OIG-A/50401-59-FM Page 10

- Agencies had not followed NIST guidance when preparing security plans, risk assessments, and disaster recovery plans. During fiscal year 2006, the Department acknowledged that certification and accreditation (C&A) documentation submitted prior to October 1, 2005, was inadequate and instituted a concurrency review process where second party approval was required prior to recommending agency accreditation. We found this process needed enhancements. We concluded that the three concurrency reviews we examined should not have resulted in approval for agency accreditation.

- The Department reported the level of C&A compliance in its quarterly reports to OMB. However, we noted that eight systems had only obtained a conditional approval to operate. OMB policy states that an information system should not be accredited during a period of limited authorization to operate.[2]

- Department oversight over contingency planning and testing information needed improvement. We reviewed the Department's system for storing contingency and disaster recovery plans and found some systems were not included and others were missing critical information. We examined a sample of five test plans and found that they lacked specific success criteria, detailed schedules, scenarios, and notification procedures, and/or internal or external connectivity.

- The Department implemented a new system to track plan of actions and milestones (POA&M) during fiscal year 2006. While this was a marked improvement over the legacy reporting system, numerous problems were encountered during implementation. Specifically, we found that known IT weaknesses were not reported, not all weaknesses were tracked, conflicting information was reported, and agencies did not ensure that corrective actions were taken before closing out the weaknesses. In addition, the information contained in the system was not being used to report to OMB.

- We noted that improvements were needed in the Department's reporting of system risk categories. For example, we found that two general support systems were rated as moderate risk even though those systems processed data from 18 high risk applications. In another example, a system that stored information on biological agents and toxins was rated as moderate risk.

- Annual risk assessments within the Department did not always include an assessment of actual controls within the systems. One agency reported

[2] OMB Circular No. A-130, Appendix III, "Security of Federal Automated Information Resources," dated November 28, 2000.

that change management was fully implemented, yet our audit disclosed that its policies and procedures were ineffective. In another assessment the agency listed 93 controls as not applicable, because the hosting agency was responsible for them. Our audit disclosed that some of the controls did belong to the agency and should have been assessed.

- The Department implemented a security review program to periodically evaluate the accuracy of information provided by the agencies and provide effective oversight of agency security programs. However, we found that this program needed improvements. We noted that in the 8 reviews performed during fiscal year 2006, there were 123 weaknesses identified by OCIO. Of those, only 52 were addressed in the agency POA&Ms. This occurred because the Department did not always follow up on the findings to ensure the agencies were accurately mitigating weaknesses.

- We found that USDA's Information Security Status (scorecard) did not always contain accurate information. We found that agencies were not properly reporting the status of their programs in the monthly or quarterly updates to OMB. We found inaccurate reporting by the agencies in every category except security awareness training.

- We completed four stand-alone IT security audits that fed into our FISMA consolidation. We also ensured that the IT security audit coverage for our fiscal year 2006 financial statement audits was completed in time to be consolidated into our FISMA report. We noted that configuration management within the Department was not always effective. Although most agencies had policies and procedures, we found that they were not always followed. We found that controls were not always implemented to help ensure that system software changes were properly authorized, documented, tested, and monitored.

- We noted that the Department's vulnerability scanning and patch management program needed improved oversight. We found that the number of devices that needed scanning varied significantly on a monthly basis. In addition, at one agency, we found that 6,270 devices needed scanning and 10,505 devices needed patches.[3] We also noted unmitigated vulnerabilities that were not reported as weaknesses on agency POA&Ms.

- We noted that incident reporting within the Department needed improvement. We found that incidents were not always tracked, reported to appropriate authorities, and/or timely closed. For example, our review of incidents reported through July 15, 2006, disclosed that (1) incidents

[3] Scanning should be performed on all devices on the network, while patching is done only as new vulnerabilities are found and vendors mitigate them. The number of devices patched should not significantly outnumber the total number of devices scanned.

were not always closed within 30 days, (2) incidents were missing from the tracking spreadsheet, (3) incidents were not always reported to appropriate authorities, and (4) false positives documentation was deleted and not further tracked, even though some were ultimately found to be actual incidents.

- We noted that the Department needed an internet protocol (IP) address inventory system.

Due to the significance of these issues, IT security remained a material internal control weakness for the Department. The Department and its agencies are in the process of addressing the above weaknesses by implementing recommendations made in other audit reports. Therefore, we are making no additional recommendations in this report.

Section 2. Internal Control Over Financial Reporting – Reportable Condition

Reportable conditions are matters coming to our attention that, in our judgment, should be communicated because they represent significant deficiencies in the design or operation of internal control, which could adversely affect the organization's ability to meet the objectives of internal control.

Finding 3 Additional Financial Management Issues Warrant Attention

Our review disclosed additional reportable, but not material, areas where financial management processes and practices could be improved. For example:

- The Foundation Financial Information System (FFIS) uses SVs to process adjustments to the general ledger. SVs use predefined debits and credits based on business rules. We reviewed 122 SVs processed during fiscal year 2006 but prior to October 1, 2006. Our review disclosed that the supporting documentation was inadequate for 47 SVs. We also noted that 24 of the SVs reviewed were needed due to a systemic weakness and 45 were processed to compensate for a control weakness (including correcting a previous SV). The types of problems that we found could have been reduced had the agencies effectively implemented the controls outlined in applicable FFIS Bulletins.[4]

  In addition, we reviewed 56 documents processed after the close of agency fiscal month 12. These were needed to correct account balances for financial reporting. Many of the documents reviewed impacted cash or budgetary accounts. We noted that 28 of the documents were processed to (1) correct a prior adjustment, (2) compensate for a control weakness, and/or (3) correct a system weakness.

- Our review disclosed that the credit reform processes used by the Department's lending agencies had improved from previous years.[5] However, we noted that further improvements were needed. These conditions were primarily caused by lack of adequate management oversight and/or second party review.

[4] FFIS Bulletin 02-06, "Internal Controls Over Standard Vouchers in the FFIS," through July 31, 2006. On August 1, 2006, OCFO issued FFIS Bulletins 06-03 and 06-04, "Internal Controls Over Standard Vouchers in the FFIS," and "Internal Controls Over Balanced Vouchers," respectively. These were implemented in response to OIG's recommendation last year.
[5] OIG reported material internal control weaknesses for fiscal years 2001-2005 relating to credit reform processes and practices.

- CCC made errors in making changes to its cash flow models. Furthermore, there was no evidence of a technical review of the changes prior to implementation.

- Rural Development's processes related to the revision of its cash flow models, accuracy of data used in the models and controls over the related footnote disclosure needed improvement.

OCFO informed us that it will revise Departmental guidance relating to cash flow models to clarify testing and approval requirements after changes are made. OCFO plans to finalize this guidance in December 2006.

- Our review again disclosed that obligations were not always valid because agencies were not effectively reviewing all unliquidated (open or active) obligations and taking appropriate actions (de-obligating).[6] Invalid obligations increase the risk that funds may be inappropriately diverted for purposes other than what Congress intended. Treasury's annual closing guidance (Treasury Bulletin No. 2006-08) requires the annual review of unliquidated obligations. Departmental Regulation (DR) 2230-1, "Reviews of Unliquidated Obligations," dated April 17, 2002, requires semiannual reviews and annual certifications from agency Chief Financial Officers (CFO) that the semiannual reviews were performed and unliquidated obligations existing at yearend were valid based on the reviews. Last year, we selected 60 unliquidated obligations from 4 agencies for which no activity had occurred for over 2 years and we found that 54 of 60 (90 percent) obligations reviewed were invalid and agencies indicated the items would be de-obligated.

  This year, we selected a similar sample of 61 obligations from 11 agencies and found that 32 (52 percent) of the obligations reviewed were invalid and agencies planned to de-obligate the items. In response to our recommendation last year, the Department revised the DR on August 22, 2006. The DR now requires annual reviews and certifications. Additionally, the Department is in the process of developing a reporting tool for agencies to use to perform the required reviews of unliquidated obligations.

- Our review disclosed that agencies had not adequately monitored overrides of document errors.[7] OIG recommended in fiscal year 2002

[6]Obligation means a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
[7] The FFIS system has built in edits for processing documents that can be overridden by authorized users. For example, funds control edits may give an error message if the obligation entered exceeds the amount allotted to that particular fund. An authorized user can override this error message to process the document.

USDA/OIG-A/50401-59-FM Page 15

that the Department ensure that agencies track and monitor overrides of FFIS edits or control processes, and take action to address inappropriate overrides.[8] In response, the Department issued guidance[9] that required agencies to track and monitor overrides, perform monthly reviews, and provide the override analysis to the agency CFO quarterly for review and certification. Generally, agencies did not provide evidence of reviews or the evidence provided did not demonstrate that overrides had been effectively reviewed.

OCFO has immediate and long-term plans to improve its 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.

Recommendation 1

Ensure that agencies comply with FFIS Bulletin 02-12 by providing a standard and effective method of monitoring and reviewing overrides and taking remedial action to address inappropriate overrides or develop other compensating controls.

[8] Audit Report No. 50401-42-FM, "Audit of Selected Foundation Financial Information System Operations," dated June 24, 2002.
[9] FFIS Bulletin 02-12, "Policy for Agencies to Implement a Monthly Review of the Override Logging Table to Track and Monitor Users Overriding Document Errors in the Foundation Financial Information System," dated October 1, 2002.

Section 3. Compliance With Laws and Regulations

The management of USDA is responsible for complying with applicable laws, regulations, and Governmentwide policy requirements, including noncompliance with laws and regulations disclosed by the audit, except for those instances that, in our judgment, are clearly inconsequential. 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. 06-03, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA). We noted noncompliance with certain aspects of FFMIA, the Improper Payment Information Act, and Managerial Cost Accounting Practices.

Finding 4 Substantial Noncompliance With FFMIA Requirements

Under FFMIA, agencies are required to annually assess whether their financial management systems comply substantially with (1) Federal Financial Management Systems Requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger (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 FFMIA. FFMIA also requires auditors to report in their CFO Act financial statement audit reports whether the financial management systems substantially comply with FFMIA's systems requirements.

During fiscal year 2006, USDA evaluated its financial management systems to assess compliance with the Act. The Department reported that it was not substantially compliant with FFMSR, applicable Federal accounting standards, the SGL at the transaction level, and FISMA requirements. As part of its financial systems strategy, USDA indicated that it would work continuously to meet FFMIA and FISMA objectives. During the fiscal year, the OCFO, OCIO and component agencies worked together to address IT security weaknesses in USDA's financial systems. As a result, corrective actions were taken to eliminate/mitigate several significant deficiencies. These noncompliances are discussed in detail in Section 1, "Internal Control Over Financial Reporting – Material Weaknesses," of this report.

The Department plans to continue its effort to achieve compliance with the FFMIA requirements. OCFO indicated that all scheduled completion dates have been targeted for completion by fiscal year 2009.

Additionally, OIG recommended in 2004[10] that OCIO and OCFO ensure that reports for FISMA, FMFIA, and FFMIA are consistent and complete. According to OCFO, additional work is needed in fiscal year 2007 to complete the process for reconciling the three reports.

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.

Finding 5 **Improper Payment Information Act**

USDA was not in full compliance with requirements of the Improper Payment Information Act (IPIA). Under the IPIA, executive agencies must identify any of their programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. USDA has four programs required to report under Section 57 of OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," and has identified an additional 11 programs at risk of significant improper payments through the risk assessments process. USDA is taking steps to implement IPIA. USDA will be able to move to "green" status when error rates are available for all programs and it demonstrates that reduction and recovery goals are being met. For the programs without an estimated error rate, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages.

USDA has disclosed its IPIA compliance status, including its planned remedial actions, in its Performance and Accountability Report. As a result, we are making no further recommendations in this report.

[10] "U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2004 and 2003," Audit Report No. 50401-53-FM, dated November 15, 2004.

USDA/OIG-A/50401-59-FM Page 18

Finding 6 **Managerial Cost Accounting Practices**

The CFO Act of 1990[11] contains several provisions related to managerial cost accounting (MCA), one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information. Statement of Federal Financial Accounting Standards No. 4, Managerial Cost Accounting Concepts and Standards for the Federal Government, established accounting standards and system requirements for MCA information at Federal agencies. The FFMIA of 1996[12] built on this foundation and required, among other things, CFO Act agencies to comply substantially with Federal accounting standards and FFMSR.

GAO recently issued a report addressing USDA's MCA practices.[13] It reported that USDA had not shown strong leadership to promote, guide, and monitor MCA implementation. USDA did not have a Departmentwide MCA system in place and, instead, had delegated responsibility for MCA implementation to the component agencies. USDA, moreover, did not have procedures in place to monitor component agency MCA initiatives, and had only limited information on the status of MCA implementation at its component agencies at the time of our review.

USDA's current financial system, FFIS, was not designed to provide in-depth MCA information. FFIS analysis and reporting functions and their related data warehouses allow users to conduct inquiries and execute ad hoc reports on, for instance, the status of funds and open obligations. These analyses, however, do not integrate nonfinancial data with financial data to provide the cost of activities or outputs on an ongoing basis.

According to USDA officials, the Financial Management Modernization Initiative (FMMI) system is scheduled to replace FFIS by the end of fiscal year 2012. FMMI is expected to include a cost accounting module which officials said will incorporate MCA functionalities required by the Office of Federal Financial Management at OMB.

[11] Public Law No. 101-576, 104 Stat. 2838 (November 15, 1990).
[12] Public Law No. 104-208, div. A., 101 (f), title VIII, 110 Stat. 3009, 3009-389 (September 30, 1996).
[13] GAO-06-1002R, "Managerial Cost Accounting Practices," dated September 21, 2006.

Exhibit A – Audit Reports Related to the Fiscal Year 2006 Financial Statements

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
05401-15-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2006 and 2005	November 2006
06401-21-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2006 and 2005	November 2006
08401-7-FM	Forest Service's Financial Statement Audit for Fiscal Years 2006 and 2005	November 2006
11401-24-FM	Fiscal Year 2006 Review of the National Finance Center General Controls	September 2006
15401-7-FM	Rural Telephone Bank's Financial Statements for Fiscal Year 2006	November 2006
27401-31-HY	Food and Nutrition Service's Financial Statements for Fiscal Years 2006 and 2005	November 2006
50501-7-FM	Fiscal Year 2006 Federal Information Security Management Act Report	September 2006
85401-13-FM	Rural Development's Financial Statements for Fiscal Years 2006 & 2005	November 2006
88501-6-FM	Management and Security Over the U.S. Department of Agriculture Universal Telecommunication Network	August 2006
88501-9-FM	National Information Technology Center General Controls Review-Fiscal Year 2006	September 2006

Exhibit B – Summary of Prior Year Recommendations

Exhibit Page 1 of 2

PRIOR YEAR RECOMMENDATIONS[14]

NUMBER	RECOMMENDATION	DEPARTMENTAL STATUS	OIG RESULTS
1	Finalize supporting documentation for any required manual adjustments to the SoF. The SoF compilation should be supported by transactions and account balances that are traceable to the general ledger.	The Department agreed to document the rationale used to prepare the SoF, (published November 15, 2005 for both the Department and FS) and noted that the compilation was supported by transactions and account balances traceable to the general ledger. Subsequently, sufficient, evidential matter was provided to the FS auditors to substantiate the fair presentation of certain line items within the FS fiscal year 2005 SoF. The FS audit report was then re-issued December 21, 2005, with a revised unqualified opinion. The Department considered corrective action completed with the re-issuance of the FS financial statement audit report.	The Office of Inspector General (OIG) reviewed the support provided to the FS auditors and re-issued the FS fiscal year 2005 audit report.
2	Provide additional training on the relationship of the SoF to the statements of budgetary resources and net cost.	The Department agreed and planned to conduct training sessions on the compilation process for the SoF for all USDA agencies. The training was conducted in May and June 2006. Thus, the Department indicated corrective action was completed June 30, 2006.	OIG staff attended training sessions provided by the Department to its agencies.
3	Continue to assess the overall process used to compile the SoF in order to identify approaches and techniques that provide for a more efficient, accurate, and consistent compilation process. The compilation should be subjected to a secondary review by a trained manager who is independent of the financial statement preparation process. In addition to reviewing specific support for the compilation, the review should also include an analytical analysis of the relationships among balances.	The Department agreed and planned to take several actions: perform an independent review of crosswalk used to create the SoF, review of the crosswalk in conjunction with the audit of the FS financial statements (conducted by an independent public accounting firm), and re-convene the financial statement crosswalk committee (which includes all mission areas) to review, analyze and approve the mapping of current and future accounting entries affecting the SoF. The Department indicated that the final corrective action was completed September 1, 2006.	As discussed in Finding 1, CCC did not always follow applicable guidance in preparing its SoF and provided no evidence of a technical review by management of the compilation process.
4	Provide oversight to the lending agencies to ensure that cash flow models and data inputs as well as estimates and reestimates are subject to appropriate controls, including management oversight review.	The Department agreed and planned several actions to provide oversight through: (1) monitoring agency progress via bi-weekly credit reform working group meetings; (2) issuance of guidance to standardize the methodology and internal controls over cash flow model development and changes; (3) completion of	OIG participated in the Departmental and agency cash flow model meetings throughout the year. OIG also reviewed guidance issued, model changes,

[14] Recommendations were made in Audit Report No. 50401-56-FM, "U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2005 and 2004," issued November 15, 2005.

USDA/OIG-A/50401-59FM Page 21

Exhibit B – Summary of Prior Year Recommendations

Exhibit Page 2 of 2

		fiscal year 2006 cash flow model changes in accordance with the new guidance; and (4) issuance of guidance to standardize the management oversight review process to be used for re-estimates. The Department indicated these actions were completed as of August 9, 2006.	and re-estimates. We found additional improvements were needed, as discussed in Finding 3.
5	Ensure that agencies adhere to FFIS Bulletin No. 02-06, "Internal Controls Over Standard Vouchers (SV) in the FFIS."	The Department agreed and planned to take three actions: (1) review all agencies' SV forms and approval process, (2) reduce the universe of available SVs (by removing inactive and noncompliant posting models from applicable FFIS tables) and (3) update and expand FFIS Bulletin No. 02-06. The Department advised us that these actions were completed August 4, 2006.	OIG reviewed the revised guidance and monitored the progress of the posting models. As noted in Finding 3, we analyzed 178 adjustments made for fiscal year 2006. Our review disclosed that agencies again did not consistently adhere to the requirements of applicable FFIS Bulletins.
6	Ensure that agency approval of appropriate significant documents is required prior to processing.	The Department agreed that sensitive documents, as defined by OMB Circular No. A-123, should require secondary approval. The functionality for such approval is involved by table settings controlled by the agencies. The Department provided oversight to ensure that agencies set the approval flag correctly as part of a project to standardize table settings. The Department indicated the table settings for secondary approvals were implemented September 1, 2006.	OIG's review of agency approvals for sensitive documents disclosed that approvals for sensitive documents were generally required.
7	Provide oversight to ensure that general ledgers reflect valid obligations and that agencies perform the required reviews of unqualified obligations appropriately and effectively. Additionally, ensure that agencies maintain evidence of the reviews.	The Department agreed and planned to revise Departmental Regulation-2230-01 (DR), "Improvement of Management Controls Over Unliquidated Obligations." Additionally, the Department planned to develop a report to obtain information about each agency's unliquidated obligations without activity in the past two years and then use the new report to obtain justification for each unliquidated obligation or agency action to liquidate. As of September 30, 2006, the Department indicated the revised DR was in signature process and the report tool was still in development.	OIG reviewed the updated DR. As discussed in Finding 3, we also reviewed a sample of unliquidated obligations. Agencies indicated that 52 percent (32 of 61) would be de-obligated.

USDA/OIG-A/50401-59FM Page 22

Exhibit C – Agency Response

USDA

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, DC 20250

TO: Phyllis K. Fong
Inspector General

FROM: Charles R. Christopherson, Jr.
Chief Financial Officer

NOV 14 2006

SUBJECT: Management Response – Audit Report on the Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2006 and 2005

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2006 and 2005.

We concur with the two material weaknesses and one reportable condition contained in your report. The Department plans to submit a detailed Action Plan no later than December 31, 2006, to address the findings and recommendation contained in your report.

We generally agree with the recommendation in the report and will develop corrective action measures accordingly.

The achievement of an unqualified audit opinion was accomplished through the joint efforts of your staff, contract auditors and the financial staffs of the Department and agencies.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contractors during the course of the audit.

AN EQUAL OPPORTUNITY EMPLOYER

USDA/OIG-A/50401-59FM Page 23

CONSOLIDATED BALANCE SHEET

As of September 30, 2006 and 2005
(in millions)

	2006	2005
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 42,191	$ 42,327
Investments (Note 5)	81	69
Accounts Receivable, Net (Note 6)	246	712
Other (Note 11)	-	1
Total Intragovernmental	42,518	43,109
Cash and Other Monetary Assets (Note 4)	224	242
Investments (Note 5)	3	15
Accounts Receivable, Net (Note 6)	8,635	9,442
Loans Receivable and Related Foreclosed Property, Net (Note 7)	77,791	75,176
Inventory and Related Property, Net (Note 8)	55	29
General Property, Plant, and Equipment, Net (Note 9)	4,905	4,885
Other (Note 11)	98	86
Total Assets (Note 2)	134,229	132,984
Stewardship PP&E (Note 10)		
Liabilities:		
Intragovernmental:		
Accounts Payable	7	821
Debt (Note 13)	83,447	83,515
Other (Note 15)	14,080	18,591
Total Intragovernmental	97,534	102,927
Accounts Payable	4,170	4,292
Loan Guarantee Liability (Note 7)	1,296	1,214
Debt Held by the Public (Note 13)	-	1
Federal Employee and Veterans Benefits	808	834
Environmental and Disposal Liabilities (Note 14)	63	28
Other (Notes 15 & 16)	20,082	21,710
Total Liabilities (Note 12)	123,953	131,006
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations	-	21,490
Unexpended Appropriations - earmarked funds	976	-
Unexpended Appropriations - other funds	25,409	-
Cumulative Results of Operations	-	(19,512)
Cumulative Results of Operations - earmarked funds	518	-
Cumulative Results of Operations - other funds	(16,627)	-
Total Net Position	10,276	1,978
Total Liabilities and Net Position	$ 134,229	$ 132,984

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2006 and 2005
(in millions)

	2006	2005
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Cost	$ 31,841	$ 41,909
Less: Earned Revenue	6,979	15,136
Net Cost	24,862	26,773
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	7,048	5,358
Less: Earned Revenue	3,980	4,344
Net Cost	3,068	1,014
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Cost	3,629	3,071
Less: Earned Revenue	649	630
Net Cost	2,980	2,441
Improve the Nation's Nutrition and Health:		
Gross Cost	53,064	51,033
Less: Earned Revenue	36	46
Net Cost	53,028	50,987
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	12,592	10,686
Less: Earned Revenue	1,104	888
Net Cost	11,488	9,798
Total Gross Costs	108,174	112,057
Less: Total Earned Revenues	12,748	21,044
Net Cost of Operations (Note 19)	$ 95,426	$ 91,013

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006				2005
	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total	Consolidated Total
Cumulative Results of Operations:					
Beginning Balances	$ 964	$ (20,476)	$ -	$ (19,512)	$ (7,174)
Budgetary Financing Sources:					
Appropriations Used	3,184	91,765	-	94,949	77,921
Non-exchange Revenue	-	2	-	2	8
Donations and Forfeitures of Cash and Equivalents	1	-	-	1	2
Transfers In (Out) without Reimbursement	915	2,694	-	3,609	686
Other	-	-	-	-	(1)
Other Financing Sources (Non-Exchange):					
Donations and Forfeitures of Property	-	-	-	-	31
Transfers In (Out) without Reimbursement	-	(544)	-	(544)	(1,001)
Imputed Financing	43	3,113	(2,349)	807	833
Other	5	-	-	5	196
Total Financing Sources	4,148	97,030	(2,349)	98,829	78,675
Net Cost of Operations	(4,594)	(93,181)	2,349	(95,426)	(91,013)
Net Change	(446)	3,849	-	3,403	(12,338)
Cummulative Results of Operations, Ending	518	(16,627)	-	(16,109)	(19,512)
Unexpended Appropriations:					
Beginning Balances	923	20,567	-	21,490	22,158
Budgetary Financing Sources:					
Appropriations Received	3,308	97,832	-	101,140	80,697
Appropriations transferred in/out	(5)	103	-	98	(507)
Other Adjustments	(66)	(1,328)	-	(1,394)	(2,937)
Appropriations Used	(3,184)	(91,765)	-	(94,949)	(77,921)
Total Budgetary Financing Sources	53	4,842	-	4,895	(668)
Unexpended Appropriations, Ending	976	25,409	-	26,385	21,490
Net Position	$ 1,494	$ 8,782	$ -	$ 10,276	$ 1,978

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006 Budgetary	2006 Non-Budgetary Credit Reform Financing Accounts	2005 Budgetary	2005 Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1 (Note 24)	$ 19,170	$ 6,828	$ 18,756	$ 6,325
Recoveries of prior year unpaid obligations	9,071	941	6,243	559
Budget Authority -				
Appropriation	109,856	-	88,940	-
Borrowing Authority (Notes 22 & 23)	44,465	12,608	45,357	10,886
Earned -				
Collected	23,265	7,864	27,460	8,576
Change in receivables from Federal Sources	(129)	(29)	-	(113)
Change in unfilled customer orders -				
Advances received	299	-	(1,383)	-
Without advance from Federal Sources	70	11	15	2
Expenditure transfers from trust funds	1,050	-	899	-
Nonexpenditure transfers, net, anticipated and actual	(342)	-	(907)	-
Permanently not available	(55,745)	(8,798)	(39,871)	(4,911)
Total Budgetary Resources	151,030	19,425	145,509	21,324
Status of Budgetary Resources:				
Obligations Incurred (Note 21) -				
Direct	87,185	15,710	82,879	14,496
Reimbursable	42,563	-	43,460	-
Unobligated Balance -				
Apportioned	7,818	1,625	5,919	5,672
Exempt from Apportionment	771	-	1,262	5
Unobligated balance not available	12,693	2,090	11,989	1,151
Total status of budgetary resources	151,030	19,425	145,509	21,324
Change in Obligated Balances:				
Obligated balance, net, brought forward October 1 (Note 24)	26,555	18,202	21,010	17,136
Obligations incurred	129,748	15,710	126,339	14,496
Gross outlays	(120,756)	(14,089)	(114,536)	(12,982)
Recoveries of prior year unpaid	(9,071)	(941)	(6,243)	(559)
Change in uncollected payments from Federal Sources	59	18	(15)	111
Obligated balance, net, end of period -				
Unpaid obligations (Note 28)	28,881	19,722	28,961	19,042
Uncollected customer payments from Federal Sources	(2,344)	(822)	(2,406)	(840)
Obligated balance, net, end of period	26,537	18,900	26,555	18,202
Net Outlays:				
Gross outlays	120,756	14,089	114,536	12,982
Offsetting collections	(24,612)	(7,864)	(26,976)	(8,576)
Distributed offsetting receipts	(1,708)	(987)	(1,445)	(722)
Net Outlays	$ 94,436	$ 5,238	$ 86,115	$ 3,684

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2006 and 2005
(in millions)

	2006	2005
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 145,458	$ 140,835
Less: Spending authority from offsetting collections and recoveries	42,413	42,258
Obligations net of offsetting collections and recoveries	103,045	98,577
Less: Offsetting receipts	2,695	2,167
Net Obligations	100,350	96,410
Other Resources -		
Donations and forfeitures of property	-	31
Transfers in(out) without reimbursement	(544)	(1,001)
Imputed financing from costs absorbed by others	807	833
Other	5	196
Net other resources used to finance activities	268	59
Total resources used to finance activities	100,618	96,469
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	(840)	(2,192)
Resources that fund expenses recognized in prior periods	(812)	(432)
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	12,067	14,921
Other	7,811	10,968
Resources that finance the acquisition of assets	(28,444)	(31,208)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(1,860)	(932)
Total resources used to finance items not part of the net cost of operations	(12,078)	(8,875)
Total resources used to finance the net cost of operations	88,540	87,594
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	43	-
Increase in environmental and disposal liability	35	-
Upward/Downward reestimates of credit subsidy expense	650	(1,853)
Increase in exchange revenue receivable from the public	(377)	(7,791)
Other	95	7,456
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 29)	446	(2,188)
Components not Requiring or Generating Resources -		
Depreciation and amortization	375	524
Revaluation of assets or liabilities	(53)	(525)
Other	6,118	5,608
Total components of Net Cost of Operations that will not require or generate resources	6,440	5,607
Total components of Net Cost of Operations that will not require or generate resources in the current period	6,886	3,419
Net Cost of Operations	$ 95,426	$ 91,013

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2006 and 2005
(in millions)

Note 1. Significant Accounting Policies

Organization

The 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)

With the passage of the 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, Public Law No. 109-97, the legal restriction on redeeming Government-owned Class A stock was removed for RTB. As a result of this change, the process of liquidation and dissolution of the RTB began. During FY 2008 RTB will be dissolved in its entirety and will no longer be a reportable entity.

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 fiscal 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 fiscal 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.

Earmarked Funds

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, which became effective in FY 2006, the USDA has reported the earmarked funds for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues. In accordance with SFFAS 27, the USDA did not restate FY 2005. In FY 2005, these funds were considered to be dedicated collections.

Stewardship PP&E

SFFAS 29, Heritage Assets and Stewardship Land, was issued in July 2005. SFFAS 29 reclassified all heritage assets and stewardship land information as basic except for condition information, which is classified as RSI. The reclassification as basic is being phased in per SFFAS 29. Heritage assets and stewardship land information that was previously reported in RSSI will temporarily shift to RSI until it moves to a note on the balance sheet as basic information. The phase-in of disclosure requirements being reported as basic information provides that SFFAS 29 will be fully implemented for reporting periods beginning after September 30, 2008.

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, employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center, property taxes and insurance for single family housing, and interest, fines and penalties.

	FY 2006	FY 2005
Intragovernmental:		
Fund balance with Treasury	$ 37	$ 140
Accounts Receivable	17	1
Subtotal Intragovernmental	54	141
With the Public:		
Cash and other monetary assets	98	91
Accounts receivable	32	81
Subtotal With the Public	130	172
Total non-entity assets	184	313
Total entity assets	134,045	132,671
Total assets	$ 134,229	$ 132,984

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.

	FY 2006	FY 2005
Fund Balances:		
Trust Funds	$ 551	$ 759
Revolving Funds	5,227	11,011
Appropriated Funds	36,061	30,009
Other Fund Types	352	548
Total	42,191	42,327
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	11,108	12,630
Unavailable	13,147	11,870
Obligated Balance not yet Disbursed	26,011	26,357
Clearing Account Balances	16	170
Borrowing Authority not yet Converted to Fund Balance	(8,091)	(8,700)
Total	$ 42,191	$ 42,327

NOTE 4. CASH AND OTHER MONETARY ASSETS

In fiscal 2006 and 2005, cash includes Federal crop insurance escrow amounts of $90 million and $65 million, funds held in escrow for single family housing borrowers of $98 million and $90 million, and other receipts of $36 million and $87 million, respectively. The other receipts of $87 million in fiscal 2005 include $26 million of interest-bearing deposits.

	FY 2006	FY 2005
Cash	$ 224	$ 242

NOTE 5. INVESTMENTS

FY 2006	Amortization Method	Cost	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental:					
Non-marketable					
Par value		$ 76	$ -	$ 76	$ -
Market-based	Straight Line	5	-	5	5
Total		$ 81	$ -	$ 81	$ 5
With the Public:					
AARC		$ 3	$ -	$ 3	$ 3
Total		$ 3	$ -	$ 3	$ 3

FY 2005	Amortization Method	Cost	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental:					
Non-marketable					
Par value		$ 64	$ -	$ 64	$ -
Market-based	Straight Line	5	-	5	5
Total		$ 69	$ -	$ 69	$ 5
With the Public:					
AARC		$ 15	-	$ 15	$ 15
Total		$ 15	$ -	$ 15	$ 15

NOTE 6. ACCOUNTS RECEIVABLE, NET

FY 2006

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 246	$ -	$ 246
With the Public	8,732	97	8,635
Total	$ 8,978	$ 97	$ 8,881

FY 2005

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 712	$ -	$ 712
With the Public	9,607	165	9,442
Total	$ 10,319	$ 165	$ 10,154

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 2006 was $77,791 million compared to $75,176 million at the end of FY 2005. Loans exempt from the Federal Credit Reform Act of 1990 represent $1,381 million of the total compared to $1,057 million in FY 2005. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2006 and 2005.

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 $4,674 million to $5,090 million during FY 2006, an increase of $416 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2005 to FY 2006.

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 2006 was $717 million compared to negative $783 million in FY 2005. Table 3 illustrates the breakdown of total subsidy expense for FY 2006 and 2005 by program.

Direct loan volume increased from $7,740 million in FY 2005 to $8,875 million in FY 2006. 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 2006 were $33,419 million in outstanding principal and $29,643 million in outstanding principal guaranteed, compared to $34,072 and $30,269 million, respectively at the end of FY 2005. 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 $1,214 million to $1,296 million during FY 2006, an increase of $82 million. The post-1991 liability moved from $1,210 million to $1,294 million, an increase of $84 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 2006 was negative $64 million compared to negative $222 million in FY 2005. Table 8 illustrates the breakdown of total subsidy expense for FY 2006 and 2005 by program.

Guaranteed loan volume decreased from $8,987 million in FY 2005 to $7,394 million in FY 2006. 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 Home Ownership Guaranteed Loans Home Improvement and Repair Direct Loans Home Ownership and Home Improvement and Repair Nonprogram Loans Rural Housing Site Direct Loans Farm Labor Housing Direct Loans Rural Rental and Rural Cooperative Housing Loans Rental Housing Guaranteed Loans Multi-family Housing–Nonprogram–Credit Sales Community Facilities Direct Loans Community Facilities Guaranteed Loans	Business and Industry Direct Loans Business and Industry Guaranteed Loans Intermediary Relending Program Direct Loans Rural Economic Development Direct Loans	Water and Environmental Direct Loans Water and Environmental Guaranteed Loans Electric Direct Loans Electric Guaranteed Loans Telecommunications Direct Loans Rural Telephone Bank Federal Financing Bank-Telecommunications Guaranteed Distance Learning and Telemedicine Direct Broadband Telecommunications Services

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 2006 and 2005 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.

Rural Development's cash flow models are tailored for specific programs based on unique program characteristics. The models utilized are housing, guaranteed, and a direct model that covers the remaining portfolio with similar characteristics. Actual budgetary reestimates lag a year behind while the approximator method is used for financial statement purposes. For example, the FY 2005 and FY 2004 actual budgetary reestimates were recorded as of September 30, 2006 and 2005, respectively. The two exceptions to the method are the single family and multi-family housing programs whose reestimates are recorded in the current fiscal year.

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2006 reestimate process resulted in a $353 million increase in the post 1991 estimated cost of the direct loan portfolio and a $269 million reduction in the post 1991 estimated cost of the guaranteed loan portfolio.

Table 3 discloses the direct loan subsidy expense including the $353 million increase due to reestimates. The increase was most affected by a $798 million increase in the housing program and $253 million reduction in the electric program. The housing FY 2006 upward reestimates was largely due to model and data assumption changes that were implemented during the current fiscal year. These changes reversed the large decrease reported during FY 2005. The reduction in the electric program was due to differences between the Treasury discount rate and the borrower interest rate varying from the original assumptions in the Federal Financing Bank electric loan cohort and Underwriters cohort. In conjunction, the borrower rate and payment consistency contributed to the Government cost savings and reduced subsidy expense.

Table 8 discloses the loan guarantee subsidy expenses including the $269 million reduction due to reestimate. The reduction was most impacted by the $348 million reduction in the export programs. After analyzing foreign credits government-wide, OMB determined that actual performance on foreign credits was better than had been previously forecast and therefore mandated a change to the default calculation methodology. This is a major contributor to the significant downward subsidy reestimates for the export program.

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 2006 and 2005 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 2006 and 2005, 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, 2006 and 2005, foreclosed property consisted of 530 and 587 rural single-family housing dwellings, with an average holding period of 27 and 26 months, respectively. As of September 30, 2006 and 2005, FSA-Farm Loan Program properties consist primarily of 78 and 100 farms, respectively. The average holding period for these properties in inventory for FY 2006 and 2005 was 58 and 57 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

A modification is any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. The cost of a modification is the difference between the present value of the cash flows before and after the modification.

In FY 2006, Rural Development modified several loan programs. The multiple-family housing direct loan program was modified due to the revitalization project. The revitalization project is used to rehabilitate ailing housing developments. In this program, Rural Development determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants who live in such projects that are revitalized.

The electric program direct loans have been modified for two borrowers due to damage caused by the hurricanes which occurred during the 2005 calendar year. One borrower's loans were modified to defer principal payments for three years and to extend the loan term for three years. The other modification was made to defer principal and interest for five years and to extend the maturity by five years.

The guaranteed single-family housing loan programs were modified to enable eligible delinquent borrowers that were impacted by the hurricanes which occurred during the 2005 calendar year to receive a one-time advance from their loan servicer in an amount equal to not more than 12 months past due mortgage payments. Loan servicers are reimbursed by Rural Development and the borrower is required to repay Rural Development.

To determine the cost of the above modifications, the most recently approved President's budget was used for the net present value discount factor for the premodification cash flow, which was FY 2006. The post modification cash flows are discounted at the net present value discount factor for the FY 2004 Reestimates for the respective cohort.

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.

There was one loan modification effected in FY 2005. A Forest Conservation Agreement between the Government of Jamaica and the Government of the United States, signed September 21, 2004, which resulted in a reduction of debt in the amount of $6.5 million. No gain or loss was recognized.

Interest Credit

Approximately $17.9 and $18.2 billion of RHS unpaid loan principal as of September 30, 2006, and 2005 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 $1.0 and $1.1 billion higher for FY 2006 and 2005, respectively.

Restructured Loans

At the end of FY 2006 and 2005, the RD portfolio contained approximately 81 and 80 thousand restructured loans with an outstanding unpaid principal balance of $2.6 billion. At the end of FY 2006 and 2005, the farm loan portfolio contained approximately 23 and 25 thousand restructured loans with an outstanding unpaid principal balance of $1.3 and $1.4 billion, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2006 and 2005, were $4.2 and $5.5 billion, respectively.

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

FY 2006 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Farm	$ 1,981	$ 133	$ 13	$ (174)	$ 1,953
Export	-	-	-	-	-
Food Aid	5,600	68	-	(2,570)	3,098
Housing	11,666	101	16	(5,212)	6,571
Electric	11,969	25	-	(1,460)	10,534
Telecommunications	1,239	2	-	(79)	1,162
Water and Environmental	1,568	16	-	(216)	1,368
Business and Industry	1	1	-	(1)	1
Economic Development	44	-	-	(22)	22
Pre-1992 Total	34,068	346	29	(9,734)	24,709
Obligated Post-1991					
Farm	4,692	152	4	(642)	4,206
Export	-	-	-	-	-
Food Aid	2,548	34	-	(1,249)	1,333
Housing	15,145	87	16	(2,099)	13,149
Electric	22,237	3	-	(240)	22,000
Telecommunications	2,718	5	-	77	2,800
Water and Environmental	7,104	73	-	(663)	6,514
Business and Industry	70	-	-	(67)	3
Economic Development	488	2	-	(162)	328
Post-1991 Total	55,002	356	20	(5,045)	50,333
Total Direct Loan Program Receivables	89,070	702	49	(14,779)	75,042
Defaulted Guarantee Loans					
Pre-1992					
Farm	8	-	-	(6)	2
Export	516	7	-	(137)	386
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	4	-	-	-	4
Pre-1992 Total	528	7	-	(143)	392
Post-1991					
Farm	36	1	-	(22)	15
Export	1,189	20	-	(406)	803
Food Aid	-	-	-	-	-
Housing	17	-	-	(14)	3
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	162	2	-	(9)	155
Economic Development	-	-	-	-	-
Post-1991 Total	1,404	23	-	(451)	976
Total Defaulted Guarantee Loans	1,932	30	-	(594)	1,368
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,493	-	-	(132)	1,361
Other Foreign Receivables	62	-	-	(42)	20
Total Loans Exempt	1,555	-	-	(174)	1,381
Total Loans Receivable and Related Foreclosed Property, Net					$ 77,791

Table 1. Total Loans Receivable and Related Foreclosed Property, Net (cont'd)

FY 2005 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Farm	$ 2,336	$ 151	$ 21	$ (247)	$ 2,261
Export	-	-	-	-	-
Food Aid	5,909	69	-	(2,624)	3,354
Housing	12,379	114	13	(5,112)	7,394
Electric	12,308	25	-	(1,599)	10,734
Telecommunications	1,526	3	-	(109)	1,420
Water and Environmental	1,700	17	-	(248)	1,469
Business and Industry	1	-	-	(1)	-
Economic Development	52	-	-	(25)	27
Pre-1992 Total	36,211	379	34	(9,965)	26,659
Obligated Post-1991					
Farm	4,562	141	3	(645)	4,061
Export	-	-	-	-	-
Food Aid	2,794	37	-	(1,391)	1,440
Housing	14,423	73	19	(1,114)	13,401
Electric	17,857	2	-	(600)	17,259
Telecommunications	2,533	3	-	24	2,560
Water and Environmental	6,639	65	-	(705)	5,999
Business and Industry	83	-	-	(76)	7
Economic Development	452	2	-	(157)	297
Post-1991 Total	49,343	323	22	(4,664)	45,024
Total Direct Loan Program Receivables	85,554	702	56	(14,629)	71,683
Defaulted Guarantee Loans					
Pre-1992					
Farm	9	-	-	(7)	2
Export	1,401	15	-	(122)	1,294
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	3	1	-	-	4
Pre-1992 Total	1,413	16	-	(129)	1,300
Post-1991					
Farm	26	1	-	(18)	9
Export	1,605	24	-	(691)	938
Food Aid	-	-	-	-	-
Housing	13	-	-	-	13
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	167	1	-	8	176
Economic Development	-	-	-	-	-
Post-1991 Total	1,811	26	-	(701)	1,136
Total Defaulted Guarantee Loans	3,224	42	-	(830)	2,436
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,031	-	-	-	1,031
Other Foreign Receivables	26	-	-	-	26
Total Loans Exempt	1,057	-	-	-	1,057
Total Loans Receivable and Related Foreclosed Property, Net					$ 75,176

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

	FY 2006	FY 2005
Beginning balance of the subsidy cost allowance	$ 4,674	$ 6,256
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(119)	(89)
Default costs (net of recoveries)	120	141
Fees and other collections	(3)	(7)
Other subsidy costs	337	326
Total subsidy expense prior to adjustments and reestimates	335	371
Adjustments		
Loan modifications	27	6
Fees received	22	20
Loans written off	(276)	(191)
Subsidy allowance amortization	(78)	(527)
Other	32	(99)
Total subsidy cost allowance before reestimates	4,736	5,836
Add or subtract subsidy reestimates by component		
Interest rate reestimate	97	108
Technical/default reestimate	257	(1,270)
Total reestimates	354	(1,162)
Ending balance of the subsidy cost allowance	$ 5,090	$ 4,674

Table 3. Direct Loan Subsidy Expense by Program and Component

FY 2006

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 12	$ 73	$ -	$ (4)	$ 81	$ -	$ 5	$ (18)	$ (13)	$ 68
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	18	4	-	-	22	26	-	(89)	(89)	(41)
Housing	(178)	31	(3)	360	210	-	337	461	798	1,008
Electric	(45)	9	-	(14)	(50)	1	(214)	(39)	(253)	(302)
Telecommunications	(1)	2	-	(1)	-	-	(6)	(43)	(49)	(49)
Water and Environmental	53	1	-	(3)	51	-	(29)	(4)	(33)	18
Business and Industry	-	-	-	-	-	-	3	(9)	(6)	(6)
Economic Development	23	-	-	-	23	-	-	(2)	(2)	21
Total Direct Loan Subsidy Expense	$ (118)	$ 120	$ (3)	$338	$ 337	$ 27	$ 96	$ 257	$ 353	$ 717

FY 2005

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ (4)	$ 97	$ -	$ (18)	$ 75	$ -	$ (8)	$ 42	$ 34	$ 109
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	21	5	-	1	27	6	-	(343)	(343)	(310)
Housing	(176)	35	(7)	358	210	-	(52)	(699)	(751)	(541)
Electric	(23)	2	-	(10)	(31)	-	126	(147)	(21)	(52)
Telecommunications	(2)	1	-	(2)	(3)	-	27	(38)	(11)	(14)
Water and Environmental	77	1	-	(3)	75	-	16	(80)	(64)	11
Business and Industry	-	-	-	-	-	-	1	(1)	-	-
Economic Development	18	-	-	-	18	-	(2)	(2)	(4)	14
Total Direct Loan Subsidy Expense	$ (89)	$141	$ (7)	$326	$ 371	$ 6	$ 108	$ (1,268)	$ (1,160)	$ (783)

Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2006	FY 2005
Direct Loan Programs		
Farm	$ 1,041	$ 906
Export	-	-
Food Aid	16	20
Housing	1,790	1,744
Electric	4,802	3,600
Telecommunications	485	567
Water and Environmental	675	855
Business and Industry	-	2
Economic Development	66	46
Total Direct Loans Disbursed	$ 8,875	$ 7,740

Table 5. Loan Guarantees Outstanding

FY 2006	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
Loan Guarantee Programs						
Farm	$ 86	$ 10,069	$ 10,155	$ 76	$ 9,046	$ 9,122
Export	-	3,022	3,022	-	2,925	2,925
Food Aid	-	-	-	-	-	-
Housing	12	15,889	15,901	10	14,286	14,296
Electric	167	222	389	167	222	389
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	34	34	-	28	28
Business and Industry	23	3,892	3,915	17	2,863	2,880
Economic Development	3	-	3	3	-	3
Total Guarantees Disbursed	$ 291	$ 33,128	$ 33,419	$ 273	$ 29,370	$ 29,643

FY 2005	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
Loan Guarantee Programs						
Farm	$ 115	$ 10,209	$ 10,324	$ 101	$ 9,170	$ 9,271
Export	-	4,240	4,240	-	4,098	4,098
Food Aid	-	-	-	-	-	-
Housing	6	14,788	14,794	11	13,287	13,298
Electric	233	220	453	233	220	453
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	32	32	-	26	26
Business and Industry	35	4,191	4,226	22	3,098	3,120
Economic Development	3	-	3	3	-	3
Total Guarantees Disbursed	$ 392	$ 33,680	$ 34,072	$ 370	$ 29,899	$ 30,269

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

FY 2006	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 1	$ 121	$ 122
Export	-	220	220
Food Aid	-	-	-
Housing	-	624	624
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	329	330
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 2	$ 1,294	$ 1,296

FY 2005	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 2	$ 26	$ 28
Export	-	260	260
Food Aid	-	-	-
Housing	-	556	556
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	2	368	370
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 4	$ 1,210	$ 1,214

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2006	FY 2005
Beginning balance of the loan guarantee liability	$ 1,209	$ 1,183
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	35	35
Default costs (net of recoveries)	290	369
Fees and other collections	(118)	(106)
Other subsidy costs	-	-
Total of the above subsidy expense components	207	298
Adjustments		
Loan modifications	-	-
Fees received	95	103
Interest supplements paid	(6)	(10)
Claim payments to lenders	(154)	(360)
Interest accumulation on the liability balance	127	16
Other	84	498
Ending balance of the subsidy cost allowance before reestimates	1,562	1,728
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	57	(284)
Technical/default reestimate	(326)	(235)
Total of the above reestimate components	(269)	(519)
Ending balance of the loan guarantee liability	$ 1,293	$ 1,209

Table 8. Guarantee Loan Subsidy Expense by Program and Component

FY 2006

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 25	$ 58	$ (17)	$ -	$ 66	$ -	$ 1	$ 18	$ 19	$ 85
Export	-	78	(9)	-	69	-	23	(371)	(348)	(279)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	10	97	(68)	-	39	-	20	31	51	90
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	56	(25)	-	31	-	13	(4)	9	40
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 35	$ 289	$ (119)	$ -	$ 205	$ -	$ 57	$ (326)	$ (269)	$ (64)

FY 2005

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 29	$ 58	$ (17)	$ -	$ 70	$ -	$ (19)	$ (142)	$ (161)	$ (91)
Export	-	181	(16)	-	165	-	(287)	(188)	(475)	(310)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	6	93	(66)	-	33	-	18	75	93	126
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	36	(8)	-	28	-	4	21	25	53
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 35	$ 368	$ (107)	$ -	$ 296	$ -	$ (284)	$ (234)	$ (518)	$ (222)

Table 9. Guaranteed Loans Disbursed

	FY 2006		FY 2005	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,146	$ 1,928	$ 2,191	$ 1,968
Export	1,568	1,451	2,956	2,678
Food Aid	-	-	-	-
Housing	3,187	2,864	3,130	2,813
Electric	3	3	2	2
Telecommunications	-	-	-	-
Water and Environmental	1	1	5	4
Business and Industry	489	382	703	550
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 7,394	$ 6,629	$ 8,987	$ 8,015

Table 10. Administrative Expenses

	FY 2006	FY 2005
Direct Loan Programs	$ 535	$ 516
Guaranteed Loan Programs	253	253
Total Administrative Expenses	$ 788	$ 769

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	1.62	8.05	-	0.28	9.95
Indian Land Acquisition	5.87	(1.86)	-	-	4.01
Emergency Disaster	5.02	6.25	-	(0.33)	10.94
Boll Weevil Eradication	0.51	(18.74)	-	0.14	(18.09)
Farm Ownership	0.63	2.49	-	2.00	5.12
Farm Storage Facility Loan Program	0.04	6.76	(0.11)	(7.31)	(0.62)
Sugar Storage Facility Loan Program	0.36	0.90	-	-	1.26
Community Facility Loans	3.59	0.24	-	(0.48)	3.35
Water and Waste Disposal Loans	7.14	0.09	-	(0.32)	6.91
Distance Learning and Telemedicine Loans	-	1.63	-	(0.13)	1.50
Broadband 4% Loans (Mandatory)	5.83	2.13	-	(0.01)	7.95
Broadband 4% Loans (Discretionary)	5.83	2.13	-	(0.01)	7.95
Broadband Treasury Loans (Mandatory)	-	2.22	-	(0.07)	2.15
Broadband Treasury Loans (Discretionary)	-	2.22	-	(0.07)	2.15
Electric Hardship Loans	0.69	0.02	-	0.21	0.92
Municipal Electric Loans	4.68	0.02	-	0.35	5.05
FFB Electric Loans	(0.49)	0.02	-	(0.01)	(0.48)
Treasury Electric Loans	-	0.02	-	(0.01)	0.01
Telecommunication Hardship Loans	(1.84)	0.02	-	0.02	(1.80)
FFB Telecommunications Loans	(1.03)	0.02	-	(0.56)	(1.57)
Treasury Telecommunication Loans	-	0.03	-	0.02	0.05
Rural Telephone Bank Loans	-	-	-	-	-
Single-Family Housing Credit Sales	(19.35)	1.16	-	3.66	(14.53)
Multi-Family Housing Credit Sales	(19.82)	0.12	-	65.10	45.40
Section 502 Single-Family Housing	(16.77)	2.32	-	25.84	11.39
Section 504 Housing Repair	27.00	2.45	-	(0.20)	29.25
Section 515 Multi-Family Housing	(17.86)	0.04	(0.05)	63.75	45.88
Section 523 Self-Help Site Development	1.03	-	-	-	1.03
Section 524 Site Development	(4.30)	0.79	-	-	(3.51)
Section 514 Farm Labor Housing	44.91	0.03	-	(0.35)	44.59
Intermediary Relending Program	43.84	-	-	(0.82)	43.02
Rural Economic Development Loans	21.40	0.07	-	1.50	22.97
Electric Underwriting	(2.09)	0.83	-	-	(1.26)
MFH Preservation	46.76	-	-	-	46.76
P. L. 480 Direct Credits	44.39	11.01	-	-	55.40

FY 2005	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	0.14	9.39	-	0.56	10.09
Indian Land Acquisition	5.30	0.43	-	(0.46)	5.27
Emergency Disaster	2.46	17.55	-	(7.07)	12.94
Boll Weevil Eradication	(4.08)	(0.88)	-	(0.72)	(5.68)
Farm Ownership	(0.40)	14.77	-	(9.02)	5.35
Farm Storage Facility Loan Program	(1.68)	0.51	(0.11)	(0.15)	(1.43)
Sugar Storage Facility Loan Program	-	-	-	-	-
Community Facility Loans	4.48	0.24	-	(0.67)	4.05
Water and Waste Disposal Loans	9.36	0.10	-	(0.46)	9.00
Distance Learning and Telemedicine Loans	-	1.61	-	(0.19)	1.42
Broadband 4% Loans (Mandatory)	5.83	2.18	-	-	8.01
Broadband 4% Loans (Discretionary)	5.83	2.18	-	-	8.01
Broadband Treasury Loans (Mandatory)	-	2.27	-	(0.14)	2.13
Broadband Treasury Loans (Discretionary)	-	2.27	-	(0.14)	2.13
Electric Hardship Loans	3.19	0.03	-	(0.18)	3.04
Municipal Electric Loans	1.63	0.03	-	(0.31)	1.35
FFB Electric Loans	(1.35)	0.01	-	(0.89)	(2.23)
Treasury Electric Loans	-	0.03	-	(0.08)	(0.05)
Telecommunication Hardship Loans	(1.25)	0.02	-	0.02	(1.21)
FFB Telecommunications Loans	(1.03)	0.12	-	(1.04)	(1.95)
Treasury Telecommunication Loans	-	0.05	-	(0.01)	0.04
Rural Telephone Bank Loans	(1.43)	0.02	-	(0.42)	(1.83)
Single-Family Housing Credit Sales	(21.08)	1.72	-	3.13	(16.23)
Multi-Family Housing Credit Sales	(18.85)	0.07	-	67.22	48.44
Section 502 Single-Family Housing	(17.35)	2.68	-	26.25	11.58
Section 504 Housing Repair	26.95	2.38	-	(0.27)	29.06
Section 515 Multi-Family Housing	(18.03)	0.02	(0.05)	65.15	47.09
Section 523 Self-Help Site Development	(0.47)	-	-	-	(0.47)
Section 524 Site Development	(5.91)	0.96	-	0.01	(4.94)
Section 514 Farm Labor Housing	45.87	0.02	-	1.17	47.06
Intermediary Relending Program	46.64	-	-	(0.26)	46.38
Rural Economic Development Loans	20.32	0.04	-	(1.57)	18.79
Electric Underwriting	-	-	-	-	-
MFH Preservation	-	-	-	-	-
P. L. 480 Direct Credits	45.85	10.13	-	-	55.98

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	9.50	(0.57)	-	8.93
Farm Operating—Unsubsidized	-	3.93	(0.90)	-	3.03
Farm Operating—Subsidized	9.24	3.26	-	-	12.50
Farm Ownership—Unsubsidized	-	1.38	(0.90)	-	0.48
Business and Industry Loans	-	8.20	(3.41)	-	4.79
Guaranteed Business & Industry NadBank Loans	-	13.76	(3.28)	(0.01)	10.47
Community Facility Loans	-	1.21	(0.85)	-	0.36
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Electric Guaranteed Loans	-	0.90	-	-	0.90
Local Television Loans (Discretionary)	-	-	-	-	-
Local Television Loans (Mandatory)	-	-	-	-	-
Guaranteed Broadband Loans (Discretionary)	-	3.82	-	-	3.82
Guaranteed Broadband Loans (Mandatory)	-	3.82	-	-	3.82
Section 502 Single-Family Housing Purchase	-	3.16	(2.00)	-	1.16
Section 502 Single-Family Housing Refinance	-	0.79	(0.50)	-	0.29
538 Multi-Family Housing-Subsidized	12.28	0.57	(7.44)	0.01	5.42
Renewable Energy	-	8.20	(1.75)	-	6.45
Rural Business Investment Program	-	-	-	-	-

FY 2005	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	7.48	0.65	-	8.13
Farm Operating—Unsubsidized	-	4.12	(0.89)	-	3.23
Farm Operating—Subsidized	10.31	3.07	-	(0.07)	13.31
Farm Ownership—Unsubsidized	-	1.43	(0.90)	-	0.53
Business and Industry Loans	-	6.51	(1.47)	(0.01)	5.03
Guaranteed Business & Industry NadBank Loans	-	9.91	(1.61)	-	8.30
Community Facility Loans	-	0.93	(0.84)	-	0.09
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Electric Guaranteed Loans	-	0.06	-	-	0.06
Local Television Loans (Discretionary)	-	-	-	-	-
Local Television Loans (Mandatory)	-	-	-	-	-
Guaranteed Broadband Loans (Discretionary)	-	3.93	-	-	3.93
Guaranteed Broadband Loans (Mandatory)	-	3.93	-	-	3.93
Section 502 Single-Family Housing Purchase	-	3.07	(2.00)	-	1.07
Section 502 Single-Family Housing Refinance	-	0.77	(0.50)	-	0.27
538 Multi-Family Housing-Subsidized	10.32	0.55	(7.39)	0.01	3.49
Renewable Energy	-	6.51	(0.78)	-	5.73
Rural Business Investment Program	-	-	-	-	-

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

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 loan forfeitures during the fiscal years ended September 30, 2006 and 2005 were $106 million and $79 million, respectively. In fiscal year 2005, tobacco loan forfeitures amounted to $985 million including accrued interest. Estimated future commodity donations are expected to be $37 million.

	FY 2006		FY 2005	
Inventories		$ 1		$ -
Commodities:	Volume (in millions)	Amount	Volume (in millions)	Amount
Corn (In Bushels):				
On hand at the beginning of the year	1	2	12	22
Acquired during the year	289	561	99	204
Disposed of during the year				
Sales	(288)	(558)	(97)	(198)
Donations	(1)	(3)	(13)	(25)
Other	-	-	-	(1)
On hand at the end of the year	1	2	1	2
Wheat (In Bushels):				
On hand at the beginning of the year	47	171	81	291
Acquired during the year	56	240	68	287
Disposed of during the year				
Sales	(28)	(134)	(71)	(295)
Donations	(32)	(118)	(31)	(112)
Other	-	-	-	-
On hand at the end of the year	43	159	47	171
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	104	94	661	594
Acquired during the year	62	50	34	26
Disposed of during the year				
Sales	(27)	(25)	(186)	(164)
Donations	(82)	(76)	(276)	(259)
Other	(8)	(3)	(129)	(103)
On hand at the end of the year	49	40	104	94
Sugar (In Pounds):				
On hand at the beginning of the year	-	-	32	8
Acquired during the year	-	-	48	10
Disposed of during the year				
Sales	-	-	(80)	(18)
Donations	-	-	-	-
Other	-	-	-	-
On hand at the end of the year	-	-	-	-
Tobacco (In Pounds):				
On hand at the beginning of the year	-	-	2	2
Acquired during the year	-	-	280	986
Disposed of during the year				
Sales	-	-	(200)	(696)
Donations	-	-	(82)	(292)
Other	-	-	-	-
On hand at the end of the year	-	-	-	-
Other:				
On hand at the beginning of the year		37		33
Acquired during the year		5,140		5,675
Disposed of during the year				
Sales		(5,085)		(5,507)
Donations		(68)		(164)
Other		-		-
On hand at the end of the year		24		37
Allowance for losses		(171)		(275)
Total Commodities		54		29
Total Inventory and Related Property, Net		$ 55		$ 29

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2006 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 75	$ -	$ 75
Improvements to Land	10 - 50	4,986	2,711	2,275
Construction-in-Progress		828	-	828
Buildings, Improvements and Renovations	15 - 30	1,815	1,099	716
Other Structures and Facilities	15 - 50	1,604	1,194	410
Equipment	5 - 20	1,711	1,375	336
Assets Under Capital Lease	3 - 20	44	16	28
Leasehold Improvements	10	50	34	16
Internal-Use Software	5 - 8	442	263	179
Internal-Use Software in Development		38	-	38
Other General Property, Plant and Equipment	5 - 15	4	-	4
Total		$ 11,597	$ 6,692	$ 4,905

FY 2005 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 76	$ -	$ 76
Improvements to Land	10 - 50	4,958	2,596	2,362
Construction-in-Progress		562	-	562
Buildings, Improvements and Renovations	15 - 30	1,820	1,055	765
Other Structures and Facilities	15 - 50	1,602	1,146	456
Equipment	5 - 20	1,781	1,397	384
Assets Under Capital Lease	3 - 20	40	17	23
Leasehold Improvements	10	50	30	20
Internal-Use Software	5 - 8	417	211	206
Internal-Use Software in Development		29	-	29
Other General Property, Plant and Equipment	5 - 15	2	-	2
Total		$ 11,337	$ 6,452	$ 4,885

NOTE 10. STEWARDSHIP PP&E

Stewardship PP&E consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E include heritage assets and stewardship land.

Heritage assets are unique and are generally expected to be preserved indefinitely. Heritage assets may be unique because they have historical or natural significance, are of cultural, educational or artistic importance, or have significant architectural characteristics. The assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No amounts are shown on the balance sheet for heritage assets, except for multi-use heritage assets in which the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of multi-use heritage assets is capitalized as general PP&E and depreciated, with required supplementary information providing the physical quantity information for the multi-use heritage assets. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use is considered an expense in the period incurred when determining the net cost of operations. Heritage assets are held by the FS, NRCS, and ARS, consisting mainly of buildings and structures.

Stewardship land is land and land rights not acquired for or in connection with items of general PP&E. Land is defined as the solid surface of the earth, excluding natural resources. 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. These assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No asset amount is shown on the balance sheet for stewardship land. The acquisition cost of stewardship land is considered an expense in the period acquired when determining the net cost of operations. The FS manages public land, the majority of which is classified as stewardship land. The NRCS manages several conservation easement programs.

NOTE 11. OTHER ASSETS

In fiscal 2006 and 2005, other assets include investments in trust for loan asset sales of $37 million and $36 million, respectively.

	FY 2006	FY 2005
Intragovernmental:		
Advances to Others	$ -	$ 1
Subtotal Intragovernmental	-	1
With the Public:		
Advances to Others	60	48
Prepayments	1	1
Other Assets	37	37
Subtotal With the Public	98	86
Total Other Assets	$ 98	$ 87

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In fiscal 2006 and 2005, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $159 million and $155 million, respectively, and contract disputes claims payable to Treasury's Judgment Fund of $13 million and $10 million, respectively.

In fiscal 2006 and 2005, other liabilities with the public not covered by budgetary resources include, accruals for rental payments under the Conservation Reserve Program (CRP) of $1,779 million and $1,695 million, unfunded leave of $589 million and $546 million, Payments to States $398 million and $378 million, future funded indemnity cost of $296 and $479 million, and, contingent liabilities of $15 million and $19 million, respectively. In fiscal 2006 and 2005, CCC reported a liability in the amount of $6,137 and $7,100 million under the Tobacco Transition Payment Program (TTPP), respectively.

	FY 2006	FY 2005
Intragovernmental:		
Other	$ 173	$ 166
Subtotal Intragovernmental	173	166
With the Public:		
Federal employee and veterans' benefits	808	834
Environmental and disposal liabilities	63	28
Benefits due and payable	-	-
Other	9,216	10,553
Subtotal With the Public	10,087	11,415
Total liabilities not covered by budgetary resources	10,260	11,581
Total liabilities covered by budgetary resources	113,693	119,425
Total liabilities	$ 123,953	$ 131,006

NOTE 13. DEBT

FY 2006	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 60,708	$ (2,521)	$ 58,187
Debt to the Federal Financing Bank	22,807	2,453	25,260
Total Intragovernmental	83,515	(68)	83,447
Agency Debt:			
Held by the Public	1	(1)	-
Total Debt	$ 83,516	$ (69)	$ 83,447

FY 2005	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 41,439	$ 13,545	$ 54,984
Debt to the Federal Financing Bank	27,614	917	28,531
Total Intragovernmental	69,053	14,462	83,515
Agency Debt:			
Held by the Public	1	-	1
Total Debt	$ 69,054	$ 14,462	$ 83,516

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The Department 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. The FS and CCC estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $53 million and $10 million in fiscal 2006, $18 million for FS and $10 million for CCC in fiscal 2005, 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. This liability is not covered by budgetary resources.

NOTE 15. OTHER LIABILITIES

As of September 30, 2006 and 2005, other intragovernmental liabilities include credit reform reestimates of $202 million and $410 million, respectively. In fiscal 2005, the General Sales Manager (GSM) Program, was $23 million.

In fiscal 2006, other liabilities with the public include estimated losses on crop insurance claims of $2,328 million, estimated underwriting gains on crop insurance of $652 million, crop insurance premium subsidy deficiency reserve of $431 million, payments to states of $398 million, credit reform programs of $47 million, undistributed credits for insured loans of $16 million, peanut/tobacco programs of $10 million, and estimated program delivery cost to reinsurer of $3 million.

In fiscal 2005, other liabilities with the public include estimated losses on crop insurance claims of $1,924 million, stock payable to RTB borrowers of $1,390 million, estimated underwriting gains on crop insurance of $740 million, crop insurance premium subsidy deficiency reserve of $371 million, RTB dividend payable to treasury of $50 million, and peanut/tobacco programs of $33 million.

FY 2006	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 49	$ 549	$ 598
Employer Contributions and Payroll Taxes	1	44	45
Unfunded FECA Liability	-	159	159
Advances from Others	-	8	8
Liability for Deposit Funds, Clearing Accounts	-	(136)	(136)
Liability for Subsidy Related to Undisbursed Loans	-	9	9
Resources Payable to Treasury	-	13,158	13,158
Custodial Liability	-	37	37
Other Liabilities	-	202	202
Subtotal Intragovernmental	50	14,030	14,080
With the Public:			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	23	14,869	14,892
Accrued Funded Payroll and Leave	2	43	45
Unfunded Leave	8	581	589
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	58	58
Deferred Credits	-	311	311
Liability for Deposit Funds, Clearing Accounts	-	231	231
Contingent Liabilities	5	10	15
Capital Lease Liability	26	2	28
Custodial Liability	-	27	27
Other Liabilities	19	3,867	3,886
Subtotal With the Public	83	19,999	20,082
Total Other Liabilities	$ 133	$ 34,029	$ 34,162

FY 2005	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 6	$ 1,018	$ 1,024
Employer Contributions and Payroll Taxes	1	38	39
Unfunded FECA Liability	1	156	157
Advances from Others	-	21	21
Liability for Deposit Funds, Clearing Accounts	-	30	30
Resources Payable to Treasury	-	16,819	16,819
Custodial Liability	22	46	68
Other Liabilities	-	433	433
Subtotal Intragovernmental	30	18,561	18,591
With the Public:			
Contract Holdbacks	-	2	2
Other Accrued Liabilities	6	16,023	16,029
Accrued Funded Payroll and Leave	-	49	49
Unfunded Leave	11	527	538
Other Unfunded Employment Related Liability	-	4	4
Advances from Others	2	50	52
Deferred Credits	-	248	248
Liability for Deposit Funds, Clearing Accounts	12	160	172
Contingent Liabilities	-	47	47
Capital Lease Liability	-	23	23
Custodial Liability	-	12	12
Other Liabilities	1,409	3,125	4,534
Subtotal With the Public	1,440	20,270	21,710
Total Other Liabilities	$ 1,470	$ 38,831	$ 40,301

NOTE 16. 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 Headquarter 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 and 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 $53 million. This agreement is still in effect and as a result, USDA activities located in the Headquarter complex are not billed for rental costs.

FY 2006

Capital Leases:

Summary of Assets Under Capital Leases

Land and Building	$ 41
Machinery and Equipment	3
Accumulated Amortization	16

Future Payments Due:

Fiscal Year	Land & Buildings
2007	7
2008	7
2009	7
2010	7
2011	7
After 5 Years	52
Total Future Lease Payments	87
Less: Imputed Interest	54
Less: Executory Costs	5
Less: Lease Renewal Options	-
Net Capital Lease Liability	28
Lease liabilities covered by budgetary resources	28

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2007	80	-	5	85
2008	75	-	4	79
2009	68	-	4	72
2010	61	-	4	65
2011	54	-	3	57
After 5 Years	368	-	42	410
Total Future Lease Payments	$ 706	$ -	$ 62	$ 768

FY 2005				
Capital Leases:				
Summary of Assets Under Capital Leases				
Land and Building	$ 38			
Machinery and Equipment	2			
Accumulated Amortization	17			
Future Payments Due:				
	Land & Buildings			
Fiscal Year				
2006	11			
2007	11			
2008	11			
2009	11			
2010	10			
After 5 Years	88			
Total Future Lease Payments	142			
Less: Imputed Interest	38			
Less: Executory Costs	48			
Less: Lease Renewal Options	33			
Net Capital Lease Liability	23			
Lease liabilities covered by budgetary resources	23			
Operating Leases:				
Future Payments Due:				
Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2006	106	1	-	107
2007	98	1	-	99
2008	89	1	-	90
2009	78	-	-	78
2010	69	-	-	69
After 5 Years	408	-	-	408
Total Future Lease Payments	$ 848	$ 3	$ -	$ 851

NOTE 17. COMMITMENTS AND CONTINGENCIES

The Department 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, $15 million and $47 million has been accrued in the financial statements as of September 30, 2006 and 2005, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $2,890 million to $2,900 million as of September 30, 2006, compared to $114 million to $134 million as of September 30, 2005. This estimate increased in fiscal 2006 because of pending class litigation.

In fiscal 2006 and 2005, CRP annual rental payments are estimated to be $2,000 million. Commitments to extend loan guarantees are estimated to be $2,300 million and $2,000 million in fiscal 2006 and 2005, respectively.

NOTE 18. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues. The implementation of SFFAS 27 in FY 2006 supersedes the dedicated collections provisions in SFFAS 7 for earmarked funds. These funds were reported as dedicated collections in FY 2005.

Financial information for all significant earmarked funds follows the descriptions of each fund's purpose shown below.

Risk Management Agency

Federal Crop Insurance Corporation Fund (FCIC)

Resources for the FCIC Fund includes funds collected from the public for insurance premiums and other insurance related fees that are used with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program. Funds are available under 7 U.S.C. 1501-1519.

Agricultural Marketing Service

Funds for Strengthening Markets, Income, and Supply

This fund is used to purchase commodities for schools and elderly feeding programs, to provide goods and other necessities in emergencies and disasters, and to purchase agricultural commodities to stabilize markets. The fund is permanently financed by statutory transfer of an amount equal to 30 percent of customs receipts collected during each calendar year is automatically appropriated for expanding outlets for perishable, non-price supported commodities. An amount equal to 30 percent of receipts collected on fishery products is transferred to the Food and Nutrition Service and is used to purchase commodities under section 6 of the National School Lunch Act and other authorities specified in the child nutrition appropriation. Funds are available under section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c).

Expenses and Refunds, Inspection and Grading of Farm Products

The commodity grading programs provide grading, examination, and certification services for a wide variety of fresh and processed food commodities using federally approved grade standards and purchase specifications. This fund is financed by the collection of fees charged to producers of various food commodities who request, on a voluntary basis, inspection and grading of agricultural food commodities. This program is authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1621-1627).

Perishable Agricultural Commodities Act

The act is intended to ensure equitable treatment to farmers and others in the marketing of fresh and frozen fruits and vegetables. Commission merchants, dealers, and brokers handling these products in interstate and foreign commerce are licensed. The fund is financed by license fees charged for the issuance of Federal licenses to dealers in perishable agricultural commodities who meet and maintain the financial stability necessary to ensure payment is made to producers of perishable agricultural commodities. License fees are deposited in this special fund and are used to meet the costs of administering the Perishable Agricultural Commodities and Produce Agency Act (7 U.S.C. 491-497, 499a-499s).

Animal Plant Health Inspection Service

Agricultural Quarantine Inspection User Fee Account

This fund is used to record and report on expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services, and to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund their expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

Miscellaneous Contributed Funds

The revenue in this fund is collected, in advance of the work, from cooperators who request services for activities such as inspecting and pre-clearing certain fruits, vegetables, and nursery products before they are shipped to the United States, or for inspecting commercial birds in a Veterinary Services (VS) approved commercial bird quarantine facility. All costs incurred to provide these services are the responsibility of the cooperator, and are recorded in this fund. The authority is codified in 21 U.S.C. 111 and 134(c).

Forest Service

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the USDA Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Land Acquisition

Each fiscal year this fund receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 460l-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Payments to States, National Forest Fund

The Payments to States, National Forest Fund receives receipts from the National Forest Fund. These monies are generated from the sale of goods and services at the national forests. Annually, revenue-sharing payments are made to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund program.

Timber Salvage Sales

The Salvage Sale Fund was established to facilitate the timely removal of timber damaged by fire, wind, insects, disease, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

Fees, Operations and Maintenance of Recreation Facilities

This fund accumulates a portion of deposits derived from fees authorized by the Land and Water Conservation Fund Act and is available for expenditure by the USDA Forest Service only upon appropriation by Congress. Funds deposited are not appropriated under this heading and Congressional intent is to not use the deposits for activities over and above those amounts already provided in the National Forest System appropriation. The Land and Water Conservation Fund Act (16 U.S.C. 4601 et. seq.) authorized the establishment of this special fund and regulates admission and special recreation user fees at certain recreational areas.

Timber Roads, Purchaser Election

The Timber Roads fund receives deposits from small business timber purchasers who elect to pay the USDA Forest Service to construct or reconstruct any road or bridge required by their respective timber sale. These collections are used to finance only those forest development roads constructed or reconstructed under the terms and conditions of the timber sale contract(s) involved, and only to a standard necessary to harvest and remove the timber and other products covered by the particular sale(s). The Timber Roads, Purchaser Election program is authorized by 16 USC 472(I) (2).

Expenses, Brush Disposal

Deposits from timber purchasers are used to cover the cost required to dispose of slash, brush, and other debris resulting from timber cutting operations and for supplemental protection of the cutover areas in lieu of actual disposal. The Expenses, Brush Disposal program is authorized by 16 U.S.C. 490-498.

State, Private, and International Forestry Land and Water Conservation Fund

The Fiscal Year 2004 Department of Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of Treasury established a new special fund, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase, but not real property will be procured or constructed.

Federal Highway Trust Fund

The Federal Highway Act, as amended (23 U.S.C. 120, 125, and 205) establishes the Federal Highway Trust Fund, managed by the Department of Transportation. Federal highway construction, maintenance, and other projects defined in the Act are financed from the Federal Highway Trust Fund. The Department of Transportation transfers these monies to the Forest Service for highway projects pertinent to National Forest System lands. The Secretary of Transportation, through the Federal Highway Administration (FHWA), requests through the U.S. Department of Treasury, to transfer trust funds to eligible Federal agencies that qualify under 23 U.S.C. 125.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program fund receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration Program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by 16 U.S.C. 4601-6(a).

Roads and Trails for States, National Forest Fund

The Roads and Trails for States, National Forest Fund receives annual deposits equal to ten percent of all revenues from the National Forest Fund. These amounts are then paid to the States, without regard to the State in which the amounts were derived, to repair or reconstruct roads, bridges, and trails on National Forest System lands. Also, to carry out and administer projects to improve forest health conditions, which may include the repair or reconstruction of roads, bridges, and trails on National Forest System lands in the wild land-community interface where there is an abnormally high risk of fire. The Roads and Trails for States, National Forest Fund is authorized by the Act of March 4, 1913, as amended (16 U.S.C. 501).

National Forest Fund Receipts

The Federal Lands Recreation Enhancement Act (FLREA) (Public Law 108-447) sets forth provisions for collection of recreation fees and retention of special recreation permit fees by the Forest Service. The Forest Service deposits 85 percent of special use permit revenues from these authorizations into the National Forest Fund.

Reforestation Trust Fund

The Reforestation Trust Fund receives periodic transfers of tariffs collected from exported timber from the U.S. Department of Treasury. Such deposits may not exceed $30 million dollars in a fiscal year. Amounts are invested and reinvested in United States Treasury interest-bearing Government securities. The interest income is added to the balance in the Reforestation Trust Fund for use by the Secretary of Agriculture for reforestation and timber-stand improvement activities. The Act of October 14, 1980, as amended (16 U.S.C. 1606(a)(d)) established the Reforestation Trust Fund.

Restoration of Forest Lands and Improvements

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) provides that any moneys received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the United States Treasury and are appropriated and made available until expended to cover the cost to the United States of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement: Provided, that any portion of the moneys received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

Payments to Counties, National Grasslands

Credit receipts from Title III of the Bankhead-Jones Farm Tenant Act lands designated as either national grasslands or land utilization projects to a special account (sec. 60.1, para. 3). When the status of such lands is changed to that of a national forest, credit such receipts to the National Forest Fund. At the end of each calendar year, 25 percent of the net revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. These payments are not payments in lieu of taxes (PILT); instead, they are national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act.

Timber Sales Pipeline Restoration Fund

The Timber Sale Pipeline Restoration Fund provides an additional source of funds for restoring the timber sale pipeline and addressing backlog recreation project needs. These funds are revenue from timber sales released under section 2001(k) of the fiscal year 1995 Supplemental Appropriations for Disaster Assistance and Recessions Act, minus payments to States and local governments and other necessary deposits (sec. 60.1, para. 27). Based on an Office of General Counsel opinion dated December 13, 2002, payments to States must be made from these receipts before net receipts are deposited into this fund (sec. 60.1, para. 28). The Forest Service and the Bureau of Land Management share in these revenues, referred to as first generation funds. Seventy-five percent of the net funds are deposited in an account for timber sale pipeline preparation and 25 percent are deposited separately for the recreation backlog program. Revenues (less payments to States and other necessary deposits) generated by timber sales prepared using these funds are to be deposited back into the Timber Sale Pipeline Restoration Fund for additional timber sale preparation and backlog recreation work using the same 75 percent and 25 percent distributions, respectively. However, these second generation funds are not shared with the Bureau of Land Management.

Acquisition of Lands to Complete Land Exchanges

As authorized by 7 statutes , this program is funded annually by congressional appropriation action, with forest revenues generated by the occupancy of public land or from the sale of natural resources other than minerals. All funds appropriated that remain unobligated at the end of the fiscal year are returned to the receipts of the affected national forests.

Use these funds to purchase land and for related expenditures such as title search, escrow, recording, and personnel costs when the purchase is considered necessary to minimize soil erosion and flood damage. This appropriation is available for land acquisition within the exterior boundaries of the national forests.

Southern Nevada Public Lands Management

Department of Interior's Treasury symbol 14X5232 "Southern Nevada Public Lands Management, Bureau of Land Management" (BLM) was established by the Department of Interior as authorized by 112 Stat. 2345. The Act authorizes BLM to sell parcels of public land and retain the sale proceeds for various work projects related to improving and managing the public lands in Southern Nevada. Forest Service has participated in these work projects for several years, using many reimbursable agreements each year to conduct business with the other Federal agencies involved. FY 2005 was the first year that DOI/BLM is providing this financing with a transfer fund.

Operation and Maintenance of Forest Service Quarters

As authorized by 5 U.S.C. 5911, this appropriation is funded from quarters rental income from Forest Service owned and operated employee housing. The funds are available without further appropriation for maintenance of the residences including any Government-owned property, appliances, and utility systems integral to the facility and common to the residential community.. The fund does not cover betterments, additions, or replacement construction and new construction. This appropriation should not be used for complete or partial replacement of structures when lost by fire, flood, wind, earthquake, other disaster, or acts of God.

Cooperative State Research, Education and Extension Service

Native American Institutions Endowment Fund

The Native American Institutions Endowment Fund is authorized by Public Law 103-382 (7 U.S.C. 301 note). This program provides for an endowment for the 1994 land-grant institutions (31 Tribally controlled colleges) to strengthen the infrastructure of these institutions and develop Indian expertise for the food and agricultural sciences and businesses and their own communities. At the termination of each fiscal year, the Secretary shall withdraw the income from the endowment fund for the fiscal year, and after making adjustments for the cost of administering the fund, distribute the adjusted income on a formula basis to the 1994 land-grant institutions.

Agricultural Research Service

Miscellaneous Contributed Funds

This fund is used to promote research in food, agriculture and related areas; to enhance the accomplishment of technology transfer; and share the licensing and royalty fees resulting from patents. The Agricultural Research Service (ARS) may receive Miscellaneous Contributed Funds (MCF) from states, counties, municipal agencies, universities and colleges, associations, companies, organizations, and individuals for the purpose of supporting cooperative/in-house research or research related services of mutual interest to the agency and the contributing party. The duration of an incoming MCF is as specified in the agreement, but it must not exceed 5 years. Authorization to use these revenues and other financing sources are under statutory authority 7 U.S.C. 450(a), 3318(b), 450(b), 3319(c), 4501.

Rural Development

Alternative Agricultural Research and Commercialization Revolving Fund

This fund was set up to expedite the development and market penetration of biobased industrial (nonfood-nonfeed) products from agricultural and forestry materials as well as assist in bridging the gap between the private sector for the research and commercialization of these biobased industrial (nonfood-nonfeed) products from farm and forestry materials and animal by-products. Funding is currently limited to the amounts collected from the recipients of the program and these funds are used to pay the costs of managing the closure of the fund and the remaining is returned to the United States Treasury. The authority to establish this fund occurred in the 1990 Farm Bill, P.L. 101-624, but was discontinued in fiscal year 1999. The Farm Security and Rural Investment Act of 2002, Section 6201, transferred the complete portfolio to Rural Development/Rural Business –Cooperative Service (RD/RBS) to manage the fund while safeguarding its assets.

Earmarked Funds

	RMA	AMS	AMS	AMS	APHIS	APHIS	FS	FS	FS	FS
Balance Sheet As of September 30, 2006	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Perishable Agricultural Commodities Act	Agricultural Quarantine Inspection User Fee Account	Miscellaneous Contributed Funds	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
ASSETS										
Fund Balance with Treasury	$ 1,431	$ 202	$ 58	$ 19	$ 122	$ 14	$ 412	$ 40	$ 324	$ 95
Investments	-	-	-	-	-	-	-	-	-	-
Other Assets	1,714	483	19	-	10	1	22	50	5	4
Total Assets	3,145	685	77	19	132	15	434	90	329	99
Other Liabilities	3,927	3	61	-	9	-	57	1	201	7
Total Liabilities	3,927	3	61	-	9	-	57	1	201	7
Unexpended Appropriations	510	302	-	-	130	-	-	-	-	-
Cumulative Results of Operations	(1,292)	380	16	19	(7)	15	377	89	128	92
Total Liabilities and Net Position	3,145	685	77	19	132	15	434	90	329	99
Statement of Net Cost For the Period Ended September 30, 2006										
Gross program costs	4,584	1,087	171	10	162	16	173	83	245	76
Less Earned Revenues	1,100	1	132	7	424	7	116	1	271	68
Net Cost of Operations	3,484	1,086	39	3	(262)	9	57	82	(26)	8
Statement of Changes in Net Position For the period Ended September 30, 2006										
Net Position Beginning of Period	(529)	591	25	22	102	23	594	134	102	100
Non-Exchange Revenue	3,230	1,177	(3)	-	(240)	-	(159)	37	-	-
Other Financing Sources	-	-	31	-	-	-	-	-	-	-
Net Cost of Operations	(3,484)	(1,086)	(39)	(3)	262	(9)	(57)	(82)	26	(8)
Change in net Position	(254)	91	(11)	(3)	22	(9)	(216)	(45)	26	(8)
Net Position End of Period	$ (783)	$ 682	$ 14	$ 19	$ 124	$ 14	$ 378	$ 89	$ 128	$ 92

Earmarked Funds

	FS	FS	FS	FS	FS	FS	FS	FS	FS	FS	FS
Balance Sheet As of September 30, 2006	Fee, Operation and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	State, Private, and International Forestry, Land and Water Conservation Fund	Federal Highway Trust Fund	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund	National Forest Fund Receipts	Reforestation Trust Fund	Restoration of Forest Lands and Improvements	Payments to Counties, National Grasslands
ASSETS											
Fund Balance with Treasury	$ 13	$ 64	$ 55	$ 85	$ 11	$ 132	$ 30	$ 3	$ 25	$ 21	$ 1
Investments	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	2	1	2	16	7	18	7	-	4	2
Total Assets	13	66	56	87	27	139	48	10	25	25	3
Other Liabilities	-	-	-	3	1	4	3	-	3	-	-
Total Liabilities	-	-	-	3	1	4	3	-	3	-	-
Unexpended Appropriations	-	-	-	-	-	-	-	-	-	-	-
Cumulative Results of Operations	13	66	56	84	26	135	45	10	22	25	3
Total Liabilities and Net Position	13	66	56	87	27	139	48	10	25	25	3
Statement of Net Cost For the Period Ended September 30, 2006											
Gross program costs	-	1	13	47	12	50	12	-	31	10	-
Less Earned Revenues	12	7	12	-	-	54	15	6	-	15	(40)
Net Cost of Operations	(12)	(6)	1	47	12	(4)	(3)	(6)	31	(5)	40
Statement of Changes in Net Position For the period Ended September 30, 2006											
Net Position Beginning of Period	1	70	58	74	61	131	42	2	23	20	43
Non-Exchange Revenue	-	(10)	-	57	(22)	-	-	1	30	-	-
Other Financing Sources	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Operations	12	6	(1)	(47)	(12)	4	3	6	(31)	5	(40)
Change in net Position	12	(4)	(1)	10	(34)	4	3	7	(1)	5	(40)
Net Position End of Period	$ 13	$ 66	$ 57	$ 84	$ 27	$ 135	$ 45	$ 9	$ 22	$ 25	$ 3

Earmarked Funds

	FS	FS	FS	FS	CSREES	ARS	AARC		
Balance Sheet As of September 30, 2006	Timber Sales Pipeline Restoration Fund	Acquisition of Lands to Complete Land Exchanges	Southern Nevada Public Land Management	Operation and Maintenance of Quarters	Native American Institutions Endowment Fund	Miscellaneous Contributed Funds	Alternative Agricultural Research and Commercialization Revolving Fund	Other	Total
ASSETS									
Fund Balance with Treasury	$ 10	$ 35	$ 34	$ 10	$ 8	$ 19	$ 1	$ 64	$ 3,338
Investments	-	-	-	-	76	-	3	5	84
Other Assets	2	11	-	-	-	1	-	14	2,395
Total Assets	12	46	34	10	84	20	4	83	5,817
Other Liabilities	1	1	2	2	-	1	-	36	4,323
Total Liabilities	1	1	2	2	-	1	-	36	4,323
Unexpended Appropriations	-	-	-	-	24	-	(1)	12	976
Cumulative Results of Operations	11	45	32	8	60	19	5	35	518
									-
Total Liabilities and Net Position	12	46	34	10	84	20	4	83	5,817
Statement of Net Cost For the Period Ended September 30, 2006									
Gross program costs	6	3	13	7	2	17	12	108	6,951
Less Earned Revenues	4	25	-	8	3	17	1	91	2,357
Net Cost of Operations	2	(22)	13	(1)	(1)	-	11	17	4,594
Statement of Changes in Net Position For the period Ended September 30, 2006									
Net Position Beginning of Period	14	13	-	7	70	19	15	60	1,887
Non-Exchange Revenue	-	10	45	-	13	-	-	(13)	4,153
Other Financing Sources	-	-	-	-	-	-	-	17	48
Net Cost of Operations	(2)	22	(13)	1	1	-	(11)	(17)	(4,594)
Change in net Position	(2)	32	32	1	14	-	(11)	(13)	(393)
Net Position End of Period	$ 12	$ 45	$ 32	$ 8	$ 84	$ 19	$ 4	$ 47	$ 1,494

Dedicated Collections

	RMA	AMS	AMS	AMS	APHIS	APHIS	FS	FS	FS	FS
Balance Sheet As of September 30, 2005	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Perishable Agricultural Commodities Act	Agricultural Quarantine Inspection User Fee Account	Miscellaneous Contributed Funds	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
ASSETS										
Fund Balance with Treasury	$ 1,537	$ 350	$ 44	$ 20	$ 90	$ 13	$ 624	$ 67	$ 165	$ 101
Investments	-	-	-	-	-	-	-	-	-	-
Other Assets	1,433	245	40	3	13	10	19	68	3	3
Total Assets	2,970	595	84	23	103	23	643	135	168	104
Other Liabilities	3,499	4	59	1	1	-	49	1	66	4
Total Liabilities	3,499	4	59	1	1	-	49	1	66	4
Unexpended Appropriations	465	302	6	-	130	-	-	(1)	-	-
Cumulative Results of Operations	(994)	289	19	22	(28)	23	594	135	102	100
Total Liabilities and Net Position	2,970	595	84	23	103	23	643	135	168	104
Statement of Net Cost For the Period Ended September 30, 2005										
Gross program costs	3,637	1,090	164	11	129	16	109	92	83	67
Less Earned Revenues	1,019	-	126	7	344	24	112	20	115	72
Net Cost of Operations	2,618	1,090	38	4	(215)	(8)	(3)	72	(32)	(5)
Statement of Changes in Net Position For the period Ended September 30, 2005										
Net Position Beginning of Period	(205)	933	34	27	95	16	442	145	69	95
Non-Exchange Revenue	2,291	749	-	-	(208)	-	149	61	-	-
Other Financing Sources	2	-	28	-	-	-	-	-	-	-
Net Cost of Operations	(2,618)	(1,090)	(38)	(4)	215	8	3	(72)	32	4
Change in net Position	(325)	(341)	(10)	(4)	7	8	152	(11)	32	4
Net Position End of Period	$ (530)	$ 592	$ 24	$ 23	$ 102	$ 24	$ 594	$ 134	$ 101	$ 99

Dedicated Collections

	FS	FS	FS	FS	FS	FS	FS	FS	FS	FS	FS
Balance Sheet As of September 30, 2005	Fee, Operation and Maintenance of Recreation Facilities	Timber Roads, Purchaser Election	Expenses, Brush Disposal	State, Private, and International Forestry, Land and Water Conservation Fund	Federal-Aid Highways	Recreation Fee Demonstration Program	Roads and Trails for States, National Forest Fund	National Forest Fund Receipts	Reforestation Trust Fund	Restoration of Forest Lands and Improvements	Payments to Counties, National Grasslands
ASSETS											
Fund Balance with Treasury	$ 13	$ 68	$ 57	$ 80	$ 24	$ 129	$ 29	$ 21	$ 26	$ 19	$ 65
Investments	-	-	-	-	-	-	-	-	-	-	-
Other Assets	-	2	-	-	38	6	16	7	-	1	7
Total Assets	13	70	57	80	62	135	45	28	26	20	72
Other Liabilities	12	-	-	5	1	4	3	25	3	-	18
Total Liabilities	12	-	-	5	1	4	3	25	3	-	18
Unexpended Appropriations	-	-	-	-	-	-	(1)	-	-	-	-
Cumulative Results of Operations	1	70	57	75	61	131	43	3	23	20	54
Total Liabilities and Net Position	13	70	57	80	62	135	45	28	26	20	72
Statement of Net Cost For the Period Ended September 30, 2005											
Gross program costs	-	-	12	35	6	44	12	-	30	3	7
Less Earned Revenues	-	7	13	-	-	50	16	3	-	3	55
Net Cost of Operations	-	(7)	(1)	35	6	(6)	(4)	(3)	30	-	(48)
Statement of Changes in Net Position For the period Ended September 30, 2005											
Net Position Beginning of Period	81	63	56	52	52	44	38	(1)	23	20	5
Non-Exchange Revenue	(80)	-	-	57	16	81	-	-	30	-	-
Other Financing Sources	-	-	-	-	-	-	-	-	-	-	-
Net Cost of Operations	-	6	1	(35)	(6)	6	4	3	(30)	-	48
Change in net Position	(80)	6	1	22	10	87	4	3	-	-	48
Net Position End of Period	$ 1	$ 69	$ 57	$ 74	$ 62	$ 131	$ 42	$ 2	$ 23	$ 20	$ 53

Dedicated Collections

	FS	FS	FS	FS	CSREES	ARS	AARC		
Balance Sheet As of September 30, 2005	Timber Sales Pipeline Restoration Fund	Acquisition of Lands to Complete Land Exchanges	Southern Nevada Public Land Management	Operation and Maintenance of Quarters	Native American Institutions Endowment Fund	Miscellaneous Contributed Funds	Alternative Agricultural Research and Commercialization Revolving Fund	Other	Total
ASSETS									
Fund Balance with Treasury	$ 12	$ 4	$ -	$ 9	$ 7	$ 18	$ -	$ 54	$ 3,646
Investments	-	-	-	-	63	-	15	6	84
Other Assets	2	9	-	-	-	2	-	15	1,942
Total Assets	14	13	-	9	70	20	15	75	5,672
Other Liabilities	-	-	-	3	-	-	-	23	3,781
Total Liabilities	-	-	-	3	-	-	-	23	3,781
Unexpended Appropriations	-	-	-	-	12	-	(1)	11	923
Cumulative Results of Operations	14	13	-	6	58	20	16	41	968
									-
Total Liabilities and Net Position	14	13	-	9	70	20	15	75	5,672
Statement of Net Cost For the Period Ended September 30, 2005									
Gross program costs	5	2	-	8	2	19	-	72	5,655
Less Earned Revenues	6	8	-	7	3	16	-	62	2,088
Net Cost of Operations	(1)	(6)	-	1	(1)	3	-	10	3,567
Statement of Changes in Net Position For the period Ended September 30, 2005									
Net Position Beginning of Period	13	6	-	7	58	23	15	39	2,245
Non-Exchange Revenue	-	1	-	-	12	-	-	4	3,163
Other Financing Sources	-	-	-	-	-	-	-	20	50
Net Cost of Operations	1	6	-	-	1	(4)	-	(8)	(3,567)
Change in net Position	1	7	-	-	13	(4)	-	16	(354)
Net Position End of Period	$ 14	$ 13	$ -	$ 7	$ 71	$ 19	$ 15	$ 55	$ 1,891

NOTE 19. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2006	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 901	$ 1,266	$ 1,801	$ 21,876	$ 64	$ 252
Less: Earned Revenue	314	378	246	4,749	75	14
Net Cost	587	888	1,555	17,127	(11)	238
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	284	2,082	-	-
Less: Earned Revenue	-	-	-	35	-	-
Net Cost	-	-	284	2,047	-	-
Total Gross Costs	901	1,266	2,085	23,958	64	252
Less: Total Earned Revenue	314	378	246	4,784	75	14
Net Cost of Operations	$ 587	$ 888	$ 1,839	$ 19,174	$ (11)	$ 238

FY 2006	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 45	$ 4,626	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	1,100	-	-	-	-
Net Cost	45	3,526	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	273	801
Less: Earned Revenue	-	-	-	-	3	125
Net Cost	-	-	-	-	270	676
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	785	52,666	-	-
Less: Earned Revenue	-	-	3	18	-	-
Net Cost	-	-	782	52,648	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	45	4,626	785	52,666	273	801
Less: Total Earned Revenue	-	1,100	3	18	3	125
Net Cost of Operations	$ 45	$ 3,526	$ 782	$ 52,648	$ 270	$ 676

FY 2006	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 467	$ 929	$ -	$ -	$ 29	$ 56
Less: Earned Revenue	9	190	-	-	1	39
Net Cost	458	739	-	-	28	17
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	271	1,483	-	-
Less: Earned Revenue	-	-	400	471	-	-
Net Cost	-	-	(129)	1,012	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	467	929	271	1,483	29	56
Less: Total Earned Revenue	9	190	400	471	1	39
Net Cost of Operations	$ 458	$ 739	$ (129)	$ 1,012	$ 28	$ 17

FY 2006	FS		NRCS		ARS	
	Intragovernmental	**With the Public**	**Intragovernmental**	**With the Public**	**Intragovernmental**	**With the Public**
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ -	$ -	$ -	$ -	$ 84	$ 403
Less: Earned Revenue	-	-	-	-	24	10
Net Cost	-	-	-	-	60	393
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	84	403
Less: Earned Revenue	-	-	-	-	24	10
Net Cost	-	-	-	-	60	393
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	16	78
Less: Earned Revenue	-	-	-	-	5	2
Net Cost	-	-	-	-	11	76
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	1,106	5,831	540	2,472	49	235
Less: Earned Revenue	386	649	119	(15)	14	6
Net Cost	720	5,182	421	2,487	35	229
Total Gross Costs	1,106	5,831	540	2,472	233	1,119
Less: Total Earned Revenue	386	649	119	(15)	67	28
Net Cost of Operations	$ 720	$ 5,182	$ 421	$ 2,487	$ 166	$ 1,091

FY 2006	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 11	$ 371	$ 18	$ 32	$ 35	$ 100
Less: Earned Revenue	9	-	1	(1)	11	3
Net Cost	2	371	17	33	24	97
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	5	160	3	5	10	27
Less: Earned Revenue	4	-	-	-	3	1
Net Cost	1	160	3	5	7	26
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	8	268	2	3	1	3
Less: Earned Revenue	7	-	-	-	-	-
Net Cost	1	268	2	3	1	3
Improve the Nation's Nutrition and Health:						
Gross Costs	4	123	4	7	-	-
Less: Earned Revenue	3	-	-	-	-	-
Net Cost	1	123	4	7	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	6	189	4	7	1	4
Less: Earned Revenue	5	-	-	-	-	-
Net Cost	1	189	4	7	1	4
Total Gross Costs	34	1,111	31	54	47	134
Less: Total Earned Revenue	28	-	1	(1)	14	4
Net Cost of Operations	$ 6	$ 1,111	$ 30	$ 55	$ 33	$ 130

FY 2006	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ -	$ -	$ 181	$ 302	$ 3,636	$ 30,213
Less: Earned Revenue	-	-	213	6	903	6,488
Net Cost	-	-	(32)	296	2,733	23,725
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3,133	3,709	58	94	3,209	3,995
Less: Earned Revenue	348	3,632	69	1	424	3,634
Net Cost	2,785	77	(11)	93	2,785	361
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	86	140	725	3,101
Less: Earned Revenue	-	-	103	3	537	609
Net Cost	-	-	(17)	137	188	2,492
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	49	79	858	52,953
Less: Earned Revenue	-	-	57	1	68	21
Net Cost	-	-	(8)	78	790	52,932
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	112	181	2,102	11,001
Less: Earned Revenue	-	-	135	1	659	676
Net Cost	-	-	(23)	180	1,443	10,325
Total Gross Costs	3,133	3,709	486	796	10,530	101,263
Less: Total Earned Revenue	348	3,632	577	12	2,591	11,428
Net Cost of Operations	$ 2,785	$ 77	$ (91)	$ 784	$ 7,939	$ 89,835

FY 2006	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Costs	$ (2,008)	$ 31,841
Less: Earned Revenue	(412)	6,979
Net Cost	(1,596)	24,862
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	(156)	7,048
Less: Earned Revenue	(78)	3,980
Net Cost	(78)	3,068
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	(197)	3,629
Less: Earned Revenue	(497)	649
Net Cost	300	2,980
Improve the Nation's Nutrition and Health:		
Gross Costs	(747)	53,064
Less: Earned Revenue	(53)	36
Net Cost	(694)	53,028
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	(511)	12,592
Less: Earned Revenue	(231)	1,104
Net Cost	(280)	11,488
Total Gross Costs	(3,619)	108,174
Less: Total Earned Revenue	(1,271)	12,748
Net Cost of Operations	$ (2,348)	$ 95,426

FY 2005	FSA		CCC		FAS	
	Intragovernmental	**With the Public**	**Intragovernmental**	**With the Public**	**Intragovernmental**	**With the Public**
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 848	$ 1,129	$ 1,683	$ 32,653	$ 88	$ 231
Less: Earned Revenue	260	418	129	13,102	74	-
Net Cost	588	711	1,554	19,551	14	231
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	187	1,970	-	-
Less: Earned Revenue	-	-	1	1	-	-
Net Cost	-	-	186	1,969	-	-
Total Gross Costs	848	1,129	1,870	34,623	88	231
Less: Total Earned Revenue	260	418	130	13,103	74	-
Net Cost of Operations	$ 588	$ 711	$ 1,740	$ 21,520	$ 14	$ 231

FY 2005	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 40	$ 3,678	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	1,019	-	-	-	-
Net Cost	40	2,659	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	249	748
Less: Earned Revenue	-	-	-	-	3	119
Net Cost	-	-	-	-	246	629
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	1,093	50,513	-	-
Less: Earned Revenue	-	-	5	24	-	-
Net Cost	-	-	1,088	50,489	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	40	3,678	1,093	50,513	249	748
Less: Total Earned Revenue	-	1,019	5	24	3	119
Net Cost of Operations	$ 40	$ 2,659	$ 1,088	$ 50,489	$ 246	$ 629

FY 2005	AMS		APHIS		GIPSA	
	Intragovernmental	**With the Public**	**Intragovernmental**	**With the Public**	**Intragovernmental**	**With the Public**
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 82	$ 1,325	$ -	$ -	$ 26	$ 66
Less: Earned Revenue	3	189	-	-	1	36
Net Cost	79	1,136	-	-	25	30
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	252	1,063	-	-
Less: Earned Revenue	-	-	20	462	-	-
Net Cost	-	-	232	601	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	82	1,325	252	1,063	26	66
Less: Total Earned Revenue	3	189	20	462	1	36
Net Cost of Operations	$ 79	$ 1,136	$ 232	$ 601	$ 25	$ 30

FY 2005	FS		NRCS		ARS	
	Intragovernmental	**With the Public**	**Intragovernmental**	**With the Public**	**Intragovernmental**	**With the Public**
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ -	$ -	$ -	$ 5	$ 71	$ 398
Less: Earned Revenue	-	-	(1)	-	19	7
Net Cost	-	-	1	5	52	391
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	23	108	-	-
Less: Earned Revenue	-	-	1	3	-	-
Net Cost	-	-	22	105	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	69	387
Less: Earned Revenue	-	-	-	-	18	7
Net Cost	-	-	-	-	51	380
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	16	89
Less: Earned Revenue	-	-	-	-	4	2
Net Cost	-	-	-	-	12	87
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	929	4,902	433	1,953	42	232
Less: Earned Revenue	265	524	80	45	11	4
Net Cost	664	4,378	353	1,908	31	228
Total Gross Costs	929	4,902	456	2,066	198	1,106
Less: Total Earned Revenue	265	524	80	48	52	20
Net Cost of Operations	$ 664	$ 4,378	$ 376	$ 2,018	$ 146	$ 1,086

FY 2005	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ 10	$ 360	$ 14	$ 26	$ 35	$ 101
Less: Earned Revenue	8	-	1	-	19	4
Net Cost	2	360	13	26	16	97
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3	167	3	6	4	16
Less: Earned Revenue	5	-	-	-	-	-
Net Cost	(2)	167	3	6	4	16
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	9	275	1	3	1	3
Less: Earned Revenue	6	-	-	-	1	-
Net Cost	3	275	1	3	-	3
Improve the Nation's Nutrition and Health:						
Gross Costs	2	131	6	11	-	-
Less: Earned Revenue	4	-	-	-	-	-
Net Cost	(2)	131	6	11	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	5	201	4	8	2	5
Less: Earned Revenue	4	-	-	-	1	-
Net Cost	1	201	4	8	1	5
Total Gross Costs	29	1,134	28	54	42	125
Less: Total Earned Revenue	27	-	1	-	21	4
Net Cost of Operations	$ 2	$ 1,134	$ 27	$ 54	$ 21	$ 121

FY 2005	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	$ -	$ -	$ 125	$ 271	$ 3,022	$ 40,243
Less: Earned Revenue	-	-	191	5	704	14,780
Net Cost	-	-	(66)	266	2,318	25,463
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3,314	1,730	49	106	3,396	2,133
Less: Earned Revenue	416	3,920	74	2	496	3,925
Net Cost	2,898	(2,190)	(25)	104	2,900	(1,792)
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	60	132	641	2,611
Less: Earned Revenue	-	-	92	2	140	590
Net Cost	-	-	(32)	130	501	2,021
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	35	77	1,152	50,821
Less: Earned Revenue	-	-	54	1	67	27
Net Cost	-	-	(19)	76	1,085	50,794
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	75	168	1,677	9,439
Less: Earned Revenue	-	-	118	3	480	577
Net Cost	-	-	(43)	165	1,197	8,862
Total Gross Costs	3,314	1,730	344	754	9,888	105,247
Less: Total Earned Revenue	416	3,920	529	13	1,887	19,899
Net Cost of Operations	$ 2,898	$ (2,190)	$ (185)	$ 741	$ 8,001	$ 85,348

FY 2005	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Costs	$ (1,356)	$ 41,909
Less: Earned Revenue	(348)	15,136
Net Cost	(1,008)	26,773
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	(171)	5,358
Less: Earned Revenue	(77)	4,344
Net Cost	(94)	1,014
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	(181)	3,071
Less: Earned Revenue	(100)	630
Net Cost	(81)	2,441
Improve the Nation's Nutrition and Health:		
Gross Costs	(940)	51,033
Less: Earned Revenue	(48)	46
Net Cost	(892)	50,987
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	(430)	10,686
Less: Earned Revenue	(169)	888
Net Cost	(261)	9,798
Total Gross Costs	(3,078)	112,057
Less: Total Earned Revenue	(742)	21,044
Net Cost of Operations	$ (2,336)	$ 91,013

NOTE 20. COST OF STEWARDSHIP PP&E

The acquisition cost of stewardship land in FY 2006 and FY 2005 was $291 million and $246 million, respectively.

NOTE 21. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

FY 2006

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 70,503	$ 1,336	$ 71,839
Apportionment for Special Activities	30,857	41,166	72,023
Exempt from Apportionment	1,535	61	1,596
Total Obligations Incurred	$ 102,895	$ 42,563	$ 145,458

FY 2005

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 65,399	$ 447	$ 65,846
Apportionment for Special Activities	30,937	42,982	73,919
Exempt from Apportionment	1,039	31	1,070
Total Obligations Incurred	$ 97,375	$ 43,460	$ 140,835

NOTE 22. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

Available borrowing authority at September 30, 2006 and 2005 was $29,700 million and $29,073 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 term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, 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. CBO's outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB's CBO's are repaid as they mature and 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.

Prepayments can be made on Treasury borrowings without a penalty; however, they cannot be made on FFB CBO's, without a penalty.

Funds may also 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

	FY 2006		FY 2005	
	Obligated	Unobligated	Obligated	Unobligated
Beginning balances	$ 44,757	$ 25,998	$ 38,146	$ 25,081
Adjustments	-	-	-	-
Beginning balances, as adjusted	$ 44,757	$ 25,998	$ 38,146	$ 25,081

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 are mainly 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. They are treated as permanent the first year they become available, as well as in succeeding years. However, 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 is 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 to 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 not available 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 fiscal 2005 Statement of Budgetary Resources and the fiscal 2005 actual numbers presented in the fiscal 2007 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations.

Adjustments were made subsequent to the Budget submission as follows:

Forest Service – A Treasury symbol that was established and utilized for Fire Transfer Payback and included in the President's Budget should not have been treated as an offsetting receipt.

CCC – Beginning balance difference resulting primarily from the accounting for cohorts in the President's Budget and FACTS ll for Budgetary Resources and Obligations incurred. In addition the difference in the Outlays are as a result of a timing difference of a Parent-child relationship with another governmental agency.

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 since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available 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 fiscal 2006 Statement of Budgetary Resources and the fiscal 2006 actual numbers presented in the fiscal 2008 Budget cannot be performed as the fiscal 2008 Budget is not yet available. The fiscal 2008 Budget is expected to be published in February 2007 and will be available from the Government Printing Office.

FY 2005

	Budgetary Resources	Obligations incurred	Distributed offsetting receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 166,833	$ 140,836	$ 2,167	$ 89,799
Reconciling items:				
Expired accounts	(9,479)	(4,060)	-	-
Adjustment - Forest Service	-	-	168	(168)
Adjustment- CCC	184	184	-	(47)
Native American Institutions	(15)	(1)	-	-
Milk Market Orders Fund	49	49	-	(2)
Other	(4)	9	1	(16)
Budget of the United States Government	$ 157,568	$ 137,017	$ 2,336	$ 89,566

NOTE 28. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered orders as of September 30, 2006 and 2005 was $35,204 million and $34,698 million, respectively.

NOTE 29. 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, except for 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 reflected below for the portion of liabilities not covered by budgetary resources.

	FY 2006	FY 2005
Current year liabilities not covered by budgetary resources, as disclosed in Note 12	$ 10,260	$ 11,581
Prior year liabilities not covered by budgetary resources	(11,581)	(3,697)
Increase (Decrease) in liabilities not covered by budgetary resources	(1,321)	7,884
Upward/Downward Reestimates of Credit Subsidy Expense	650	(1,853)
Increase in Exchange Revenue Receivable from the Public	(377)	(7,791)
Other	1,494	(428)
Components requiring or generating resources in future periods, as reported on the Statement of Financing	$ 446	$ (2,188)

NOTE 30. 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 Department of Labor for training underemployed youths; the Department of Transportation for maintenance and upkeep of federal highways traversing National Forest System lands; the Department of Interior for watershed improvement projects and oil and gas use authorizations; 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; the Department of Interior for state and private forestry; the Department of Transportation for capital improvement and maintenance; and the Department of Defense for state and private forestry.

NOTE 31. INCIDENTAL CUSTODIAL COLLECTIONS

Custodial collections represent National Forest Fund receipts from the sale of timber and other forest products, 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 2006	FY 2005
Sources of Collections:		
Miscellaneous	$ 65	$ 64
Total Cash Collections	65	64
Accrual Adjustments	(11)	(7)
Total Custodial Revenue	54	57
Disposition of Collections:		
Transferred to Others:		
Treasury	(46)	(8)
States and Counties	-	(7)
(Increase)/Decrease in Amounts Yet to be Transferred	(8)	(42)
Net Custodial Activity	$ -	$ -

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS

Stewardship investments are substantial investments made by the Federal Government for the benefit of the nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. 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 2006 Expense	FY 2005 Expense	FY 2004 Expense	FY 2003 Expense	FY 2002 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Food Stamp Program	$ 21	$ 22	$ 36	$ 39	$ -
Special Supplemental Nutrition Program	12	17	8	16	-
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	17	17	15	15	14
Total Non-Federal Property	$ 50	$ 56	$ 59	$ 70	$ 14
Human Capital:					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	$ 525	$ 507	$ 502	$ 511	$ 532
Food and Nutrition Service					
Food Stamp Program	66	49	75	99	-
Forest Service					
Job Corps Program	110	161	106	118	104
Agricultural Research Service					
National Agricultural Library	22	21	21	21	20
Risk Management Agency					
Risk Management Education	10	10	7	4	-
Total Human Capital	$ 733	$ 748	$ 711	$ 753	$ 656
Research and Development:					
Agricultural Research Service					
Plant Sciences	$ -	$ -	$ -	$ 394	$ 384
Commodity Conversion and Delivery	-	-	-	185	182
Animal Sciences	-	-	-	194	102
Soil, Water, and Air Sciences	-	-	-	110	100
Human Nutrition	85	84	83	78	80
Integration of Agricultural Systems	-	-	-	43	40
Collaborative Research Program	7	6	5	6	11
Product Quality/Value Added	107	105	104	-	
Livestock Production	85	84	82	-	-
Crop Production	201	197	194	-	-
Food Safety	105	103	96	-	-
Livestock Protection	90	78	64	-	-
Crop Protection	199	193	183	-	-
Environmental Stewardship	223	219	216	-	-
Homeland Security	-	-	21	-	-
Cooperative State Research, Education, and Extension Service					
Land-grant University System	661	645	610	601	542
Forest Service	318	295	312	233	227
Economic Research Service					
Economic and Social Science	75	74	71	69	67
National Agricultural Statistics Service					
Statistical	5	5	5	5	5
Total Research and Development	$ 2,161	$ 2,088	$ 2,046	$ 1,918	$ 1,740

Non-Federal Physical Property

Food and Nutrition Service

FNS' non-Federal physical property consists of computer systems and other equipment obtained by State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program 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 for the purpose of administering 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, a resident instruction grant program for insular areas, 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 fiscal 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 Food Stamp Program. The E&T program 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 781,543 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,203,142 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 Department of Interior (DOI) National Parks Service, Fish and Wildlife Service, and Bureau of Reclamation, continued "Empowering Youth and Enhancing Communities and Natural Resources."

In partnership with the U.S. Department of Labor (DOL), the FS operates 19 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 purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. The program 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 biweekly 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 July 1 to June 30. During Job Corps' FY 2006, accomplishments included the following:

- 8,732 participants received 4,116 placements with an average starting hourly wage of 55 cents more than the DOL national average.
- Approximately 1,806 female students received training in nontraditional vocations.
- 634 students received high school diplomas, and 1,429 students obtained general equivalency diplomas.
- Approximately 1,223 Job Corps students and staff assisted the agency in its firefighting efforts.
- Students accomplished conservation work on NFS lands appraised at $26.4 million.

Since 1964, the FS' Job Corps Centers have trained and educated more than 300,000 young men and women.

On January 10, 2005 the agency successfully transferred the Mingo Job Corps Center from DOI Fish and Wildlife Service to the USDA Forest Service.

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.

The NAL was created as the departmental library for USDA in 1862 and 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 over 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, the FCIC has formed new partnerships with the CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry 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 has built on this foundation since 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal years 2006 and 2005, 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 48,000 in fiscal year 2006 and 47,000 in fiscal year 2005. 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 $10 million for fiscal year 2006 and $10 million for fiscal year 2005. The following table summarizes the RME initiatives since fiscal year 2002:

(dollars in millions)		2006	2005	2004	2003	2002
RME Obligations	$	10	9.4	10	9	6
Number of producers attending RME sessions		48,000	47,000	46,000	62,000	50,000

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 historically underserved by the Federal crop insurance program. The Secretary determined that fifteen 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

The ARS mission is to conduct research to develop and transfer solutions to agricultural problems of high national priority and provide information access and dissemination to: ensure high quality, safe food, and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole.

ARS is in the process of revising its Strategic Plan to align it with the Department's new Strategic Plan. ARS' major program areas are being aligned as follows:

GOAL: Enhance the Competitiveness and Sustainability of Rural and Farm Economies.

- **Product Quality/Value Added**—Many agricultural products are marketed as low value commodities; harvested commodities often suffer losses due to spoilage or damage during shipping, storage, and handling. Biobased products represent a small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products. Healthy foods are often not convenient and/or are not widely accepted by many consumers. Currently, the agency has active research programs designed to address these new product/product quality issues and concerns.
- **Livestock Production**—Producers need new scientific information and technologies to increase production efficiency; safeguard the environment; improve animal well-being; reduce production risks and product losses; and understand the relationships between nutrients, reproduction, growth, and conversion to and marketability of

animal products. In addition, new research is needed to identify genes that are responsible for economically important traits; to maintain and develop improved germplasm and use genetic resources to optimize and safeguard genetic diversity; to understand biological mechanisms; and to promote viable, vigorous production systems. Currently, ARS has active research programs designed to address these livestock production issues and concerns.

- **Crop Production**—Producers need new scientific information and technologies to increase production efficiency; safeguard the environment; reduce production risks and product losses; and understand the relationships between nutrients, reproduction, growth, and conversion to and marketability of plant products. In addition, new research is needed to identify genes that are responsible for economically important traits; to maintain and develop improved germplasm and use genetic resources to optimize and safeguard genetic diversity; to understand biological mechanisms; and to promote viable, vigorous production systems. Currently, ARS has active research programs designed to address these crop production issues and concerns.

GOAL: Enhance Protection and Safety of the Nation's Agriculture and Food Supply.

- **Food Safety**—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 United States has been a diverse, extensive, and easily accessible system. This open system is vulnerable to the introduction of pathogens and toxins through natural processes, global commerce, and by intentional means. The food supply must be protected during production, processing, and preparation from pathogens, toxins, and chemical contamination that cause diseases in humans. Currently, the agency has active research programs designed to develop new on-farm preharvest systems, practices, and products to reduce pathogen and toxin contamination of animal and plant derived foods; and to develop and transfer to Federal and State agencies and the private sector technologies that rapidly and accurately detect, identify, and differentiate the most critical and economically important foodborne pathogenic bacteria and viruses.
- **Livestock Protection**—Economic sustainability of livestock production systems in domestic and global markets is limited by the disease status of the animals. Many factors affect the likelihood of diseases in livestock. These include globalization and international commerce, presence of pathogen vectors, industrialization of agriculture, availability of vaccines and protection systems, movements of animals during production, emergence of new diseases, genetic resistance, and the availability of trained animal health specialists. Livestock production systems are in transition from open and extensive systems to more closely monitored intensive management systems which remain vulnerable to accidental and intentional exposure to pathogens. Many of these pathogens are zoonotic and impact public health. Currently, the agency has active research programs designed to protect animals from pests and infectious diseases; identify, develop, and release to the U.S. agricultural community genetic markers, genetic lines, breeds, or germplasm that result in food animals with improved pest and disease resistance traits; and to provide producers of agriculturally important animals, scientific information and technologies to control, monitor, and manage invasive insects and pathogens.
- **Crop Production**—Economic sustainability of agricultural crop production in domestic and global markets is limited by the disease status of crops. Many factors affect the likelihood of diseases to crops including, globalization and international commerce, presence of pathogen vectors, availability of protection systems, emergence of new diseases, genetic resistance, and the availability of trained plant health specialists. Crop systems have limited diversity and remain more vulnerable to intentional exposure to pathogens. Currently, the agency has active research programs designed to protect plants from pests (including weeds) and diseases;

identify, develop, and release to the U.S. agricultural community genetic markers, genetic lines, or germplasm that result in plants with improved pest and disease resistance traits; to provide producers of agriculturally important plants, scientific information and technologies to control, monitor, and manage invasive insects, weeds, and pathogens; and to conduct biologically-based integrated and area-wide management of key invasive species.

GOAL: Improve the Nation's Nutrition and Health.

- **Human Nutrition**—Improving the Nation's health requires enhancing the quality of the American diet. The United States is experiencing an obesity epidemic resulting from multifaceted causes including a "more is better" mindset, a sedentary lifestyle, and the selection of readily available high calorie foods. Four of the top ten causes of death in the United States – cardiovascular disease, cancer, stroke, and diabetes – are associated with the quality of our diets, diets too high in calories, total fat, saturated fat, cholesterol, or too low in fiber. Americans want fresh foods that taste good, are convenient to prepare and consume, and yet, offer nutrition and health benefits. Building a strong connection between agriculture and human health is an important step to providing a nutritionally enhanced food supply. Promoting healthier food choices and educating Americans to balance caloric intake with sufficient daily physical activity are vital steps to preventing obesity and decreasing risk for chronic disease.

  Currently, the agency has active research programs designed to address food consumption patterns; and dietary intervention strategies and programs to prevent obesity and promote healthy dietary behavior. Research is being conducted to implement the combined "What We Eat in America" dietary survey; and to update and revise Dietary Reference Intake and the National Nutrient Database of nutrient content of foods. Research is also being conducted to provide information, technology, services, and data from the National Nutrient Database, and from the "What We Eat in America" survey to USDA agencies and the private sector to support revision of the Dietary Guidelines.

GOAL: Protect and Enhance the Nation's Natural Resource Base and Environment.

- **Environmental Stewardship**— Agriculture relies on a natural resource base whose sustainability depends on sound, science-based production practices. The management of the Nation's renewable natural resources often seems to be a continuous balancing of conflicting and competing goals and concerns. While this is often the case, particularly in the short-term, longer-term management strategies combined with adequate knowledge of the complex natural systems can yield maximum sustainable benefits from the country's resources that can satisfy most competing concerns. ARS research in the broad area of environmental stewardship is designed to address specific issues relating to agriculture's impact on the environment and the environment's impact on agriculture. EPA estimates that only 70 percent of the rivers, 68 percent of the estuaries, and 60 percent of the lakes now meet legislatively mandated goals. Dust emissions from agricultural operations and ammonia emissions from animal feeding operations pose a threat to environmental quality and human health. Approximately half of the rangelands have been significantly degraded by fire, invasive weeds, environmental changes, and poor grazing management. Approximately 500 million acres of cropland and grazing land have been degraded by various causes, including erosion, loss of organic matter, compaction, salinity, and soil acidification. Increases in the atmospheric concentration of greenhouse gases and related increases in weather variability affect the physiology and ecology of plants on croplands and rangelands in often unpredictable ways. Currently, ARS has active research programs designed to respond to these environmental issues and concerns.

Management Initiative: Provide Agricultural Library and Information Services to USDA and the Nation via the National Agricultural Library.

The National Agricultural Library (NAL), the world's primary agricultural library, has two legislative mandates, to serve the Nation as one of four national libraries of the United States, and to be USDA's library. NAL, whose vision statement is "advancing access to global information for agriculture," serves its customers by identifying, collecting, providing access to, and preserving agricultural information. NAL's collections, programs, and services support USDA agencies as well as multiple client audiences which include scientists, researchers, practitioners, policymakers, teachers, and students.

Management Initiative: Provide Adequate Federal Facilities Required to Support the Research Mission of ARS.

ARS has over 100 laboratories, primarily located throughout the United States. ARS' facilities program is designed to meet the needs of its scientists and support personnel to accomplish the agency's mission

Cooperative State Research, Education, and Extension Service Program

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 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:

- Fire, Invasive species
- Recreation
- Research Data and Analysis
- Research Management and Use
- 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 2006 accomplishments include the following:

- 54 new interagency agreements and contracts
- 15 interagency agreements and contracts continued
- 1,691 articles published in journals
- 1,817 articles published in all other publications
- 7 patents granted
- 1 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 is 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. In addition, 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

STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

Heritage Assets

Forest Service

The FS estimates that more than 340,000 heritage assets are on land that it manages. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Collection assets held at museums and universities are managed by those entities, and not the FS.

Heritage assets designated as National Historic Landmarks are sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States, and 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.

Heritage assets listed in the National Register of Historic Places include properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and in the cultural foundation of the Nation. Sites formally determined as eligible for the National Register by the Keeper of the National Register, or documented through consultation with State Historic Preservation Offices, are considered potentially eligible for the National Register.

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 better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America.

The 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. Heritage assets can be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities, where previously undocumented sites are discovered and added to the total. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of "additions."

Major FS heritage assets by category and condition for FY 2005 are shown below:

Category	2004 Final Sites	Additions	Withdrawals	FY 2005 Ending Balance	Condition
Total heritage assets	318,259	24,103	1	342,361	Poor – Fair
Eligible for the National Register of Historic Places	57,925	0	3,963	53,962	Poor – Fair
Listed on the National Register	3,397	82	1	3,478	Fair
Sites with structures listed on the National Register	1,874	82	0	1,956	Poor – Fair
National Historic Landmarks	19	1	0	20	Fair – Good

Natural Resources Conservation Service

NRCS currently owns one heritage asset, the Tucson Plant Materials Center (TPMC). It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. It provides technical assistance to NRCS field offices, RC& D groups, Conservation districts, federal, state, and tribal agencies, and private landowners throughout the greater Southwest.

Agricultural Research Service

ARS has approximately 60 heritage assets at three locations under its custody and control. These locations include: (1) the U.S. National Arboretum, Washington, D.C.; (2) the Grazinglands Research Laboratory (GRL), El Reno, Oklahoma; and (3) the Fort Keogh Livestock and Range Research Laboratory, Miles City, Montana.

Established in 1927 by an Act of Congress, the mission of the U.S. National Arboretum is to serve the public need for scientific research, education, and gardens that conserve and showcase plants to enhance the environment.

GLR was established by Public Law 80-494, 62 Stat. 197 on April 21, 1948, and includes 6,737-acres of withdrawn public land. The mission of the GRL is to provide new technologies and management strategies which increase the profitability of forage and livestock production, reduce risks associated with management decisions, promote sustainability, and conserve the productivity of grazing land resources of the Great Plains.

The Fort Keogh Livestock and Range Research Laboratory was established by an Act of Congress in 1924 and includes 55,767 acres within the original area of the Fort Keogh Military Reservation just west of Miles City, Montana. The mission of the Fort Keogh Livestock and Range Research Laboratory is to research and develop ecologically and economically sustainable range animal management systems that ultimately meet consumers' needs. The Fort Keogh Military Reservation, which was established by an Act of Congress in 1876, was placed on the National Register of Historic Places in March of 1978.

Stewardship Land

Description	FY 2006 Balance	Additions (+)	Withdrawals (-)	FY 2005 Balance
National Forest System Land (In acres):				
National Forests	144,056,315	-	(403,999)	144,460,314
National Forests Wilderness Areas	34,816,228	-	(140,850)	34,957,078
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	931,314	681	-	930,633
National Recreation Areas	2,912,576	94,308	-	2,818,268
National Scenic–Research Areas	137,486	196	-	137,290
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,834,041	-	-	3,834,041
National Grasslands	3,837,870	-	(296)	3,838,166
Purchase Units	374,749	4,718	-	370,031
Land Utilization Projects	1,876	-	-	1,876
Other Areas	512,497	2,640	-	509,857
Total National Forest System Land	192,786,813	102,543	(545,145)	193,229,415
Conservation Easements (In acres):				
Natural Resources Conservation Service				
Wetlands Reserve Program	1,531,185	135,486	-	1,395,699
Grassland Reserve Program	42,902	29,190	-	13,712
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,399	50	-	94,349
Total Conservation Easements	1,760,645	164,726	-	1,595,919

Description	FY 2005 Balance	Additions (+)	Withdrawals (-)	FY 2004 Balance
National Forest System Land (In acres):				
National Forests	144,460,314	383,523	-	144,076,791
National Forests Wilderness Areas	34,957,078	3,708	-	34,953,370
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	930,633	-	(20,273)	950,906
National Recreation Areas	2,818,268	-	(92,971)	2,911,239
National Scenic–Research Areas	137,290	160	-	137,130
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,834,041	100	-	3,833,941
National Grasslands	3,838,166	-	(1,377)	3,839,543
Purchase Units	370,031	5	-	370,026
Land Utilization Projects	1,876	-	-	1,876
Other Areas	509,857	59,229	(9)	450,637
Total National Forest System Land	193,229,415	446,725	(114,630)	192,897,320
Conservation Easements (In acres):				-
Natural Resources Conservation Service				-
Wetlands Reserve Program	1,395,699	133,580	-	1,262,119
Grassland Reserve Program	13,712	13,712	-	-
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,349	250	-	94,099
Total Conservation Easements	1,595,919	147,542	-	1,448,377

National Forest System

The FS manages an estimated 193 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

- Environmental resources;
- Recreational and scenic values;
- Cultural and paleontological resources;
- Vast open spaces; and
- Resource commodities and revenue they provide to the Federal Government, States, and counties.

Land needed to protect critical wildlife habitat and cultural and historic values, to support the purposes of congressional designation, and for recreation and conservation purposes is acquired through purchase or exchange.

National Forests

The national forests are formally 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 Wilderness Areas. Areas designated by Congress as part of the National Wilderness Preservation System.
- National 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 and to 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 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 Congress.

National Grasslands

National Grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Purchase Units

Purchase units are 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

Land utilization projects are reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas

There are areas administered by the FS that are not included in one of the above groups.

Condition of NFS Lands

The condition of NFS lands varies by purpose and location. The FS monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis (FIA) and Forest Health Monitoring (FHM).

The FIA program conducts annual inventories of forest status and trends. FIA has historic inventory data in all 50 States and is currently collecting annual inventory data in 45 States, including 38 of the 41 States containing NFS land. Active throughout all 50 States, FHM provides surveys and evaluations of forest health conditions and trends.

Although most of the estimated 193 million acres of NFS forest 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 or catastrophic fires. About 25.03 million acres of NFS forest land are at risk to future mortality from insects and diseases, based on the current Insect and Disease Risk Map; and nearly 111 million acres are at risk of losing key ecosystem components from wildland fire based on current condition and departure from historic fire regimes.

The LANDFIRE dataset is mapping vegetation for fire behavior and fire regime across all ownerships, including NFS lands, at a 30-meter pixel resolution from Landsat Satellite Imagery. The 2005 release of the LANDFIRE Rapid Assessment included subject matter experts' maps of current fire regime condition class. The national LANDFIRE dataset, available in 2009, will document fire regime condition class of all lands based on satellite imagery and plot data, displaying departure from the historic fire regimes.

Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. Insect and disease prevention and suppression treatments were completed on 154,000 acres of NFS lands in FY 2006.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is authorized under Section 1237 of the Food Security Act of 1985 (P.L. 99-198), as amended, by the Food, Agriculture, Conservation and Trade Act of 1990 (P.O. 101-624), the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127), and the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) ("2002 Farm Bill"). The Secretary of Agriculture delegated the authority for WRP to the Chief of the Natural Resources Conservation Service (NRCS), who is a vice president of the Commodity Credit Corporation (CCC). WRP is a voluntary program offering landowners the opportunity to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement with CCC/NRCS in order 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 the land—for hunting, fishing, and other undeveloped recreational activities. Easements can be either permanent or 30-year duration. 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.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

Grassland Reserve Program

The Grassland Reserve Program (GRP) is authorized by Section 1238n of Title XII, of Food Security Act of 1985, as amended by section 2401 of the 2002 Farm Bill. The Secretary of Agriculture delegated the authority for FRPP to the Chief of the Natural Resources Conservation Service (NRCS), who is a vice president of the Commodity Credit Corporation (CCC). GRP assists landowners in restoring and protecting grassland, including rangeland, pastureland, and certain other lands, while maintaining the lands suitability for grazing. The emphasis of the program is to support grazing operations, plant and animal biodiversity, and grassland and land containing shrubs or forbs under the greatest threat of conversion.

Land is eligible if it is privately owned or tribal land and it is: 1) grassland that contains forbs or shrubs (including rangeland and pastureland); or 2) located in an area that has been historically dominated by grassland, forbs, or shrubs; and has potential to provide habitat for animal or plant populations of significant ecological value if the land is retained in the current use; or restored to a natural condition. Incidental lands may be included to allow for the efficient administration of an agreement or easement.

NRCS develops a conservation plan with the landowners eligible for the program. The plan specifies the management options available on the grasslands with the goal of maintaining the viability for the grassland's resources. Easements can be permanent, 30-year, or the maximum duration permitted based on State or Tribal law. NRCS continues to provide assistance to the landowner after the acres are enrolled. GRP easements prohibit the production of crops (other than hay), fruit trees, and vineyards that require breaking the soil surface and any other activity that would permanently disturb the surface of the land, except for appropriate land management activities included in a the grassland conservation plan. Withdrawals from the program are not permitted.

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 previously were wetlands. The program is patterned after the WRP. Participants in the program sell a conservation easement to USDA in order 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. Easements purchased under EWRP are permanent in duration. 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. 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 – Floodplain Easements

The Emergency Watershed Protection Program (EWP) Floodplain Easements is authorized by the Federal Agriculture Improvement and Reform Act of 1996, Public Law 104-127, and administered by NRCS. Floodplain easements restore, protect, manage, maintain, and enhance the functions of wetlands, riparian areas; conserve natural values including fish and wildlife habitat, water quality, flood water retention, ground water recharge, and open space; and safeguard lives and property from floods, drought, and the products of erosion. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and 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 EWP are permanent in duration. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to effectively achieve the purposes of the easement. 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.

DEFERRED MAINTENANCE

FY 2006	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Bridges	$ 116	$ 27	$ 89
Buildings	483	106	377
Dam	21	8	13
Minor Constructed Features	88	-	88
Fence	403	403	-
Handling Facility	24	24	-
Heritage	32	9	23
Road	4,054	748	3,306
Trail Bridge	10	4	6
Wastewater	31	17	14
Water	85	47	38
Wildlife, Fish, TES	6	4	2
Trails	243	19	224
General Forest Area	-	-	-
Total Forest Service	$ 5,596	$ 1,416	$ 4,180

FY 2005	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Bridges	$ 115	$ 25	$ 90
Buildings	439	118	321
Dam	26	9	17
Minor Constructed Features	89	-	89
Fence	437	437	-
Handling Facility	24	24	-
Heritage	32	8	24
Road	4,571	712	3,859
Trail Bridge	9	4	5
Wastewater	32	19	13
Water	81	46	35
Wildlife, Fish, TES	6	4	2
Trails	98	33	65
General Forest Area	4	1	3
Total Forest Service	$ 5,963	$ 1,440	$ 4,523

Deferred maintenance is maintenance that was scheduled to be performed and 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 is also reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations), and potential adverse consequences to natural resources or mission accomplishment.

The 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.

Currently, no comprehensive national assessment of FS property exists. Deferred maintenance estimates for all assets are based on condition surveys performed on a 5-year maximum revolving schedule, with the exception of bridges which are a maximum of 2 years. Condition surveys were performed on a statistical sample of closed and very low traffic volume roads.

Condition of Assets

In previous years, the FS reported deferred maintenance estimates for General Forest Areas (GFA) and Developed Sites (Minor Constructed Features) in this table. The revised Heritage Assets and Stewardship Lands standard (SFFAS 29) provides the FS the means to report these land units' deferred maintenance by their respective individual asset, although deferred maintenance for the Minor Constructed Features located on the Developed Sites will remain in this table.

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows.

Conditions of roads and bridges within the NFS road system are measured by various standards:

1. Federal Highway Administration regulations for the Federal Highway Safety Act;
2. Best management practices (BMP) for the nonpoint source provisions of the Clean Water Act from EPA and States;
3. Road management objectives developed through the NFMA forest planning process;

4. Forest Service Directives—FSM 7730, Operation and Maintenance (January 2003 amendment was superseded with August 25, 2005, revision); FSH 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams are managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook, as determined by condition surveys. The overall condition of dams is below acceptable. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. For dams to be rated as in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration (OSHA) as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good. Approximately half of these buildings are obsolete or in poor condition, needing major repairs or renovation. Approximately a quarter of these buildings are in fair condition, and the remaining facilities are in good condition.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, 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 FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A longstanding range methodology is used to gather this data.

Heritage 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 in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Trails (and trail bridges) are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350, Trail, River, and Similar Recreation Opportunities, and the FSH 2309.18, Trails Management Handbook.

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species (TES) is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

STATEMENT OF BUDGETARY RESOURCES

FY 2006	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1: (Note 24)	$ 343	$ 2,146	$ 1,299	$ 2,699	$ 175	$ 1,358	$ 7,108	$ 71	$ 378	$ 316
Recoveries of prior year unpaid obligations	43	77	4,945	4	754	4	797	177	20	338
Budget Authority:										
Appropriation	1,884	-	28,112	-	341	3,372	53,813	844	6,719	1,335
Borrowing Authority (Notes 22 & 23)	-	1,746	44,465	824	-	-	-	-	-	-
Earned -										
Collected	979	1,483	15,068	1,174	81	1,208	85	132	60	477
Change in receivables from Federal Sources	(15)	-	54	(29)	10	-	-	(10)	(1)	(24)
Change in unfilled customer orders -										
Advances received	-	-	259	-	-	-	-	(2)	-	23
Without advance from Federal Sources	(1)	1	-	-	-	-	1	-	-	-
Expenditure transfers from trust funds	-	-	891	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	(38)	-	(1,872)	-	14	(5)	5,203	-	(5,265)	(180)
Permanently not available	(541)	(2,862)	(50,153)	(1,690)	(3)	(2)	(1,032)	(23)	(40)	(17)
Total Budgetary Resources	2,654	2,591	43,068	2,982	1,372	5,935	65,975	1,189	1,871	2,268
Status of Budgetary Resources:										
Obligations Incurred (Note 21):										
Direct	1,801	1,810	2,970	1,355	965	4,666	53,530	999	1,565	1,229
Reimbursable	483	-	38,933	-	111	-	27	149	58	681
Unobligated Balance:										
Apportioned	260	361	363	748	101	1,266	3,160	7	20	314
Exempt from Apportionment	-	-	533	-	1	-	-	1	178	13
Unobligated balance not available	110	420	269	879	194	3	9,258	33	50	31
Total Status of Budgetary Resources	2,654	2,591	43,068	2,982	1,372	5,935	65,975	1,189	1,871	2,268
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1 (Note 24)	168	483	8,428	(153)	77	268	3,940	82	119	479
Obligations incurred	2,284	1,810	41,903	1,355	1,076	4,666	53,557	1,148	1,623	1,910
Gross outlays	(2,180)	(1,752)	(37,326)	(1,325)	(350)	(4,653)	(52,533)	(968)	(1,616)	(1,627)
Recoveries of prior year unpaid	(43)	(77)	(4,945)	(4)	(754)	(4)	(797)	(177)	(20)	(338)
Change in uncollected payments from Federal Sources	16	(1)	(53)	29	(10)	-	(1)	10	1	24
Obligated balance, net, end of period -										
Unpaid obligations (Note 28)	259	476	9,281	75	77	276	4,166	113	112	468
Uncollected customer payments from Federal Sources	(14)	(14)	(1,275)	(174)	(39)	-	(1)	(17)	(5)	(19)
Obligated balance, net, end of period	245	462	8,006	(99)	38	276	4,165	96	107	449
Net Outlays:										
Gross outlays	2,180	1,752	37,326	1,325	350	4,653	52,533	968	1,616	1,627
Offsetting collections	(979)	(1,483)	(16,217)	(1,174)	(81)	(1,208)	(85)	(130)	(60)	(501)
Distributed offsetting receipts	(396)	-	-	(987)	2	(3)	(1)	(12)	(148)	(11)
Net Outlays	$ 805	$ 269	$ 21,109	$ (836)	$ 271	$ 3,442	$ 52,447	$ 826	$ 1,408	$ 1,115

FY 2006	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1: (Note 24)	$ 8	$ 2,429	$ 468	$ 412	$ 128	$ 1	$ 5	$ 4,498	$ 1,983	$ 173	$ 19,170	$ 6,828
Recoveries of prior year unpaid obligations	7	78	721	295	444	13	29	304	860	102	9,071	941
Budget Authority:												
Appropriation	38	5,362	1,358	1,330	1,221	76	141	3,298	-	612	109,856	-
Borrowing Authority (Notes 22 & 23)	-	-	-	-	-	-	-	-	10,038	-	44,465	12,608
Earned -												
Collected	42	665	151	84	33	1	20	3,410	5,207	769	23,265	7,864
Change in receivables from Federal Sources	(2)	(21)	(48)	(9)	(8)	(2)	(2)	(26)	-	(25)	(129)	(29)
Change in unfilled customer orders -												
Advance received	-	19	-	-	-	-	-	-	-	-	299	-
Without advance from Federal Sources	-	37	30	13	7	-	2	2	10	(21)	70	11
Expenditure transfers from trust funds	-	159	-	-	-	-	-	-	-	-	1,050	-
Nonexpenditure transfers, net, anticipated and actual	-	3	1,741	6	5	-	-	37	-	9	(342)	-
Permanently not available	(1)	(65)	(28)	(20)	(20)	(1)	(2)	(3,755)	(4,246)	(42)	(55,745)	(8,798)
Total Budgetary Resources	92	8,666	4,393	2,111	1,810	88	193	7,768	13,852	1,577	151,030	19,425
Status of Budgetary Resources:												
Obligations Incurred (Note 21):												
Direct	45	6,382	3,363	1,690	1,630	86	169	5,427	12,545	668	87,185	15,710
Reimbursable	38	475	166	113	47	1	21	523	-	737	42,563	-
Unobligated Balance:												
Apportioned	1	1,052	527	278	104	-	1	244	516	120	7,818	1,625
Exempt from Apportionment	-	-	3	15	25	-	-	-	-	2	771	-
Unobligated balance not available	8	757	334	15	4	1	2	1,574	791	50	12,693	2,090
Total Status of Budgetary Resources	92	8,666	4,393	2,111	1,810	88	193	7,768	13,852	1,577	151,030	19,425
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1 (Note 24)	7	1,561	3,565	442	1,268	28	16	6,022	17,872	85	26,555	18,202
Obligations incurred net	83	6,857	3,529	1,803	1,677	87	190	5,950	12,545	1,405	129,748	15,710
Gross outlays	(76)	(6,375)	(2,907)	(1,408)	(1,136)	(74)	(163)	(6,041)	(11,012)	(1,323)	(120,756)	(14,089)
Recoveries of prior year unpaid	(7)	(78)	(721)	(295)	(444)	(13)	(29)	(304)	(860)	(102)	(9,071)	(941)
Change in uncollected payments from Federal Sources	2	(15)	17	(4)	1	2	(1)	24	(10)	46	59	18
Obligated balance, net, end of period												
Unpaid obligations (Note 28)	13	2,383	3,567	619	1,430	30	23	5,725	19,171	339	28,881	19,722
Uncollected customer payments from Federal Sources	(4)	(433)	(83)	(81)	(65)	-	(10)	(73)	(634)	(225)	(2,344)	(822)
Obligated Balance, net, end of period	9	1,950	3,484	538	1,365	30	13	5,652	18,537	114	26,537	18,900
Net Outlays:												
Gross outlays	76	6,375	2,907	1,408	1,136	74	163	6,041	11,012	1,323	120,756	14,089
Offsetting collections	(42)	(844)	(151)	(84)	(33)	(1)	(20)	(3,410)	(5,207)	(766)	(24,612)	(7,864)
Distributed offsetting receipts	-	(457)	(19)	(22)	(4)	1	-	(688)	-	50	(1,708)	(987)
Net Outlays	$ 34	$ 5,074	$ 2,737	$ 1,302	$ 1,099	$ 74	$ 143	$ 1,943	$ 5,805	$ 607	$ 94,436	$ 5,238

FY 2005	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1: (Note 24)	$ 244	$ 1,868	$ 1,197	$ 2,643	$ 37	$ 2,060	$ 7,768	$ 54	$ 517	$ 366
Recoveries of prior year unpaid obligations	71	69	2,837	3	761	5	391	247	10	269
Budget Authority:										
Appropriation	1,735	-	15,444	-	316	2,314	47,398	827	6,267	1,179
Borrowing Authority (Notes 22 & 23)	-	1,724	45,357	688	-	-	-	-	-	-
Earned -										
Collected	1,016	1,535	17,267	1,768	97	1,236	80	110	59	81
Change in receivables from Federal Sources	15	-	(158)	(113)	(24)	-	-	6	(2)	17
Change in unfilled customer orders -										
Advances received	-	-	(1,387)	-	-	-	-	2	-	-
Without advance from Federal Sources	3	(3)	-	-	-	-	-	-	-	-
Expenditure transfers from trust funds	-	-	899	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	50	-	(2,838)	-	13	(1)	5,168	-	(5,139)	(39)
Permanently not available	(656)	(1,368)	(33,582)	(735)	(3)	(2)	(2,511)	(17)	(164)	(8)
Total Budgetary Resources	2,478	3,825	45,036	4,254	1,197	5,612	58,294	1,229	1,548	1,865
Status of Budgetary Resources:										
Obligations Incurred (Note 21):										
Direct	1,716	1,678	2,954	1,556	925	4,255	51,158	1,053	1,114	1,305
Reimbursable	419	-	40,782	-	97	-	28	104	56	245
Unobligated Balance:										
Apportioned	176	1,693	331	2,523	76	1,355	526	42	49	274
Exempt from Apportionment	-	-	872	5	1	-	-	2	343	12
Unobligated balance not available	167	454	97	170	98	2	6,582	28	(14)	29
Total Status of Budgetary Resources	2,478	3,825	45,036	4,254	1,197	5,612	58,294	1,229	1,548	1,865
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1 (Note 24)	198	436	5,596	(228)	74	204	3,048	101	93	435
Obligations incurred net	2,135	1,678	43,736	1,556	1,022	4,255	51,186	1,157	1,170	1,550
Gross outlays	(2,076)	(1,565)	(38,011)	(1,591)	(281)	(4,186)	(49,902)	(923)	(1,137)	(1,218)
Unpaid obligations transferred	-	-	(216)	-	-	-	-	-	-	-
Recoveries of prior year unpaid	(71)	(69)	(2,837)	(3)	(761)	(5)	(391)	(247)	(10)	(269)
Change in uncollected payments from Federal Sources	(18)	3	158	113	24	-	-	(6)	2	(17)
Obligated balance, net, end of period										
Unpaid obligations (Note 28)	198	496	9,649	50	106	268	3,940	109	125	523
Uncollected customer payments from Federal Sources	(30)	(13)	(1,221)	(203)	(29)	-	-	(27)	(6)	(43)
Obligated balance, net, end of period	168	483	8,428	(153)	77	268	3,940	82	119	480
Net Outlays:										
Gross outlays	2,076	1,565	38,011	1,591	281	4,186	49,902	923	1,137	1,218
Offsetting collections	(1,016)	(1,535)	(16,780)	(1,768)	(97)	(1,236)	(79)	(112)	(59)	(81)
Distributed offsetting receipts	(320)	-	-	(722)	-	-	-	(3)	(122)	(15)
Net Outlays	$ 740	$ 30	$ 21,231	$ (899)	$ 184	$ 2,950	$ 49,823	$ 808	$ 956	$ 1,122

FY 2005	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD	RD	DO	TOTAL	TOTAL
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1: (Note 24)	$ 7	$ 1,738	$ 313	$ 342	$ 148	$ 2	$ 5	$ 3,751	$ 1,814	$ 207	$ 18,756	$ 6,325
Recoveries of prior year unpaid obligations	11	169	464	265	350	28	22	273	487	70	6,243	559
Budget Authority:												
Appropriation	37	5,812	1,354	1,314	1,195	75	130	2,997	-	546	88,940	-
Borrowing Authority (Notes 22 & 23)	-	-	-	-	-	-	-	-	8,474	-	45,357	10,886
Earned -												
Collected	36	448	1,637	67	30	1	23	4,737	5,273	535	27,460	8,576
Change in receivables from Federal Sources	1	13	45	(1)	(7)	-	2	19	-	74	-	(113)
Change in unfilled customer orders -												
Advances received	-	3	-	-	-	-	-	-	-	(1)	(1,383)	-
Without advance from Federal Sources	-	72	-	4	(7)	-	(3)	-	5	(54)	15	2
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	899	-
Nonexpenditure transfers, net, anticipated and actual	-	53	1,813	6	5	-	-	1	-	1	(907)	-
Permanently not available	(1)	(67)	(9)	(14)	(16)	(2)	(1)	(2,812)	(2,808)	(6)	(39,871)	(4,911)
Total Budgetary Resources	91	8,241	5,617	1,983	1,698	104	178	8,966	13,245	1,372	145,509	21,324
Status of Budgetary Resources:												
Obligations Incurred (Note 21):												
Direct	47	5,546	5,011	1,478	1,511	101	150	3,948	11,262	607	82,879	14,496
Reimbursable	37	265	138	94	58	2	23	520	-	592	43,460	-
Unobligated Balance:												
Apportioned	5	1,805	306	395	102	-	3	362	1,456	112	5,919	5,672
Exempt from Apportionment	-	-	4	11	14	-	-	-	-	3	1,262	5
Unobligated balance not available	2	625	158	5	13	1	2	4,136	527	58	11,989	1,151
Total Status of Budgetary Resources	91	8,241	5,617	1,983	1,698	104	178	8,966	13,245	1,372	145,509	21,324
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1 (Note 24)	9	1,493	1,437	477	1,192	29	15	6,527	16,928	82	21,010	17,136
Obligations incurred net	84	5,811	5,149	1,572	1,569	103	173	4,468	11,262	1,199	126,339	14,496
Gross outlays	(74)	(5,489)	(2,728)	(1,338)	(1,157)	(76)	(152)	(4,681)	(9,826)	(1,107)	(114,536)	(12,982)
Unpaid obligations transferred	-	-	216	-	-	-	-	-	-	-	-	-
Recoveries of prior year unpaid	(11)	(169)	(464)	(265)	(350)	(28)	(22)	(273)	(487)	(70)	(6,243)	(559)
Change in uncollected payments from Federal Sources	(1)	(85)	(45)	(3)	14	-	1	(19)	(5)	(20)	(15)	111
Obligated balance, net, end of period												
Unpaid obligations (Note 28)	13	1,978	3,666	519	1,334	30	25	6,120	18,496	358	28,961	19,042
Uncollected customer payments from Federal Sources	(6)	(418)	(100)	(77)	(66)	(2)	(9)	(97)	(624)	(275)	(2,406)	(840)
Obligated balance, net, end of period	7	1,560	3,566	442	1,268	28	16	6,023	17,872	83	26,555	18,202
Net Outlays:												
Gross outlays	74	5,489	2,728	1,338	1,157	76	152	4,681	9,826	1,107	114,536	12,982
Offsetting collections	(36)	(451)	(1,637)	(67)	(30)	(1)	(23)	(4,737)	(5,273)	(534)	(26,976)	(8,576)
Distributed offsetting receipts	-	(429)	-	(15)	(3)	-	-	(538)	-	-	(1,445)	(722)
Net Outlays	$ 38	$ 4,609	$ 1,091	$ 1,256	$ 1,124	$ 75	$ 129	$ (594)	$ 4,553	$ 573	$ 86,115	$ 3,684

IV.

Other Accompanying Information

Appendix A—Management Challenges

USDA

U.S. Department of Agriculture
Office of Inspector General

Management Challenges

August 2006

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

August 22, 2006

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong /signed/
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 USDA and its agencies face.

To identify Departmental challenges, we examined previously issued audit reports where corrective actions have yet to be taken, assessed ongoing investigative and audit work to identify significant vulnerabilities, and analyzed new programs and activities that could pose significant challenges due to their range and complexity. We discussed these challenges with USDA officials to obtain their input.

Last year we consolidated our concerns into six major crosscutting challenges that we believed were the most significant management issues facing USDA. Overall, these management challenges remain. This year, however, we have increased our challenges to seven to include USDA's response to the devastating hurricane season of 2005, including its efforts to effectively and properly distribute benefits and coordinate with other Federal agencies involved in the response. We have also added under our Homeland Security challenge a new issue on the development of plans to monitor potential avian influenza outbreaks in live bird markets or other "off-farm" environments.

Even though our overall challenges remain the same, we removed issues identified under three challenges last year in recognition of the progress made or actions taken by the agencies. These issues include the implementation of a Departmentwide research misconduct policy, the establishment of Departmentwide policies and procedures for defining sensitive and dual-use information, and the Department's issuance of revised procedures strengthening USDA germplasm policies and procedures. A further description of actions taken to remove these issues from the challenges is noted on page 3 of this report.

Memorandum for the Secretary 2

We look forward to working with the Department to address these management challenges. If you have any questions or would like to discuss these issues, please contact me at 720-8001, or have a member of your staff contact either Mr. Robert W. Young, Assistant Inspector General for Audit, at 720-6945, or Mr. Mark R. Woods, Assistant Inspector General for Investigations, at 720-3306.

Attachment

cc:
Subcabinet Officials
Agency Administrators

OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2006)

<u>Current Challenges - Synopsis</u>

(1) **Interagency Communications, Coordination, and Program Integration Need Improvement**
- Integrate the management information systems used to implement the crop insurance, conservation, and farm programs.
- Increase organizational communication and understanding among the agencies that administer the farm and conservation programs.
- Improve communication and strengthen controls for beef exported to Japan.

(2) **Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed**
- Strengthen quality control in the Federal Crop Insurance Programs.
- Prepare complete, accurate financial statements without extensive manual procedures and adjustments.
- Improve Forest Service (FS) internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.
- Capitalize on Farm Service Agency (FSA) compliance activities to improve program integrity.

(3) **Continuing Improvements Needed in Information Technology (IT) Security**
Agencies need to:
- Emphasize security program planning and management.
- Establish an internal control program throughout a system's lifecycle.
- Identify, test, and mitigate IT security vulnerabilities (risk assessments).
- Improve access controls.
- Implement appropriate application and system software change control.
- Develop disaster contingency (service continuity) plans.

(4) **Implementation of Improper Payment Act Requirements Needs Improvement**
- Assign sufficient resources and provide management oversight.
- Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling over $100 billion.
- Develop a supportable methodology/process to detect and estimate the extent of improper payments.
- Develop and implement a corrective action plan to address the weaknesses that allowed the improper payments to occur.

1

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

(5) **Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained**

- Continue vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, handles, transports, stores, and distributes.
- Continue to strengthen controls over select agents and toxins.
- Continue efforts to coordinate with the Department of Homeland Security (DHS) in implementing effective control systems to ensure the safety and security of agriculture products entering the country.
- Develop a comprehensive approach for surveillance and monitoring for outbreak of avian influenza, including live bird markets or other "off-farm" environments.
- Ensure animal disease surveillance program policies and procedures are well-defined and supportable.
- Develop an information system to better track noncompliance violations related to Specified Risk Materials.
- Improve security and accountability of explosives and munitions.
- Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive (HSPD) 9; e.g., develop animal and plant diagnostic and tracking networks.

(6) **Departmentwide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need To Be Strengthened**

- Strengthen the GEO field testing process.
- Develop a comprehensive strategy for increasing exports of genetically engineered crops.

(7) **USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight**

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

Challenges Removed From the Fiscal Year (FY) 2005 List

Even though our overall Departmental management challenges remain the same as last year, there was considerable improvement or appropriate action taken in some specific areas under these challenges. Those areas are:

Under Challenge (1)—Interagency Communications, Coordination, and Program Integration Need Improvement

***Implement a Departmentwide Research Misconduct Policy*—USDA Still Needs a Departmentwide Director on Research Misconduct**. This challenge area was removed based on actions taken by the Department. Over the past year, staff from the Office of the Under Secretary for Research, Education and Economics, in coordination with staff from other mission area program agencies and the Office of the General Counsel, have diligently worked to draft Departmentwide policies and procedures in accordance with Office of Science and Technology Policy guidelines. The Departmentwide policies and procedures were issued under a Secretary's Memorandum on July 11, 2006. Since the Secretary's Memorandum expires in a year, these interim policies and procedures are to be followed by permanent policies and procedures on extramural research to be published in the *Code of Federal Regulations* (CFR) and on intramural research in the CFR and/or Departmental regulations by July 2007.

Under Challenge (5)—Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Establish Departmentwide Policies and Procedures for Defining Sensitive and Dual-Use Information and Implementing Adequate Controls To Protect Such Information. In our report, we recommended that Agricultural Research Service (ARS) management controls be enhanced to prevent the transfer of sensitive knowledge to hostile individuals or countries. Although the agency has acknowledged this deficiency, there are no established Governmentwide criteria to strengthen such controls. In recognition of this deficiency, the National Institutes of Health created the National Science Advisory Board to tackle this biosecurity issue. In the interim, ARS has agreed to implement alternative measures. Consequently, we are removing this issue from our list.

Under Challenge (6)—Departmentwide Efforts and Initiatives on Genetically Engineered Organisms Need To Be Strengthened

USDA Needs To Strengthen Germplasm Policies and Procedures. Specifically, USDA needed to strengthen controls over the identification, shipment, inventory, and disposal of genetically engineered organisms (GEO). The effectiveness of the Department's germplasm storage system is critical in responding to a major catastrophe or pest infestation. This challenge area was removed based on USDA's action to issue revised procedures by late summer 2006.

CHALLENGE: INTERAGENCY COMMUNICATION, COORDINATION, AND PROGRAM INTEGRATION NEED IMPROVEMENT

SUMMARY: USDA's work crosses jurisdictional lines within the Department and with other Federal agencies. USDA's challenge is to develop and foster a unified approach to accomplishing the Department's mission; the various agencies of the Department must understand and appreciate the interrelationships of their programs and work together to create a unified and integrated system of program administration that is greater than a simple totaling of the individual parts. Such an approach would increase organizational communication and information sharing, thus streamlining operations, reducing expenditures, and improving program efficiency, compliance, and integrity. This approach would enable USDA to speak with one cohesive voice and realize its vision of being "recognized as a dynamic organization that is able to efficiently provide the integrated program delivery needed to lead a rapidly evolving food and agriculture system."

OIG AUDIT/INVESTIGATION ACTIONS:

USDA Could Improve Crop Insurance, Conservation, and Farm Program Integrity and Efficiency Through Integration of the Agencies' Information Management Systems. The Agricultural Risk Protection Act (ARPA) of 2000 requires the Farm Service Agency (FSA) and the Risk Management Agency (RMA), beginning with the 2000 crop year, to annually reconcile data received by the agencies from producers. In our September 2003 report on the implementation of ARPA, we reported that Departmental data reconciliation efforts on the 2001 crop data were effectively negated by the hundreds of thousands of disparate records that were identified between the two agencies. Differences in the agencies' definitions of basic terms, such as "producer" vs. "insured" and "farm" vs. "unit," hamper any data reconciliation as well as data sharing. To date the agencies have been unable to satisfactorily complete the legislatively mandated data reconciliation for a single year.

Since ARPA was enacted, section 10706 of the Farm Security and Rural Investment Act of 2002 directed the Secretary of Agriculture to develop a comprehensive information management system (CIMS) to be used in implementing the programs administered by RMA and FSA. (Note: Once implemented, the provisions of section 10706 will make moot the data reconciliation provisions of ARPA.) Under section 10706, all current RMA and FSA information is to be combined, reconciled, redefined, and reformatted in such a manner that the agencies can use the information management system. It was the sense of Congress that CIMS would lay valuable groundwork for further modernization of information technology systems of USDA agencies in the future and for the incorporation of those systems into CIMS.

Since 1998, FSA's ad hoc crop disaster programs (CDP) have been predicated on crop production data that is managed by RMA and downloaded to FSA. OIG's audits of the 1998-2002 CDPs have shown that FSA and RMA need to reconcile and redefine their data to better meet the needs of FSA in the administration of the CDPs. This need to redefine data to ensure consistency between FSA and RMA is still ongoing and is being tackled in the CIMS project. Specifically, the audits have disclosed instances in which improper payments occurred because the data downloaded from RMA was not properly interpreted or used by FSA. In addition, the newly implemented FSA Hurricane Indemnity Program (HIP) relies in part upon data provided by RMA: eligible producers who received a crop insurance indemnity for crop losses suffered due to the 2005 hurricanes will receive HIP benefits equal to 30 percent of the crop insurance indemnity. (Note: HIP also provides benefits to producers who received FSA Noninsured Crop Disaster Assistance Program payments for production losses due to the hurricanes.) The necessary RMA data files for administering the HIP are downloaded weekly to FSA. However, RMA data may change due to updated information. As a result, FSA must manually generate periodic discrepancy reports to identify RMA data that no longer match HIP data. If RMA's and FSA's systems were integrated, the downloads of data from RMA to FSA would be unnecessary; data necessary to properly administer the programs would be available in real time and with reduced risk of improper payment. More than just the crop insurance and disaster programs would benefit—for example, production data in the system could also be used to determine whether quantities reported by producers for FSA price support program purposes were reasonable.

USDA Could Reduce Improper Payments in Conservation and Farm Programs Through Improved Coordination Between Agencies. The Natural Resources Conservation Service (NRCS) purchases conservation easements on land in association with its conservation programs, while FSA provides farm subsidy payments on crop base acres under its Direct and Counter-Cyclical Program (DCP). Producers are generally prohibited from receiving payments for both DCP and conservation easement on the same piece of ground. In our audit of NRCS' Wetland Reserve Program (WRP), we found that, even though the law requires the owners and operators of land subject to WRP conservation easements to agree to the permanent retirement of any existing crop base acres for such land under any USDA program, NRCS occasionally purchases easements on land with base acres without ensuring that landowners permanently retire that base with FSA. NRCS had not issued any instructions requiring landowners to notify FSA to retire federally purchased crop base at FSA. In addition, we found that NRCS did not consistently notify FSA of conservation easements purchased. In our ongoing review of crop bases on conservation easements, we specifically have noted that NRCS is not consistently coordinating with FSA to ensure such bases are permanently reduced (retired) for farm program purposes. We have discussed this issue with both agencies. As a result of poor interagency communication and weak program integration, 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 DCP. The need for a more collaborative approach to the programs and better coordination between NRCS and FSA in these instances becomes more apparent as Congress enacts more conservation programs in lieu of farm subsidies. Improved interagency communication and understanding of the linkages, interactions, and processes between the agencies and their programs will reduce instances in which one agency's action adversely affects the other's programs.

Coordination Between USDA Agencies Necessary for Effective Protection of Food Safety, Public Health, and Agriculture Trade. On January 20, 2006, Japan halted the import of U.S. beef products because veal product exported from a U.S. plant contained a vertebral column, a violation of an agreement between the United States and Japan to ship only boneless beef. The Secretary immediately announced 12 actions that USDA would undertake to facilitate resuming trade and requested that OIG review the adequacy of USDA's coordination and control processes for the Beef Export Verification (BEV) program for Japan. We concluded that the Agricultural Marketing Service (AMS) and the Food Safety and Inspection Service (FSIS) could strengthen controls over the BEV program by better communicating BEV program requirements, clearly defining their respective roles and responsibilities, and implementing additional oversight of FSIS inspection personnel.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: RMA and FSA have established a working group to develop CIMS, which will combine the agencies' separate program data (e.g., acreage, type of crop, producer, past claims, etc.). In addition to developing an integrated comprehensive information management system, this effort has included redefining data common to, and needed by, both agencies and data unique to each agency and developing a common format for such data. In the long term, NRCS will be invited to participate in CIMS. The success of this effort will critically depend on a unified, integrated approach to program administration, information collection, and systems development.

In response to our audit of WRP, NRCS hired a State-certified Chief General Appraiser to provide overall direction and supervision of the easement valuation process. NRCS modified the WRP Manual to improve technical precision and to provide direction to the NRCS staff on how to handle crop base acres from land subject to WRP conservation easements. NRCS staff is to notify the appraiser and landowner of the need to permanently reduce, for farm program purposes, existing crop base acres from land subject to WRP conservation easements. Additionally, NRCS and FSA have established a working group to identify and remove all impairments that have prevented them from ensuring that landowners permanently reduce their existing crop base acres where appropriate. These actions when completed, along with implementation of the other recommendations, will significantly strengthen the program. These actions will also result in improved interagency communication, coordination, and program integration.

In response to our audit of the BEV program, AMS agreed to maintain a list of specific export-eligible products for each facility with an approved BEV program; systematically notify FSIS when any establishment is approved/delisted from a BEV program; and review all establishments in the BEV program to ensure that they adhere to program requirements. FSIS agreed to clarify the roles and responsibilities of FSIS personnel involved at each stage of the export verification process, expedite the development of export certification training, and increase supervisory oversight of the export certification process. These actions, along with the 12 announced by the Secretary, should further strengthen the program.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Top Departmental leadership is critical to effecting the cultural changes necessary to the success of a unified approach to USDA program administration. The Department must foster improved interagency communication and data sharing in order to increase efficiency and to preclude the agencies from inadvertently working at odds with one another.

Farm Programs. To preclude errors and irregularities in one program from impacting program payments in another:

- RMA, FSA, and NRCS should implement a comprehensive information management system to better share program data and eliminate duplicate reporting by producers.

- RMA and FSA should implement a more effective data reconciliation process, as mandated by ARPA. Even if a comprehensive information management system is implemented, validity checks, i.e., data reconciliation, should be employed in that system, to the extent practicable, to identify apparent discrepancies in related data; and steps should be taken to resolve such discrepancies.

- RMA, FSA, and NRCS should incorporate data mining techniques up front in the design of software used for program administration to detect data anomalies and potential improper payments. (Through data mining RMA has estimated $456 million in potential savings since crop year 2001 through the current crop year 2006; FSA has not participated, contending it is prohibited statutorily. NRCS could also benefit in its direct administration of conservation programs.)

- NRCS and FSA should improve interagency communication and coordination to assure one agency's actions do not adversely affect the other agency's programs.

Food Safety, Public Health, and Agriculture Trade. AMS needs to continue to ensure that meat plants include the specific products and process requirements necessary for export certification programs and that those requirements are documented and included in plant quality assurance manuals. AMS and FSIS need to continue to work closely together to clarify the roles and responsibilities of FSIS personnel involved at every stage of the export certification process, expedite the development of training on export certification for Consumer Safety Inspectors, and increase supervisory oversight of the export certification process by revising the In-Plant Performance System review guidance to incorporate procedures that specifically evaluate the ability of inspection personnel to perform export certifications.

CHALLENGE: IMPLEMENTATION OF STRONG, INTEGRATED MANAGEMENT CONTROL (INTERNAL CONTROL) SYSTEMS STILL NEEDED

SUMMARY: Office of Management and Budget (OMB) Circular A-123, Management's Responsibility for Internal Control, has been revised and is effective for FY 2006. The circular requires that agencies and individual Federal managers take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls. USDA agencies have a history of reacting to individual control issues rather than addressing the overall weaknesses of their internal control systems. Some of the internal control weaknesses identified by OIG and discussed below are specific to individual agencies while others represent Departmentwide weaknesses.

Improved Oversight Needed To Ensure Quality Control of the Federal Crop Insurance Programs. For the 2005 crop year, indemnity payments totaled approximately $2.3 billion, and Government subsidies of insurance premiums totaled approximately $2.3 billion. To ensure quality and integrity in its programs, RMA relies on a number of complementary and/or independent control systems; these include quality control (QC) reviews by the approved insurance companies (AIP) and compliance activities by its own staff. Our audits and investigations have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. We have found through our audits and investigations that there is no reliable QC review system to evaluate private sector delivery of the Federal Crop Insurance Programs.

Agencies Need To Improve Their Response to Audit Recommendations. USDA agencies need to improve their timeliness in developing and implementing corrective action plans in response to audit recommendations. As of August 3, 2006, there are 46 audit reports where OIG and the agencies have not reached management decision on the actions necessary to address the recommendations within the required 6-month time period. In addition, there are approximately 132 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Also, as of August 10, 2006, the U.S. Government Accountability Office's (GAO) Web site lists 68 audits with open recommendations for USDA. This includes 9 audits released in FY 2006 and 59 in prior years, with the oldest GAO audit being open since FY 2002. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many OIG and GAO findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Processes. Internal controls over financial management systems and processes are needed in USDA to improve the timeliness and accuracy of financial data available to managers administering and operating USDA's programs. Although the Department has now obtained unqualified audit opinions for 4 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, OIG identified three reportable conditions, two of which—(1) needed improvements in overall financial management across USDA and (2) needed improvements in information technology security—were significant enough to warrant being reported as material weaknesses

9

for the Department. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

Forest Service Needs Improvement in Policy, Process, and Internal Control Issues. Management issues within the Forest Service (FS) have proven resistant to change. We attribute part of this to the agency's decentralized management structure. The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure policies established by top management are followed. The use and accuracy of performance management information is severely limited. The usefulness of performance measures and the accuracy of reporting processes within FS are often flawed. This lack of timely and accurate information deprives FS management of tools needed to effectively measure the direction and progress of the agency. It also prevents oversight bodies and the public from being able to make informed decisions regarding the agency. These conclusions are based upon findings in OIG and GAO reports with which FS has concurred.

Another internal control issue discovered through OIG work is the need for FS to have better controls to ensure adequate oversight of national firefighting contract crews. Specific issues identified included the lack of adequate controls to monitor and ensure oversight in training continuity—ensuring adequate training of contract fire fighters—and administration of vendors (i.e., vendors using illegal workers on the firefighting crews who may have language barriers), as well as contract crew member qualifications.

FSA Needs To Use the Results of Its Compliance Reviews To Improve Internal Controls. Our audit of FSA compliance activities showed FSA generally does not capture or analyze the results of its various compliance and internal review activities to identify program weaknesses. Most of FSA's compliance review results were not communicated beyond the individual FSA county offices that performed the reviews. FSA at the national level should collect and analyze the review results to (1) identify program weaknesses that FSA can remedy to preclude future improper payments and (2) identify systemic noncompliance trends and direct its limited compliance resources to known problem areas.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has taken specific actions to assist Departmental agencies in improving the overall management control structure.

- Our audit work has disclosed that RMA lacks an effective QC review system to evaluate private sector delivery of the Federal Crop Insurance Program. We currently have an ongoing audit to evaluate RMA's overall compliance activities, including the adequacy of its review of the AIPs. Additionally, through our investigative work, we will continue to address allegations of fraudulent schemes by insurance agents and adjusters.

- OIG continues to work with USDA agencies to reach management decision on actions needed to address our audit recommendations. One of our primary goals is to ensure that the actions that are agreed to by the agency and OIG are achievable within the required 1-year period.

- OIG is responsible for the audit of the Departmental financial statements. We accomplish this through the use of audit staff and contracts with certified public accounting firms. These audits ensure that the annual financial reports accurately reflect the results of operations and the financial results of USDA and its agencies. The reviews allow OIG to evaluate the financial system within the Department and provide recommendations for improvement.

- We continue to focus our audits on the management control structure within FS. OIG audits, along with those from GAO and special reviews from outside contractors, find FS management has not implemented effective corrective action on reported problems. Some of these issues have been reported in multiple reports for over a decade, but their solutions are still in the study and evaluation process by FS. We currently plan to conduct an audit of the overall structure of FS management control systems. This work is scheduled to start in FY 2007 depending on availability of Audit staff. An ongoing investigation will continue to delve into whether there is appropriate oversight of national firefighting contracts.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Some of the actions being taken by the Department and USDA agencies to address management control weaknesses include the following.

- RMA has begun conducting AIP operations reviews to develop a rolling Program Error Rate. RMA plans to complete a review of all participating AIPs once every 3 years. These operational reviews assess the company's compliance with Appendix IV (quality control) and other provisions in the Standard Reinsurance Agreement. The reviews will look at documentation of company systems that are in place and verify that they are operational. RMA will also assess the operational QC programs, training provided, and flaws identified when conducting business. The review guide is under development, and the first round of these national operations reviews has been completed for the 2004 reinsurance year. For FY 2006, RMA has initiated six reviews for the 2005 reinsurance year.

- USDA has continued to strengthen its financial management process. The Office of the Chief Financial Officer (OCFO) has worked closely with the agencies to improve control measures to mitigate errors in financial data and to improve the Department's financial systems.

- FS has reemphasized its management review process to assess its operation and provide management with information on how the agency's internal controls are operating. The size and complexity of the FS operation will require a long-term commitment by agency management.

- In response to an audit, FSA formed a task force in August 2005 to examine its compliance activities. As part of its duties, the FSA compliance task force will make recommendations on how FSA can use the results of its compliance reviews to strengthen internal controls.

10

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: RMA needs to continue its effort to establish a consistent and comprehensive QC process for all reinsured companies, including a system to evaluate the overall effectiveness and reliability of QC reviews performed by the companies. USDA and its agencies need to ensure that their proposed management actions address audit recommendations and are structured so that they can be achieved within reasonable timeframes. USDA agencies need to continue to improve their financial systems with the goal that the financial information produced by these systems will allow them to prepare complete, accurate financial statements without extensive manual procedures and adjustments. FS needs to improve its management controls in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments. FSA needs to implement policies and procedures to analyze its compliance review results and use those results to identify program weaknesses and improve the corresponding systems of internal controls.

CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY

SUMMARY: USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. As technology has enhanced the ability to share information instantaneously among computers and networks, it has also made organizations more vulnerable to unlawful and destructive penetration and disruption. Insiders with malicious intent, recreational and institutional hackers, and attacks by intelligence organizations of other countries are just a few of the threats that pose a risk to the USDA's critical systems and data.

OIG AUDIT/INVESTIGATION ACTIONS: OIG continues to conduct IT security audits to monitor agencies' compliance with Federal mandates as well as perform investigations of IT security breaches involving such activities as IT intrusions and equipment thefts. Our audits have found that, despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agencies' implementation of IT security requirements continues to be problematic. Although the agencies accelerated their efforts to comply with Federal information security requirements during the fiscal year, IT management and security remain a material weakness within USDA. An example includes the recent event where Departmental servers containing personal identity information were compromised through hacker intrusion. Through forensic analysis, OIG revealed details that made it clear that this personal information may not have been protected.

In another audit, OIG found that OCIO implemented the Universal Telecommunications Network (UTN) without adequate security controls. This was due to the fact that OCIO had not conducted required system testing, security control testing, and certification and accreditation (C&A) of the UTN network before implementation.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCIO has worked diligently to assist the agencies to achieve conformance with security mandates. The Department has stated that, since October 2005, it has made progress in information security as highlighted by the significant improvements in the Cyber Security scorecard, which tracks agency progress on the areas required under the Federal Information Security Management Act (FISMA) of 2002. Specifically, USDA issued revised C&A guidance in October 2005 to ensure its documentation meets Federal requirements. The Department's incident handling policy has been recognized by the U.S. Computer Emergency Readiness Team as a good process that ensures incidents are handled timely. Information security training was demonstrated in two venues: (1) approximately 150 employees throughout USDA attended the November 2005 IT Summit and (2) as of June 30, 2006, an estimated 90,000 USDA employees have taken the Computer Security Awareness Training course that was updated in January 2006. In addition, USDA's Cyber Security staff is addressing OIG audit recommendations made to date and expects to fully address all recommendations by the end of the fiscal year. Although the Department reported improvements in its overall security program, OIG has not independently verified or tested these improvements. By the time this is published in the Performance and Accountability Report, OIG will have completed its planned audit assessment and can therefore make a determination on the effectiveness of OCIO's actions. OIG is assisting the Department in its IT security efforts by initiating a review of controls over lost and stolen equipment. In response to a request by OMB and in accordance with the President's Council on Integrity and Efficiency initiatives on IT security, OIG has also included, as part of its 2006 FISMA audit, additional steps to ensure the Department has adequate safeguards in place to protect personal data.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Agency-level managers should continue to consider IT security a top priority and display greater commitment and attention to assuring compliance with federally mandated IT security requirements to reduce the level of vulnerability. Specifically, agencies need to ensure that the requirements of OMB Circular A-130, Management of Federal Information Resources, are fully met.

CHALLENGE: IMPLEMENTATION OF IMPROPER PAYMENT ACT REQUIREMENTS NEEDS IMPROVEMENT

SUMMARY: USDA faces a major challenge in implementing the Improper Payments Information Act (IPIA) of 2002. The Act requires agency heads to annually review all programs and activities that they administer and identify those that may be susceptible to significant 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 for USDA because of the number and complexity of USDA programs and activities that meet the Act's criteria. The methodology to be employed to identify improper payments consists of a detailed risk assessment of programs' internal controls. In August 2005, OMB revised Circular A-136, Financial Reporting Requirements, requiring agencies to report on their risk assessments, annual improper payment estimates, corrective action plans, and recovery efforts. GAO reported that in FY 2005 only 23 of 33 Federal agencies that prepared Performance and Accountability Reports reported that they had completed risk assessments for all programs and activities. USDA reported that its agencies had 286 programs, with outlays totaling about $100 billion in FY 2005, that had been assessed by the individual agencies to determine their susceptibility to improper payments. A total of 11 programs, with outlays totaling over $65 billion, were determined by USDA to be susceptible to significant improper payments and to require further actions as specified in the IPIA.

OIG AUDIT/INVESTIGATION ACTIONS: In FY 2005, OIG reviewed five agencies' implementation of the OCFO guidance. We reported our findings to the CFO and recommended that the Deputy Secretary be briefed on the conditions. Although improvements were noted, we found that, in general, the five agencies we reviewed had not fully implemented OCFO's guidance. This was attributed to the individual agencies not establishing controls over the risk assessment process to ensure adherence to instructions. As a result, the five agencies could not support their conclusions that the nine programs we reviewed were at low risk for improper payments. In our opinion, not prescribing controls that provide reasonable assurance IPIA requirements were met indicates management's attention and commitment to this critical area is questionable. Although USDA added five new programs as high risk in FY 2005, only two of those were supported by risk assessments (the remaining three were based on the judgment of agency officials). For USDA to fulfill its responsibilities under a law devised to save and safeguard taxpayers' assets and foster efficiency in Government operations, considerable management attention is warranted. As part of our current FY 2006 audit of the Department's high-risk programs, we alerted FS and Rural Housing Service (RHS) management that problems were noted in the statistical sampling that was required to be performed on their high-risk programs for 2005 and that these problems would continue to exist if not timely addressed.

In addition, our audits of FSA's compliance activities and of FSA's tracking of finality rule and equitable relief decisions revealed that FSA has not coordinated efforts between its program and financial management divisions to identify, quantify, and reduce improper payments.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs. Such programs include the food stamp, FSA loan, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led to total monetary results of $589 million, of which $393 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of our investigations is on specific subjects and specific allegations of criminal violations. Thus, the results achieved in individual investigations pertain directly to individuals, rather than identifying broad agencywide problems in benefit delivery. However, our investigative findings assist in identifying problem areas, such as common schemes used to obtain undeserved payments.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCFO strengthened its published guidance on the IPIA process, has continued to work with the agencies, and tabulated the current results. It is incumbent upon the agencies, however, to establish internal processes to meet the requirements prescribed for performing annual risk assessments. FS and RHS are presently reviewing the issues we reported.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: USDA agencies need to continue to aggressively implement the requirements of the law and OCFO's revised direction. Analyses of the internal control structure of all major programs must be performed, and weaknesses that could create vulnerabilities to improper payments need to be identified. Due to the breadth and complexity of the undertaking, successful implementation of the IPIA poses a significant management challenge to the Department. FS and RHS need to revise their sampling methodology for FY 2007 to ensure it is statistically valid and meets OMB requirements.

CHALLENGE: DEPARTMENTAL EFFORTS AND INITIATIVES IN HOMELAND SECURITY NEED TO BE MAINTAINED

SUMMARY: The events of September 11, 2001, heightened concern about potential terrorist threats and added a new dimension to USDA's missions and priorities—in particular, its 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. For FY 2006, $564 million has been appropriated for homeland security initiatives at USDA. Building on its earlier progress, USDA must accelerate its efforts to identify its assets, conduct thorough security risk assessments, and establish appropriate safeguards to prevent or detect deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and DHS must maintain their current border inspection activities to guard against the unintentional introduction of pests, diseases, and contaminants on imported products.

The Department has been responsive to specific security vulnerabilities identified by OIG. USDA has also participated in, implemented, or is in the process of implementing a number of security-related initiatives, including the National Animal and Plant Health Laboratory Networks (designed to rapidly detect foreign pathogens and other pests) and the National Interagency Incident Management System (developed to respond to a wide range of emergencies, both natural and human-caused). However, USDA still faces many challenges as it shifts its focus to encompass security as well as safety in each of its mission areas. Specifically, the Department must foster effective coordination and communication across agency and Departmental lines to ensure effective implementation of its ongoing and future homeland security initiatives. For example, the Department has coordinated and monitored the USDA agencies to achieve timely and effective implementation of biosecurity procedures for its many laboratories.

Such coordination and communication 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 directed USDA, the Department of Health and Human Services (HHS), the Environmental Protection Agency, and the U.S. 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.

OIG AUDIT/INVESTIGATION ACTIONS:

Commodity Inventories. In our February 2004 audit report of homeland security issues regarding USDA commodity inventories, OIG reported that FSA needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities. We also reported that FSA needs to formulate clear directions on food safety and security for the commodities that it manages, handles, transports, stores, and distributes. Although FSA agreed with our recommendations, actions have not yet been completed due to resource and budgetary constraints.

Select Agents and Toxins. In January 2006, OIG issued an audit of the Animal and Plant Health Inspection Service's (APHIS) implementation of the Agricultural Bioterrorism Protection Act of 2002, which provides for the regulation of agents and toxins that could pose a severe threat to animal and plant health or to animal and plant products. APHIS had not ensured that entities were fully complying with regulations regarding security plans; restricting access to select agents or toxins; training individuals authorized to possess, use, or transfer select agents or toxins; and maintaining current and accurate inventories.

Agriculture Quarantine Inspection Activities. OIG audits conducted prior to the transfer of APHIS inspection duties to DHS disclosed serious control weaknesses at American borders or ports of entry for agriculture and other food products. Many of our recommendations remain unresolved because of issues arising from the transfer of inspection duties from APHIS to DHS' Customs and Border Protection (CBP). Although the inspection function at borders and ports of entry was transferred to DHS, APHIS retains functions such as quarantine, risk analysis, destruction and re-exportation, user fees, and adjudication of violations. USDA-OIG and DHS-OIG are in the final stage of a joint audit to determine the extent to which CBP conducted agricultural inspection activities transitioned from USDA to prevent or minimize the introduction of harmful, exotic pests and diseases into the United States. The audit will also determine if CBP has taken corrective action on USDA-OIG recommendations including any that USDA was unable to take corrective action on before the transition of the areas to CBP.

In May 2006, GAO reported that CBP and APHIS continue to experience difficulty sharing information such as key policy changes and urgent inspection alerts. GAO recommended that DHS and USDA work together to establish processes and procedures for sharing urgent information, assessing inspection effectiveness, and identifying major risks posed by foreign pests and disease at ports of entry. GAO also recommended developing and implementing a national staffing model to ensure that agriculture staffing levels at each port are sufficient to meet those risks.

Avian Influenza. In our June 2006 review of APHIS' oversight of avian influenza (AI), we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI. However, APHIS has not yet developed a comprehensive approach for surveillance and monitoring of AI in domestic poultry. APHIS relies on a variety of voluntary State and commercial programs to monitor and test domestic poultry and wild birds. Because these programs are voluntary, APHIS does not know the extent of surveillance activity in place and is not gathering consistent data to enable it to draw conclusions, to permit the detection of changes in epidemiological parameters (e.g., subtype of AI or rate of prevalence), or to report incidents of AI in accordance with new international trade requirements.

On December 12, 2005, we issued a management alert to APHIS that outlined concerns regarding the development of a comprehensive AI surveillance plan, identifying gaps in sampling surveillance and assessing risk as a basis for determining the need for additional sampling.

In regard to its National AI Preparedness and Response Plan, APHIS needs to provide additional guidance on preparing and responding to highly pathogenic AI (HPAI) or notifiable AI (NAI) outbreaks in live bird markets or other "off farm" environments. APHIS needs to clarify actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. Also, APHIS needs to finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns.

Bovine Spongiform Encephalopathy (BSE) Surveillance Program and Controls Over BSE Sampling, Specified Risk Materials (SRMs), and Advanced Meat Recovery Products. OIG evaluated the expanded BSE surveillance program, the enforcement of the ban on SRMs, the administration of USDA's testing program, and the controls to prevent central nervous system tissue in advanced meat recovery products. APHIS obtained significantly more samples for testing than originally thought needed, but because the program is voluntary, we could not determine whether it obtained a representative proportion of high-risk cattle. Using USDA-published data, we could not determine whether APHIS achieved either geographical representation or representation of the high-risk surveillance stream (clinical suspects, fallen stock, casualty slaughter fallen stock, and routine slaughter).

We did not identify SRMs entering the food supply; however, due to the lack of adequate records, we could not determine whether procedures to remove, segregate, and dispose of SRMs were followed and/or were adequate in 9 of 12 establishments reviewed. FSIS did not have an information system to track noncompliance violations relating to SRMs.

Explosives and Munitions. We conducted a review to follow up on the status of FS' implementation of 24 recommendations to improve security and accountability of explosives and munitions that we had identified in our March 2003 report. We found that FS had not completed 11 of the 24 recommendations and that it was unable to apprise us of the status of the open recommendations even though 3 years had lapsed since it originally agreed to implement them. We recommended that FS designate a senior national level official to provide overall leadership and safety oversight for the National Explosives Safety Program and to be accountable for ensuring corrective actions were completed.

HSPD-9. This year OIG initiated reviews to evaluate the Department's actions to implement many of the initiatives outlined in HSPD-9. One of the reviews will determine the status of the implementation of the Integrated Consortium of Laboratory Networks and determine whether USDA has effectively implemented the diagnostic and reporting networks for animal and plant pathogens (specifically, the National Animal Health Laboratory Network (NAHLN) and National Plant Diagnostic Network (NPDN)). In another review, we are assessing USDA's role in monitoring warehouses and elevators that are required to register with the Food and Drug Administration; we are also reviewing the Department's implementation of HSPDs regarding monitoring and surveillance programs that track specific commodities and food.

Illegal Smuggling of Plant and Animal Products. OIG continues to conduct investigations of individuals who are illegally smuggling plant and animal products that may threaten American agriculture by introducing foreign pests and diseases. We currently have several ongoing investigations into the smuggling of poultry and poultry products into the United States. This activity is significant because of the potential for smuggled product to contain AI. Additionally, we have several investigations of illegal cockfighting rings operating in the United States. In many instances, the birds involved in the cockfighting rings are smuggled into the United States from foreign countries and, we believe, have the potential to spread not only AI, but also other avian diseases.

Although APHIS has primary responsibility for safeguarding American agriculture from foreign pests and diseases entering the United States, FSIS and DHS also have significant involvement and responsibilities. Having numerous responsible agencies requires close coordination and communication, particularly when an immediate response is necessary. OIG is working with APHIS and FSIS to establish protocols to ensure the coordination and sharing of information in smuggling investigations. Once these protocols are in place, they will be provided to DHS to ensure coordination between Departments.

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. However, according to FSA, actions have not yet been completed due to resource and budgetary constraints.

In response to the President's National Strategy for Pandemic Influenza, APHIS has developed the National AI Preparedness and Response Plan (Response Plan) to address the threat of AI. Characterized by its authors as a "living document" and subject to revision, it establishes a comprehensive approach to the management of an outbreak of HPAI on a large commercial poultry operation. APHIS is also coordinating and establishing AI surveillance networks with other Federal, State, and private entities. APHIS is working with Federal and State cooperators in developing strategies for monitoring migratory birds, as well as working internationally to provide outreach, education, and technical assistance.

APHIS has also initiated a series of actions to address the concerns we raised in our BSE audit. These actions include revising its testing protocols to provide for additional confirmatory procedures when inconclusive test results occur and publishing information to fully advise stakeholders of assumptions and procedures, limitations of data, and conclusions reached as a result of the BSE surveillance program. In addition, APHIS agreed to perform additional outreach to emphasize the age of the target animals and ensure laboratory personnel understand testing procedures. For its part, FSIS agreed to verify the adequacy of SRM control programs at all beef slaughter and processing establishments and confirm compliance with SRM control procedures through its Performance Based Inspection System, which is to be modified to allow for timely analysis of violation trends and tracking corrective action.

In response to our followup review, FS appointed a senior national-level official to provide overall leadership and safety oversight for the National Explosives Safety Program and to ensure corrective actions were completed.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE:

Commodity Inventories. FSA needs to determine and implement actions necessary to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures.

Select Agents and Toxins. APHIS needs to coordinate with the Centers for Disease Control and Prevention, HHS, to develop and implement procedures to share responsibilities for inspecting registered entities handling overlap agents. APHIS needs to improve its inspections of registered entities in possession of select agents by verifying that these entities base their security plans on a site-specific risk analysis; address all critical areas identified in the regulations; conduct and document annual performance tests of their security plans; and update those plans based on the results of performance tests, drills, or exercises. APHIS also needs to verify that adequate security and accountability are maintained over select agent inventories. Registered entities need to be re-inspected to ensure compliance with regulations, using formal written procedures to ensure that the inspections are consistent and thorough.

Agriculture Quarantine and Inspection Activities. USDA and DHS need to work together to strengthen controls and communication, develop the necessary processes and procedures to assess inspection effectiveness, and identify major risks posed by foreign pests and disease at ports of entry. Also, staffing models need to be developed to address those risks.

AI Surveillance. APHIS needs to develop and implement a comprehensive AI surveillance plan and perform and document an analysis identifying gaps in sampling surveillance and assessing risk as a basis for determining the need for additional sampling. APHIS also needs to revise the Response Plan to include detailed instructions for (1) handling HPAI occurrences in live bird market systems and other "off-farm" environments and (2) obtaining and administering vaccines and anti-virals to people in the event of a culling operation. Also, APHIS needs to coordinate with FSA and the States to develop and formalize producer notification and action procedures when an outbreak of AI occurs, to include identification of the roles and responsibilities of personnel involved, specific timeframes for action, and linkage to the Standard Operating Procedures set forth in the Response Plan.

BSE Surveillance and Safeguards. APHIS needs to ensure the transparency of published information so that stakeholders are fully advised of the assumptions and procedures used, limitations of data, and the basis of conclusions reached as a result of the BSE surveillance program. Testing protocols need to be continually reevaluated and adjusted based on emerging science. Additional outreach should be performed to emphasize the age of the target animals and ensure that laboratory personnel understand procedures for submitting the desired samples. APHIS should also follow up with laboratories that appear to be providing an insufficient number of samples.

FSIS needs to implement a review and evaluation program to be conducted by FSIS' Office of Program Evaluation, Enforcement, and Review to verify the adequacy of SRM control programs at all beef slaughter and processing establishments and verify compliance with its SRM control procedures through its Performance Based Inspection System, which should also be modified to allow for timely analysis of violation trends and tracking corrective action.

CHALLENGE: DEPARTMENTWIDE EFFORTS AND INITIATIVES ON GENETICALLY ENGINEERED ORGANISMS NEED TO BE STRENGTHENED

SUMMARY: As the share of American crop land devoted to cultivating biotechnology-derived or genetically engineered crops has grown, USDA's obligation to regulate these crops and to promote them as commodities in foreign markets has grown commensurately. While 88 million acres of genetically engineered crops were planted in the United States in 2001, by 2005 that number had grown to 123 million acres, with the total number of acres planted with genetically engineered crops over this 5-year period surpassing a billion. As of July 2005, approximately 87 percent of soybean acreage, 52 percent of corn acreage, and 79 percent of cotton acreage were grown from genetically engineered seeds. Recognizing the increasing importance of genetically engineered crops to the American agricultural sector, Congress required in the 2002 Farm Bill that USDA promote the export of these crops to foreign markets by developing a global marketing strategy and educating consumers about the safety of these products.

However, other countries—especially countries that have long been traditional markets for American agricultural commodities—have not always been eager to import genetically engineered crops. Even though the Food and Agriculture Organization of the United Nations has acknowledged the benefits and wholesomeness of genetically engineered crops, the European Union (EU) has instituted labeling and traceability requirements for biotechnology-derived imports, requirements that negatively affect U.S. producers' ability to compete in European markets and effectively act as trade barriers. Moreover, in several recent and highly publicized cases, U.S. crops have been found to contain genetically engineered material unauthorized for human consumption in foreign markets and subsequently were rejected by them. Given the new importance of genetically engineered crops to American agriculture, USDA faces significant challenges in regulating these crops, overcoming trade barriers in well-established markets, and cultivating new markets more receptive to importing biotech crops.

To meet these challenges, USDA must balance several goals, including (1) maintaining adequate accountability for genetically engineered seeds and crops, (2) preserving the integrity of non-genetically engineered seeds and crops, (3) ensuring the health and safety of the American food supply, and (4) maintaining the export levels of American agricultural production despite some foreign markets' reluctance to import genetically engineered crops.

OIG AUDIT/INVESTIGATION ACTIONS: During our review of USDA's monitoring of genetically engineered crops, we evaluated how USDA issues GEO release notifications and permits, which are required to ship or field test regulated GEOs. We found that the Department needs to strengthen its controls over the entire process, from how it handles permit and notification applications to how it oversees the devitalization of genetically engineered crops under approved notifications and permits. Of the 28 recommendations resulting from this audit, USDA has reached management decision on 15. We will continue to work with the Department to achieve management decision on the remaining 13 recommendations. Actions needed include establishing a timetable for implementing a new multi-tiered permit system and new procedures for disposing of high-risk pharmaceuticals and industrial harvests.

In our ongoing review of the export of genetically engineered crops, we are assessing how USDA has promoted the export of genetically engineered crops to remain competitive in the global agricultural market. Our preliminary results indicate that the Department has more to do to meet the challenge of overcoming trade barriers for exporting these crops to mature and new markets in emerging economies. To date, USDA's emphasis has been on resolving individual trade problems. To meet this challenge, the Department must continue to work to implement a global market strategy with clear goals for overcoming trade barriers in longstanding, well-established markets and for developing new markets where genetically engineered crops will be welcomed.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OIG and USDA agencies continue to work to reach management decision on our recommendations concerning the oversight of genetically engineered crops. Most of the outstanding recommendations require timeframes for implementing corrective action; however, the Department also needs to develop procedures for requiring written protocols for field tests before those tests are approved and for improving how the actual disposition and devitalization of regulated genetically engineered crops will be monitored. Our review of USDA's efforts to promote the export of genetically engineered crops is ongoing.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: To improve USDA's oversight of regulated genetically engineered crops, the Department needs to develop time-phased action plans to address the outstanding audit recommendations. To better promote the export of genetically engineered crops, USDA needs to develop a coordinated and consolidated global market strategy that will guide negotiations with countries reluctant to import genetically engineered crops and also open new markets willing to import American agricultural products.

CHALLENGE: USDA'S RESPONSE TO THE 2005 HURRICANES NEEDS ONGOING OVERSIGHT

SUMMARY: In January 2006, Secretary of Agriculture Mike Johanns announced $2.8 billion in assistance for victims of the 2005 hurricane season—$1.2 billion to assist farmers and ranchers and $1.6 billion to rebuild rural homes and communities. While these funds are sorely needed in rural America, administering them presents USDA with several significant challenges. First, the Department must strive to distribute this assistance as rapidly as possible while still ensuring that only hurricane victims receive benefits. Given the unprecedented magnitude of these disasters and the number of Federal agencies involved in the response, USDA agencies must coordinate with many other Federal agencies to avoid paying duplicate benefits. Second, USDA also has a responsibility to perform outreach, informing hurricane victims of what benefits are available to them and how they may best apply. Third, the Department has a responsibility to learn from how its agencies have responded to these catastrophes. Many USDA employees have succeeded in helping thousands of citizens through difficult and unfortunate circumstances, but the Department can still benefit from reviewing its own performance. By using the lessons learned, USDA can better prepare to respond to future disasters.

OIG AUDIT/INVESTIGATION ACTIONS: The President has requested that hurricane assistance be provided with the highest standards of accountability. In response to this charge, we have aimed to determine if relief efforts are being safeguarded against fraud, waste, and abuse and to ensure that disaster relief is reaching those most in need. At present, we have initiated audits and investigations of each USDA agency responding to these disasters, including FS, RHS, FNS, FSA, NRCS, and RMA. Together, our audits and investigations constitute an aggressive campaign to prevent the misuse of Federal funds and to improve USDA's overall ability to respond to future catastrophes.

Forest Service. Over the last 5 years, the Federal Emergency Management Agency (FEMA) has relied on FS to respond to major disasters, primarily because FS can rapidly establish camps to distribute emergency supplies to disaster victims. When using these camps to distribute supplies to people displaced by forest fires, FS has had a great deal of success keeping costs down by using prearranged contracts. We found that FEMA could significantly reduce its costs by negotiating more of these contracts prior to disasters, and we issued a letter to DHS-OIG suggesting that FEMA cut its costs by negotiating more prearranged contracts as it prepares for future disasters.

Rural Housing Service. RHS provides funds for hurricane victims whose homes have been destroyed and must be rebuilt. During our ongoing audit of this program we found two problems with how those funds are being administered. First, we found that RHS was not conducting adequate outreach to inform disaster victims of emergency assistance available to help them rebuild. Next, we identified some victims who were receiving duplicate benefits because USDA had not coordinated its assistance with other Federal agencies. By coordinating with other agencies likely to pay similar benefits and by performing better outreach, USDA can correct these problems as it responds to future disasters.

Food and Nutrition Service. FNS implemented Disaster Food Stamp Programs (DFSP) in Louisiana, Texas, Mississippi, Alabama, and Florida to provide food assistance to the many victims displaced by the 2005 hurricanes. So that evacuees who fled the Gulf Coast could also receive food assistance, FNS also implemented a National Evacuee Policy/Expanded Disaster Evacuee Policy (NEP), which provided a streamlined application process for disaster victims, even though they were no longer residing in a disaster area. The streamlined process reduced the administrative burden on host States that were helping victims from the affected States. Due to the extraordinary number of people displaced by these storms, FNS waived many of the eligibility tests and other program requirements that ordinarily apply to the Food Stamp Program. Overall, as a direct result of these storms, over 2.2 million households received more than $907 million in program benefits.

To evaluate the effectiveness of FNS' controls to prevent program abuse and duplicate payments, we have initiated audits of DFSP and NEP programs in all five States directly affected by the hurricanes. These audits are ongoing, but they will offer recommendations for how FNS can improve its administration of DFSP and NEP programs in preparation for future disasters.

Farm Service Agency and the Natural Resources Conservation Service. FSA and NRCS are also administering funds intended to counteract hurricane damage to crops, livestock, trees, and aquaculture through disaster programs such as the Livestock Indemnity Program, the Feed Indemnity Program, the Hurricane [Crop] Indemnity Program, the Tree Indemnity Program, and grants to aquaculture producers. In addition, these two agencies are administering funds intended to help reduce hurricane-related environmental damage through programs like FSA's Emergency Conservation Program (ECP), its Emergency Forestry Conservation Reserve Program (EFCRP), and NRCS' Emergency Watershed Protection Program (EWP).

We have initiated an audit of the EWP and ECP 2005 hurricane relief efforts with objectives such as monitoring funding levels, evaluating the adequacy of management controls, conducting reasonableness reviews of reimbursements, and assessing any waived or revised procedures under the programs. We also plan to review FSA's Livestock, Feed, Hurricane, and Tree Indemnity Programs and grants to aquaculture producers, as well as how FSA has implemented the new EFCRP and expanded ECP authorities established under the 2006 Defense Appropriations Act.

Risk Management Agency and the Federal Crop Insurance Corporation. Hurricanes Katrina, Rita, and Wilma caused catastrophic damage to crops that were reinsured through RMA's Federal Crop Insurance Corporation. Because of the extent of this damage, RMA authorized expedited procedures to streamline certain loss determinations and accelerate indemnity payments to hurricane victims. As of May 25, 2006, total indemnity losses caused by Hurricanes Katrina and Wilma in Florida stood at $227.1 million for nurseries and $13 million for citrus crops.

We have initiated an audit of RMA's emergency relief efforts in Florida for processing indemnity claims under these expedited procedures. As part of this audit, we are reviewing RMA's oversight of private insurers as they determined hurricane damage and issued payments.

Since producers could receive crop insurance indemnities as well as disaster payments, we are also assessing the potential for duplicate payments.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: From the beginning, USDA has been deeply involved in the Government's response to the 2005 hurricanes. In the early hours of the emergency, FEMA tasked FS with establishing incident camps where first responders lived while providing emergency assistance to hurricane victims. RHS and FNS also provided much needed food and shelter to evacuees throughout the United States. As the region continues to recover from the devastation wreaked by these storms, the Department will continue its commitment to deliver new benefits, including helping farmers and ranchers resume production, issuing crop insurance payments, and rebuilding rural communities and infrastructure.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: USDA faces three challenges as it responds to these disasters. First, it must expedite benefits while ensuring that those benefits are issued only to hurricane victims. Meeting this challenge will involve improving its coordination with other Federal agencies and preventing duplicate payments. Second, USDA must reach out to hurricane victims so that they are aware of what benefits are available to them. Third, and perhaps most importantly, USDA must use the lessons learned to identify its successes, and correct any weaknesses. By doing so, USDA will strengthen its ability to respond to future disasters.

Appendix B—Improper Payment 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. Under the Improper Payments Information Act (IPIA), executive agencies must identify any of its programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act for FY 2002 requires recovery auditing. In this process, agencies entering 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 for recovering amounts erroneously paid to the contractors. In FY 2005, Eliminating Improper Payments became a President's Management Agenda (PMA) initiative. On August 10, 2006, government-wide guidance was consolidated into OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C. Under this guidance, USDA has 4 programs required to report under Section 57 of A-11 and has identified an additional 11 at risk of significant improper payments through the risk assessment process.

USDA is taking steps to implement IPIA fully and achieve a "green" rating for the Eliminating Improper Payments PMA initiative. During FY 2006, USDA maintained "yellow" status by:

- Completing risk assessments for all programs;
- Developing plans to measure improper payments for all high risk programs and receiving OMB approval;
- Developing corrective action plans to reduce improper payments and establishing both reduction and recovery targets for all high risk programs;
- Fully complying with reporting standards;
- Reporting component error rates for two Food Nutrition Service programs for the first time; and
- Reporting statistical error rates for four newly declared high risk programs.

The Farm Service Agency (FSA) made improvements to the quality of its risk assessments and statistical sampling. Unfortunately, these improvements resulted in significant increases in improper payment rates for programs already designated as high risk, and four additional programs being declared susceptible to improper payments. The improved statistical sampling focused on verifying program eligibility and uncovered administrative weaknesses that prevent FSA from determining if payments are proper. Thus, the Commodity Credit Corporation (CCC) is reporting an increase of $3.5 billion in estimated potential improper payments in this report. Aggressive corrective action plans are being developed to improve the quality of documentation for program eligibility.

USDA will be able to move to "green" status when error rates are available for all programs and it demonstrates that reduction and recovery goals are being met. Due to budget and program constraints, this process can be complicated. For the programs without an estimated error rate, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages.

Additionally, USDA is taking steps to implement recovery auditing fully. Using an independent recovery audit contractor working on contingency, USDA identified $379,000-worth of potentially recoverable improper payments. The Department has recovered $538,000 in FY 2006 from amounts identified during FY 2005 and FY 2006.

On August 23, 2005, OMB provided a reporting template for IPIA in OMB Circular A-136. The template requires responses to specific issues. USDA's response to these issues follows.

I. Describe your agency's risk assessments, performed subsequent to compiling your full program inventory. List the risk-susceptible programs identified through your risk assessments.

OCFO issued detailed guidance for the risk assessment process including templates and extensive reviews of drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs. For USDA's largest programs, the risk assessment process required the following:

- The amount of improper payments needed to meet the reporting standards;
- A description of the program including purpose and basic eligibility requirements;
- Definition of improper payments specific to the program;
- Program vulnerabilities linked to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Internal controls testing;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements (optional); and
- Description of how improper payments are recovered (optional).

USDA has identified the following 15 programs as susceptible to improper payments.

Selection Methodology	Agency	Program
Section 57 of OMB Circular A-11	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program (MAL)
	Food Nutrition Service (FNS)	Food Stamp Program
		National School Lunch & School Breakfast Programs (NSLP-SBP)
		Special Supplemental Nutrition Program for Woman, Infants and Children
USDA Identified as Susceptible to Significant Improper Payments	Farm Service Agency (FSA) Commodity Credit Corporation (CCC)	Milk Income Loss Contract Program
		Loan Deficiency Payments
		Direct and Counter-Cyclical Payments
		Conservation Reserve Program
		Disaster Programs
		Noninsured Assistance Program
	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)	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FNS	Food Stamp Program (FSP)	Statistical sampling Each month, States select a statistically random sample of cases from a universe of all households receiving FSP benefits for that given month. Most States draw the samples using a constant sampling interval. There are some which employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State agencies with small FSP populations to more than 1,000 for larger States. The average is approximately 950 per State. States are required to complete at least 98 percent of selected cases deemed to be part of the desired FSP universe. Federal sub-samples are selected systematically by FNS from each State's completed reviews. These sample sizes range from 150 to 400 per State. Error Rate Calculation The National payment error rate is calculated using a multi-step process: Each State agency conducts quality control (QC) reviews of the monthly sample of cases. The QC review measures the accuracy of eligibility and benefit determinations for each sampled case against FSP standards. State agencies are required to report to FNS the findings for each case selected for review. FNS then sub-samples completed State QC reviews and re-reviews selected individual case findings for accuracy. Based on this sub-sample, FNS determines each State agency's official error rate using a regression formula. The national payment error rate then is computed by averaging the error rate of the active cases for each State weighted by the amount of issuance in the State.
FNS	National School Lunch & School Breakfast Programs (NSLP-SBP)	The results of a large national study of improper payments in NSLP and SBP, for School Year 2005-2006, are anticipated to be reported next year. Because of the scope and cost of this kind of 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 improper payment measurement estimate every five years. Additionally, as part of the current project, FNS intends to develop a methodology that uses data available from extant sources to estimate improper payments annually on a NSLP component. The sampling plan for the large national study involves the selection of a national probability sample of school food authorities (SFA), schools, certified students and their households, and households that applied for and were denied benefits. In the first stage of sampling, a stratified random sample of 80 SFAs was selected. Stratification variables included geographic region, prevalence of schools with SBP and those using Provision 2/3 and a poverty indicator. In the second stage of sampling, three schools, on average, were selected from SFAs that do not have Provision 2/3 schools. Schools were stratified

Agency	Program	Sampling Process
FNS (Cont'd)		into two groups: (1) elementary schools and (2) middle and high schools. A total of 264 schools were selected for the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, households were selected in 240 of these schools. This process was designed to yield completed interviews for 3,600 students certified for free and reduced-price meals, and 400 denied applicant households. The sample of approved and denied applicant households was augmented by sampling applications from Provision 2/3 schools in which household surveys were not conducted. The study design includes approximately 4,500 application reviews to estimate a case-error rate due to administrative error. All schools selected for application reviews also would include data collection for counting and claiming errors. In the interim (before the nationally representative improper payments rate is available), FNS is reporting a component measure drawn from annual on-site reviews focused on the certification and verification process. One important source of certification error is (SFA errors in certifying and verifying applications. In 2002, on-site reviews were conducted of the application verification process at 14 SFAs. This activity determined that 6 percent of the SFAs' verification determinations were incorrect due to administrative errors. USDA worked with Congress to develop and adopt legislative changes to address certification accuracy. These changes included mandating direct certification, year-long certifications and household applications. FNS has worked with States and local education agencies to implement these improvements rapidly. Beginning in FY 2005, FNS has conducted an annual review of a statistical sample of SFA application eligibility determinations. This sample will be used to measure changes in administrative error rates, assess the impact of its corrective action, and target and focus future activities. The national benefit status error rate on applications for school year 2004-05 is 4.3 percent (±0.95, 90 percent confidence interval based on 2,766 applications). Beginning in 2007, it is anticipated that this component also will become part of the formula used to develop the annual payment error estimate.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	FNS plans to continue periodic examinations of WIC certification and vendor error. • **Certification Error—**The next decennial national study to measure certification error in WIC is scheduled for 2008. This study will, for the first time, include a measurement of the amount of improper payments associated with certification error. Previous studies preceded IPIA and did not include any value determination of improper payments. • **Vendor Error—**A study of WIC vendor management recently has been completed. A national improper payments estimate of vendor charges, for FY 2005 activity, is reported in Section IV. For the next few years, FNS will generate an annual update of this improper payment measurement using statistical techniques. Options to accomplish this using existing administrative and other data are being examined. The "bookend" study data will be aged by data reported annually by all WIC State agencies to produce estimates for FY 2006 and annually until the next bookend study. State WIC agencies are required to investigate at least 5 percent of their authorized vendor population each year. Some States investigate more than the minimum. In FY 2004, approximately 10 percent of all vendors were investigated, although there is substantial variation across States. These data are collected into The Integrity Profile Report and database on a fiscal-year basis. The investigations check for vendor violations including overcharging and charging for foods not received by the recipient. While States primarily select vendors for investigation through purposive sampling from their presumed high risk vendors, some include a random component in their sampling. Moreover, the state-of-the-art in identifying "high risk" vendors is imperfect and there is a semi-random aspect to the samples. Thus, FNS can generate an improper payment amount by using post-stratified sampling techniques to adjust for the purposive aspects of the samples. The Food Stamp Program pioneered the use of post-stratified sampling methods to estimate food-stamp trafficking. FNS believes it can adapt the food stamp methodology for the WIC vendor estimates. The agency will develop and test the methodology. 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.

Agency	Program	Sampling Process
FNS	Child and Adult Care Food Program (CACFP)	Two measures of the Family Day Care Home component of the program are planned. The methods for determining these measures are: • **Sponsor Tiering Error—**National study of a representative sample of sponsor files for 3,150 family day care homes (FDCHs) in 95 distinct sponsors in 14 States. Data collectors went to each sampled sponsor with randomly drawn lists of 30 to 90 FDCHs. They extracted the necessary documents to establish eligibility for reimbursements from the sponsors' files. The FY 2005 results are reported in Section IV below. • **Meal Claiming Error—**Two methods of estimating the risk of claiming error will be tested for feasibility. Both approaches compare the number of participants observed during the monitoring visit to the average number of meals claimed for reimbursement for the meal or snack closest to the time of the visit. Each approach a) provides an estimate of the risk of claiming error among FDCH providers; b) involves a different set of problems (which may or may not be surmountable); and c) requires very different resource implications. FNS will pilot both approaches in conjunction with the 11 Child Care Assessment Project (CCAP) reviews scheduled for FY 2007. A sample size (for the pilot) of 200 FDCHs is anticipated. Data collection forms already have been developed for each approach to facilitate standardized collection and data entry.
FSA/CCC	Milk Income Loss Contract Program (MILC)	MILC only disbursed approximately $9 million in FY 2005. USDA suspended improper payment sampling because of the low level of outlays since the program expired as of September 30, 2005. The program was reauthorized for two years in February 2006 and signup for the new MILC ended in May 2006. Outlays for FY 2006 were $351 million, exclusive of accruals. There will be a statistical sampling of the FY 2006 activity using the same approach as defined for Marketing Assistance Loan and Loan Deficiency Payment program activity.
FSA/CCC	Loan Deficiency Payments	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FSA/CCC	Direct and Counter-Cyclical Payments (DCP)	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative

Agency	Program	Sampling Process
FSA/CCC (Cont'd)		guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FSA/CCC	Conservation Reserve Program (CRP)	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program being tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria that is drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potentially improper payments made. The results of that review are summarized and submitted to the CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by CORP staff that visited the county offices and completed the actual reviews of documents.
FSA/CCC	Disaster Programs (CDP)	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's (FSA) County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FSA/CCC	Noninsured Assistance Program (NAP)	Reviews of program payment activities with respect to the Improper Payment Information Act are conducted by FSA's County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments for each program tested. A professional statistician under contract to FSA is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95-percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. Agency program delivery organizations (county offices) are selected in the first stage and individual payments made or contracts reviewed by those organizations are selected in the second stage.

Agency	Program	Sampling Process
FSA/CCC (Cont'd)		That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. CORP staff visits each of the county offices shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. CORP reviewers use a list of program division provided criteria drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to CORP national office staff to be analyzed by the statistician contractor. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the county offices and completed the actual reviews of documents.
FS	Wildland Fire Suppression Management	Wildland Fire Management – Suppression has been deemed a high risk account and as such, the sample had to be a statistically based sample. For FY 2006, the fund had 13,553 payments made. Accordingly, a sample size of 166 was selected using a random number generator. The sample was selected using a 90-percent confidence level, anticipated rate of occurrence of 2.9 percent and a desired precision range of 5 percent.
RD	Rental Assistance Program	The agency reviewed the sampling plan developed by the U.S. Department of Housing and Urban Development for its studies. It engaged an Rural Development (RD) statistician to prepare a similar plan for this report. This report is based on a review of tenants receiving RA during their occupancy beginning September 1, 2005, to May 31, 2006. This period was selected since the actual rental assistance payment is made one month following the occupancy date. Thus, the universe covers the fiscal year to date. RD plans another review in November/December 2006 that will cover the full FY 2006 period. The sampling plan consisted of 665 rental assistance (RA) payments from a universe of 2,330,334 or .029 percent. The methodology produced a sample with a 99-percent confidence level. The study required field staff to evaluate tenant files and income calculations. The agency did not test if RD's deputy chief finance office paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and the implementation of an automation enhancement to improve data entry. The universe of rental assistance payments during the period of September 1, 2005, to May 31, 2006, was 2,330,334. The only parameter used to determine the eligible universe was the RA payment. No other data element, such as location, size of property, number of units and availability of other rental assistance (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS). The extract contained a list of all tenants receiving RA who occupied the unit as of September 1, 2006, for payment as of October 1, 2006. The data included month of payment, project name, project identifier (case number/project number) and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. Once the sample was identified, an unnumbered letter dated July 11, 2006, was issued to RD field staff that explained the process (including detailed instructions), provided the list of tenant payments to be reviewed and provided the data currently maintained in MFIS. These data were used as the baseline review of the tenant data comparison between the Agency records and the management agent's tenant files. The survey instrument was revised this year and reduced from a two-page to a one-page questionnaire. The study asked State office staff to complete the survey for the selected tenant payments. There was to be no substitution of the selected payment and, if the management agent was unable to submit the file, the payment would be considered unauthorized assistance.
RMA	Federal Crop Insurance Corporation Program Fund	RMA drew 300 random 2004 crop year indemnities to review during 2005. It will repeat this process for three years to compile 900 random indemnity reviews that will be used to identify the RMA program-error rate. Limited resources make it impractical to conduct a statistically valid program review each year. Despite these limits, in combination with the National Operations Reviews conducted by RMA compliance personnel, these random reviews of paid indemnities should provide the program with sufficient data to establish an acceptable error rate for the purposes of the IPIA.
NRCS	Farm Security and Rural Investment Programs	The Farm Security and Rural Investment Program was treated as six individual programs following the apportionment schedule: • Environmental Quality Incentive Program; • Wildlife Habitat Incentive Program; • Wetland Reserve Program; • Grassland Reserve Program; • Farm and Ranch Land Protection Program; and • Conservation Security Program (CSP).

Agency	Program	Sampling Process
NRCS (Cont'd)		As shown in section IV, the Farm Security and Rural Investment Program has reported an improper payment rate of less than 2.5 percent for the last 2 years. The Farm Security and Rural Investment Program also met its FY 2006 reduction and recovery targets. As a result of this demonstrated ability to reduce improper payments, we anticipate that OMB will authorize the removal of all but CSP from the high risk list. Starting in FY 2007, USDA anticipates that only CSP will be sampled statistically and reported in the PAR. Risk assessments were developed for each program with the Financial Management Division and the National Program Managers. Using last year's risk assessments and corrective action plans, NRCS identified any new risks and internal controls to test. It reviewed internal and external reviews and audits to eliminate duplication of effort and incorporated testing of any new internal controls implemented as a result of the reviews and audits. Statutory and program changes as they related to IPIA were considered. Individual program samples were statistically selected from the universe of payments made to participants during FY 2005. Anticipated error rates were based on the actual ones determined from the results of last year's sampling and anticipated impact of ProTracts. NRCS used a rigorous confidence level of 95 percent and precision range of 5 percent to select the number of samples. A total of 765 samples were selected. Questionnaires unique for each program were developed with the program managers. Sample payment data were merged into the questionnaires. These questionnaires were sent to State and field offices to complete and return with supporting documentation. The questionnaires are a tool for re-enforcing program rules and a means to obtain verification of items which would not be readily available in a contract file. NRCS started the implementation of individual program review checklists. They were created by the Financial Management Division based on the risk assessments and internal controls selected for testing. As samples were returned, the agency used the review checklist to test the effectiveness of the selected internal controls. This ensured testing consistency by the review team. We also tested payment calculations, contracting policy adherence, and issues from last year's sampling.

III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause 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/CCC	Marketing Assistance Loan program (MAL)	A large percentage of the improper payments was caused by noncompliance with administrative procedures. While failure to follow administrative procedures may not have caused the payment to be disbursed in error, it is not possible to determine whether the payment was appropriate without the documentation. For example, it was determined that a producer who did not certify whether it had a delinquent Federal non-tax debt but still received a payment was considered an improper one. In such cases, while the producer may have been a legitimate recipient, because he or she failed to indicate his or her status this was considered an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate. The State and county offices involved in the statistical sample have been notified of the findings and the necessary corrective actions. FSA corrective action plans for reducing improper payments include: • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample's findings and overall MAL program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address MAL policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal control procedures to avoid these types of errors;

<table>
<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FSA/CCC (Cont'd)</td><td></td><td>Enhancing existing software and/or developing automated programs that verify program eligibility and compliance, subject to funding;
Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the MAL approval process without compromising program integrity;
Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating.
Leveraging the Treasury Offset Program System (TOP) to verify Debt Collection Improvement Act (DCIA) compliance. This, in turn, may eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP for the purpose of verifying DCIA compliance for producers requested LDP benefits; and
Amending existing regulations to eliminate inadequate program compliance controls. A final rule amending regulatory language requiring lien searches and filing of financing statements on loan amount $25,000 or less is going through Departmental clearance and will be published in the Federal Register upon final signature.</td></tr>
<tr><td>FNS</td><td>Food Stamp Program</td><td>Causes of improper payments

An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which they are eligible. This can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification. It also can occur from changes subsequent to certification or errors in determining eligibility or benefits by caseworkers. Eligibility worker delays in action or inaction taken on client reported changes also can cause of improper payments.

An analysis of the FY 2004 completed statistical sample revealed that approximately 69 percent of all variances occurred before or at the most recent certification/recertification. Additionally, 56.7 percent of the errors were agency caused. A little more than 50 percent of the errors (50.4 percent) were income related and caused by client misreporting or the agency misapplying the reported income. Misreporting or misapplying deductions was the second largest source of errors at 31.6 percent.

The analysis of the FY 2005 data is scheduled for release in early 2007.
Steps that are (or will be) taken to address specific findings in the last statistical sample:
Program regulations require State agencies to analyze data to develop corrective action plans to reduce or eliminate program deficiencies. A State with a high error rate must develop a QC corrective action plan to address deficiencies revealed through an analysis of its own QC data. A State with an excessive error rate will be required to invest a specified amount (depending on its error rate and size) designated specifically to correct and lower its error rate. The State also will face further fiscal penalties if it fails to lower its error rate in a future fiscal year.
Steps that are (or will be) taken to improve the overall control environment and improper payments:
FNS, through its regional offices, works directly with States to impart the importance of payment accuracy and correct payments to State leadership. The agency also helps those leaders develop effective corrective action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as:
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.</td></tr>
</table>

Agency	Program	Corrective Actions Planned
FNS (Cont'd)		FNS administers a State Exchange Program. The program provides funds to States to facilitate travel to obtain, observe and share information on best practices and effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange and collaborative efforts. These efforts address mutual concerns and support development of effective corrective action.
FNS	National School Lunch & School Breakfast Programs (NSLP-SBP)	FNS has collected 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 these data. A number of key data elements are reported to FNS annually. These elements include certification type (direct certification or application), verifications conducted and results of verification activity. These efforts will be used to explore regulatory, policy and training efforts to improve the accuracy and reliability of the eligibility-determination process. In June 2006, FNS published the results of the certification and verification reporting for school year 2004-05. The report indicates that approximately three quarters of certified students were subject to verification, with the remainder directly certified. Among all verified applications, the majority were found to be consistent with their certification status. Thirty-three percent of verifications resulted in a change in certification status, with 21 percent of those resulting from non-response to the verification request. For school year FY 2004-05, SFAs were permitted to choose among three methods for selecting applications for verification. Results varied substantially by method. Verification results for school year 2005-06 currently are being reported and analyzed. As a result of a legislative change designed to better target error-prone applications, these data will reflect changes in verification sampling procedures by SFAs. They will not be directly comparable to the school year 2004-05 data. FNS also has secured resources and entered into a contract to conduct a nationally representative study of the NSLP/SBP eligibility determination process. It also has established the first improper payments rate. An improper payments rate for school year 2005-06 is anticipated to be available by August 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 improper payment measurement every five years. Additionally, as part of the current project, FNS intends to develop a methodology that uses data available from other sources to measure improper payments on a component of the NSLP annually.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	The data from the study of vendors in 2005 indicating a very low level of WIC vendor improper payments are reported in Section IV below. Corrective action plans and reduction targets will be developed in FY 2007 and submitted to OMB for approval.
FNS	Child and Adult Care Food Program (CACFP)	The data from the new FDCH teiring accuracy determination and the Child Care Assessment Project (CCAP) are being analyzed. Corrective action plans and reduction targets will be developed in FY 2007 and submitted to OMB for approval.
FSA/CCC	Milk Income Loss Contract Program (MILC)	While statistical sampling of MILC was not required due to limited activity in FY 2005, FSA has concluded that that this program will benefit from many of the corrective actions targeted for CCC programs delivered through the field office structure. As with the other programs, it should be noted that compliance with the administrative procedures may have prevented the improper payment from being disbursed. For example, it was determined that a producer who did not certify whether he or she had a delinquent Federal non-tax debt but still received a payment was considered an improper payment. In such cases, while the producer may not have been a delinquent debtor and was entitled to receive the applicable payment, he or she failed to indicate his or her status, making it an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate. FSA corrective action plans for reducing improper payments include: • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample findings and overall program compliance concerns in the various programs. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address MILC policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal-control procedures to avoid these types of errors; • Enhancing existing software and/or develop automated programs that verify program eligibility and compliance, subject to funding;

Agency	Program	Corrective Actions Planned
FSA/CCC (Cont'd)		• Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating. • Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the MILC approval process without compromising program integrity; and • Leveraging the Treasury Offset Program System (TOP) to verify Debt Collection Improvement Act (DCIA) compliance. This, in turn, may eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP to verify DCIA compliance for producers requesting MILC benefits.
FSA/CCC	Loan Deficiency Payments (LDP)	A large percentage of the improper payments were caused by noncompliance with administrative procedures. It should be noted that compliance with these procedures may have prevented the improper payment from being disbursed. For example, it was determined that a producer who did not certify whether they had a delinquent Federal non-tax debt but still received a payment was considered an improper payment. In such cases, while the producer may not have been a delinquent debtor and was entitled to receive the applicable payment, he or she failed to indicate his or her status, making it an improper payment. After further program review and additional corrective action, the program payment amount issued was determined to be accurate. The State and county offices involved in the statistical sample have been notified of the findings and the necessary corrective actions. FSA corrective action plans for reducing improper payments include: • Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel; • Developing a PowerPoint training presentation addressing the statistical sample findings and overall LDP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office employees. This training presentation will be the first of a series of training modules to address LDP policies and procedures; • Informing State executive directors of compliance issues that resulted in an improper payment and provide additional internal control procedures to avoid these types of errors; • Enhancing existing software and/or developing automated programs that verify program eligibility and compliance, subject to funding; • Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director. The employee's individual results will be integrated into his/her annual performance rating. • Reviewing existing policy and procedures handbooks to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls in an effort to simplify the LDP approval process without compromising program integrity; and • Leveraging the Treasury Offset Program System (TOP) ability to verify Debt Collection Improvement Act (DCIA) compliance. This may in turn eliminate the need for a producer self-certification of the DCIA requirement. Current financial systems and security issues must be enhanced and addressed before FSA can use TOP for the purpose of verifying DCIA compliance for producers requested LDP benefits.
FSA/CCC	Direct and Counter-Cyclical Payments (DCP)	A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, while a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file, he or she is paid DCP benefits. It has been determined that the producer's DCP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer then files the form. In this instance, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure. The Office of Management and Budget Circular A-123, Appendix A identifies administrative compliance as a key internal control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of potential improper payments. Administrative procedures include obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.

<table>
<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FSA/CCC (Cont'd)</td><td></td><td>
FSA's corrective action plan for reducing improper payments includes the following actions developed under.
A-123's plan:

Provide training on key controls to field personnel and educate them on the importance of control procedures and the potential noncompliance risks. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning management system. Then, and the training will be followed by communications and job aids to help facilitate compliance to controls;
Enhance individual accountability of controls by performing quarterly control testing on each employee's program related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive director; and
Integrate the employee's individual results into his/her annual performance rating.

In addition to the A-123 corrective action plans, FSA's plans for reducing improper payments include:

Developing a Power Point training presentation addressing the statistical sample findings and overall DCP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office personnel; and
Reiterating current program policies regarding program compliance through the issuances of National notices to State and County office personnel.

</td></tr>
<tr><td>FSA/CCC</td><td>Conservation Reserve Program (CRP)</td><td>
A large percentage of the improper payments was caused by noncompliance with administrative procedures. The internal controls in place to support compliance with these procedures likely would have prevented the improper payment from being disbursed. For example, a producer who certified performance of the practice on the AD-245, page 2, after the practice expiration date but still received a cost-share payment was considered an improper payment. However, the producer may not have certified after the practice expiration date, the expiration date may have been extended but not indicated on the form or entered into the system. Because the extension was not updated on the form or in the system, this was considered an improper payment. The State and county offices involved in the statistical sample will be notified of the findings and the necessary corrective actions. FSA is requiring that all necessary corrective actions be completed no later than October 27, 2006, unless noted otherwise.

FSA's corrective action plans for reducing improper payments include:

Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel;
Developing an AgLearn training presentation addressing the statistical sample findings, overall CRP program compliance concerns and the program in general. This AgLearn presentation will be made available to all State executive directors and office employees to assist when training county office employees. FSA will investigate required training using AgLearn as a pre-condition of using CRP software. Training presentations will be prioritized based on the findings of this plan;
Requiring State executive directors to resolve compliance issues that resulted in an improper payment;
Enhancing existing Web-based software and retiring legacy systems to tie all program payments more closely to a single contract file. This migration will reduce the potential that contract payment documents and records will contain inconsistent or out-of-date information;
Reviewing existing policy and procedure to determine program compliance inefficiencies. FSA will strengthen or eliminate inadequate program compliance controls to simplify the CRP payment process without compromising program integrity; and
Requiring county offices with potential improper payments identified to review the payment and determine if it was proper had the procedures been followed. If not, the county office must establish a receivable, and take action to recover the overpayment and afford appropriate appeal rights.

</td></tr>
</table>

<table>
<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FSA/CCC</td><td>Disaster Programs (CDP)</td><td>
A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file. However, the producer is paid CDP benefits. It has been determined that the producer's CDP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer files the AD-1026. In such a case, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure.
OMB's Circular A-123, Appendix A, identifies administrative compliance as a key internal control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of potential improper payments. Administrative procedure includes obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.
FSA's corrective action plan for reducing improper payments includes the following actions developed under A-123's plans:

Training field personnel on key controls and teaching the importance of control procedures and the potential risks of noncompliance. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning-management system. Communications and job aids then will follow to help facilitate compliance to controls;
Enhance individual accountability of controls by performing quarterly control testing on each employee's program-related payment transactions. A sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance plans for the county, district and State executive directors; and
Integrate the employee's individual results into his/her annual performance rating.

Additionally, FSA's corrective action plan for reducing improper payments includes:

Developing a Power Point training presentation addressing the statistical sample findings and overall CDP program compliance concerns. This PowerPoint presentation will be made available to all State executive directors and office employees to assist when training county office (CO) employees; and
Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel.

</td></tr>
<tr><td>FSA/CCC</td><td>Noninsured Assistance Program (NAP)</td><td>
A large percentage of the improper payments were due to noncompliance with administrative manual controls. It is important to note that compliance with administrative procedures may have prevented the improper payments. For example, a producer did not have an AD-1026, Highly Erodible Land Conservation and Wetland Conservation Certification, on file. However, the producer was paid NAP benefits. It has been determined that the producer's NAP payment is considered an improper payment. After the producer is paid, the county office requests an AD-1026. The producer files the form. In such a case, while the producer was entitled to receive the applicable payment, the county office did not follow administrative procedure.
OMB Circular A-123, Appendix A, identifies administrative compliance as a key internal-control issue. The A-123 Review Team found that a lack of compliance with administrative procedures accounts for a large percentage of improper payments. Administrative procedure includes obtaining appropriate authorizing signatures and obtaining and retaining required data, forms and supporting documentation.
FSA's corrective action plan for reducing improper payments includes the following actions developed under the A-123 Review Team's plan:

Training field personnel on key controls and teach the importance of control procedures and the potential risks of noncompliance. Training will be delivered through various means including in person and via AgLearn, a USDA enterprise-wide learning management system. Communications and job aids then will follow to help facilitate compliance to controls;
Enhance individual accountability of controls by performing quarterly control testing on each employee's program-related payment transactions. A sample of five producer payments will be selected for each employee for quarterly testing. The results from these tests will be included as part of the employee's annual performance plans for the county, district and State executive directors; and
Integrate the employee's individual results into his or her annual performance rating.
Additionally, FSA's corrective action plan for reducing improper payments includes: Reiterating current program policies regarding program compliance through the issuances of national notices to State and county office personnel.

</td></tr>
</table>

Agency	Program	Corrective Actions Planned
FS	Wildland Fire Suppression Management	The first part of the corrective action plan has been implemented. The centralization of finance and budget to a central location has allowed standardization of the payment process. Additionally, the Internal Quality Assurance organization is enacting the requirements of OMB's A-123 Appendix A. Thus, the internal controls relating to payments have been evaluated. Efforts also are underway to remediate any processes where controls have failed. Finally, improper payment patterns found from reviewing the results of IPIA and Recovery Auditing will result in recommendations to agency leaders for improvement in specific areas.
RD	Rental Assistance Program	The agency now is implementing a corrective action plan because of the report's findings. Thus, the results of the corrective actions are not reflected in this report and may have impacted the error rate positively. The error rate increase is attributed to a change in the sampling plan and the revision to the survey form which captured more responsive information. Quality assurance issues appeared to be less of a problem with this re-designed instrument. Consequently, the data reported in this report may be more reliable. RD notes that, although the error rate increased, the dollar impact of the errors fell from $27 million in FY 2005 to $22.4 million in FY 2006. Recommendations for the FY 2006 report are the following: • Errors found in this report must be followed up by Loan Servicers within the next three months and achieve resolution; • State offices must train field staff, borrowers and property managers in appropriate required documentation and follow-up with tenants and income-verifiers; • The national office will continue to pursue access to the U.S. Department of Health and Human Services new hires data to be shared with State offices. This legislation currently is being prepared for review by OMB; • Recognizing that the new hires data access process may take some time, State offices must participate with available wage matching programs and make such data available to borrowers if permitted. State office staff must ensure that such shared data are used by borrowers and property managers. The new regulation, 7 CFR part 3560, requires State offices to report quarterly on their efforts to participate in wage matching, where available; • The national office must complete its evaluation and restructuring of the supervisory visit procedure to strengthen and provide more focus when reviewing tenant files; • The national office should employ an independent contractor to undertake this study in the future.An independent contractor will provide objective and impartial analysis; • The national office will add to the Multi-Family Housing Program's Servicing Goals a requirement for State offices to be more aggressive in educating and training borrowers/management agents on calculating and documenting tenant's incomes; • Add to HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6 – Project Occupancy, a check sheet for property management agents to review when verifying assets, income and adjustments to income; • Add to HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6 – Project Occupancy, a check list of required tenant file documentation; and • Develop a "Fact Sheet" for MFH tenants explaining their responsibilities and rights regarding income disclosure and verification.
RMA	Federal Crop Insurance Corporation Program Fund	RMA is in the second year of the three-year review cycle established to determine the improper payment rate for the Federal Crop Insurance Program. The agency identified a lower-than-expected rate in the first round of random sampling, 1.90 percent absolute error. Despite this finding, the agency will not have a completed benchmark established until the review of 2006 crop year indemnities has been completed and reported in 2008. RMA negotiated and executed a new Standard Reinsurance Agreement starting in 2005. That agreement emphasizes improved quality controls and enhanced penalties that together should encourage participating companies who sell and service Federal crop insurance policies to improve the improper payments rate.
NRCS	Farm Security and Rural Investment Programs	Causes of improper payments identified in NRCS' risk assessments for Farm Bill programs can be categorized into four areas; statutory compliance, program compliance, eligibility and payment calculation. Each of the six programs the agency sampled had their own unique program rules which were incorporated into its testing. Three external audits on programs and one on its contracting tool, ProTracts, were in various stages of finalization during the planning and conducting of NRCS' IPIA work. As initial findings of these audits as they applied to IPIA were incorporated into its review, NRCS tried to not duplicate work and testing already performed. At of the time of the review, no audit finding indicated an improper payment was determined by an audit. Specific internal controls resulting from these audits would not have been in effect for its sample period but will be tested once implemented. After reviewing the 765 samples NRCS found 24 improper payments. Starting with FY 2005, EQIP payments were made through the agency's new contracting tool, ProTracts. Business rules and internal controls built into ProTracts helped eliminate many of the types of improper payments we found last year. This year, the

Agency	Program	Corrective Actions Planned
NRCS (Cont'd)		agency tested the internal controls that relate to program documentation, eligibility and payment calculation. NRCS found no instances of errors made by the software for program documentation and eligibility. It did find minor payment calculation errors due to a rounding routine under certain conditions and included these in the error rate. This error previously was known to exist and was corrected when discovered during the fiscal year. Our sampling of ProTracts originated payments (more than half of all samples) produced 5 of these errors. None were found after the rounding routine was corrected. Two manually calculated payment errors were found on program payments made outside of ProTracts. One was a transposition while the other was a typing error. Documentation issues for program compliance continue to be a source of improper payments. In all cases, the errors were on manually generated contracts and not related to ProTracts. NRCS found 11 improper payments where documents were not completed according to program rules or were missing entirely. These will be included in its report to leadership. NRCS is planning to convert all open manual contracts in the WHIP program to ProTracts in the next year. This would have eliminated 20 percent of the errors found in this program. The agency plans on strengthening its quality assurance testing and updating its contracting manual to address these issues. The potential for a participant to receive payment from more than one program for the same practice was found in two samples as the field offices completed the questionnaires. The Farm Bill prohibits payments for the same practice from different programs on the same tract of land in the same fiscal year. An April 26, 2006, external audit issued by the General Accounting Office on CSP highlighted this issue. A management decision will be made when that audit is final and NRCS is developing plans to implement the appropriate corrective action. Meantime, field offices have corrected the contracts to prevent the duplication of payments. NRCS is working on a way to uncover these cross over payments. Participant eligibility was a target area for this year's testing. Specifically, NRCS tested for Highly Erodible Land compliance, Wetland compliance and Adjusted Gross Income determinations. ProTracts has automated eligibility determinations for contracts and payments made through that tool. Field personnel would need to manually verify eligibility before making payments for programs outside of ProTracts. NRCS found four instances where eligibility determinations were not made prior to the payment. Two were manual transactions made outside of ProTracts. During the review, NRCS determined that the participant was in compliance when these two payments were made. Another error involved the adjusted gross income determination on a payment to an entity. This was a contract converted into ProTracts and not reconciled properly by the field at conversion. There is no record of receiving the AGI certification. The fourth error was a payment for a structural practice where the file did not support claims the participant had control of the land. Three errors were found in the calculation of easement purchase prices. One of our programs, the Wetland Reserve Program, underwent an OIG audit last year. The audit recommended improvements. NRCS has modified its conservation easement appraisal process to adopt procedures and processes for real estate acquisition consistent with Uniform Standards of Professional Appraisals and the Uniform Appraisals Standards for Federal Land Acquisition (aka "Yellow Book). NRCS has hired a chief appraiser who will review all administrative reviews of appraisals and conduct a technical review on all appraisals exceeding $1 million. In February 2006, NRCS issued a national bulletin to address the remaining recommendation. These modifications to NRCS' easement acquisition process shall prevent improper payments. Recovery of the improper amounts found in its sample will be attempted. NRCS found one occurrence of a payment charged to Farm and Ranch Land Protection (FRPP) in error. FRPP only permits payments to co-operating entities to supplement the purchase of easements. All other costs are to be borne by the partnering co-operating entity. In this instance the payment was attributed to human error in entering the fund code. The transaction was corrected to the appropriate fund. The results of this years sampling will be reported to leadership. This information will be passed down to all State offices so that all may benefit from weaknesses found or where improvements can be made. Where specific action is needed to correct an error or where recovery is warranted, the State conservationist will be contacted.

IV. Based on the Rate(s) Obtained in Step III, Set Annual Improvement Targets through FY 2007.

Improper Payment Reduction Outlook FY 2005 – FY 2008

The following tables contain summary level information for all high risk programs outlining improper payment rates for the last two years and future reduction targets. When a number cannot be provided, an explanation is provided in the notes below. Amounts represent when the sampling results are reported. USDA programs report results the year following sampling activity. For example, results reported during FY 2005 represent measures of FY 2004 outlays and program activity. This change from FY 2004 reporting was implemented to comply with OMB Circular A-136 revised August 23, 2005.

Improper Payment Sampling Results ($ in millions)						
Program	Reported in FY 2005			Reported in FY 2006		
	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	6,400	0.70%	45	7,950	20.26%	1,611
Food Stamp Program, FNS	24,358	5.88%	1,432	28,160	5.84%	1,645
National School Lunch & School Breakfast Programs, FNS [Note #1]	6,407	N/A	N/A	6,506	N/A	N/A
Women, Infants and Children, FNS [Note #2]						
Total Program	3,422	N/A	N/A	3,525	N/A	N/A
Certification Error Component	3,422	N/A	N/A	3,525	N/A	N/A
Vendor Error Component	3,422	N/A	N/A	3,525	0.60%	21
Child and Adult Care Food Program, FNS [Note #2]						
Total Program	2,061	N/A	N/A	2,065	N/A	N/A
FDC Homes – Tiering Decisions	888	N/A	N/A	864	1.80%	16
FDC Homes – Meal Claims	888	N/A	N/A	864	N/A	N/A
Milk Income Loss Contract Program, FSA/CCC [Note #3]	245	0.09%	0.2	9	N/A	N/A
Loan Deficiency Payments, FSA	453	1.00%	5	4,790	9.25%	443
Direct and Counter-Cyclical Payments, FSA/CCC [Note #4]	N/A	N/A	N/A	8,546	4.96%	424
Conservation Reserve Program, FSA/CCC [Note #4]	N/A	N/A	N/A	1,815	3.53%	64
FSA Disaster Programs, FSA/CCC [Note #4]	N/A	N/A	N/A	2,365	12.30%	291
Noninsured Assistance Program, FSA/CCC [Note #4]	N/A	N/A	N/A	109	22.94%	25
Wildland Fire Suppression Management, FS [Notes #2 & #5]						
Total Program	1,980	N/A	NA	725	N/A	N/A
Component Sampled	497	3.70%	18	285	2.49%	7
Rental Assistance Program, RD [Note #6]	846	3.19%	27	569	3.49%	22
Federal Crop Insurance Corporation Program Fund, RMA [Note #7]	3,170	0.89%	28	3,206	1.92%	62
Farm Security and Rural Investment Programs	1,027	1.55%	16	1,375	0.22%	3

Detailed Breakout of Improper Payment Rates Reported in FY 2006 ($ in millions)	2006 Outlays	2006 Rate	2006 Improper Payments	Incorrect Disbursements (Dollars)	Incorrect Disbursements (Percentage)	Incomplete Paperwork (Dollars)	Incomplete Paperwork (Percentage)
Marketing Assistance Loan (FSA)	$7,950	20.26%	$1,611	$17	0.21%	$1,594	20.05%
Loan Deficiency Payments (FSA)	$4,790	9.25%	$443	$53	1.11%	$390	8.14%
Direct and Counter-Cyclical (FSA)	$8,546	4.96%	$424	$67	0.78%	$357	4.18%
Conservation Reserve Program (FSA)	$1,815	3.53%	$64	$10	0.55%	$54	2.98%
FSA Disaster (FSA)	$2,365	12.30%	$291	$56	2.37%	$235	9.94%
Nonissured Assistance (FSA)	$109	22.94%	$25	$3	2.75%	$22	20.18%
Food Stamp (FNS)	$28,160	5.84%	$1,645	$1,645	5.84%	$0	0.00%
Women, Infants, and Children (FNS)	$3,525	0.60%	$21	$21	0.60%	$0	0.00%
Child and Adult Care Food (FNS)	$2,065	1.80%	$16	$16	0.77%	$0	0.00%
Wildland Fire Suppression Management (FS)	$725	2.49%	$7	$0	0.10%	$7	2.39%
Rental Assistance (RD)	$569	3.49%	$22	$22	3.87%	$0	0.00%
Federal Crop Insurance Corporation (RMA)	$3,206	1.92%	$62	$62	1.93%	$0	0.00%
Farm Security and Rural Investment/ Conservation Security	$2,695	0.22%	$3	$2	0.09%	$1	0.02%
Total	**$66,520**	**6.97%**	**$4,634**	**$1,975**	**2.97%**	**$2,659**	**4.00%**

Future Reduction Targets for Improper Payments ($ in millions)	FY 2007 Estimates			FY 2008 Estimates			FY 2009 Estimates		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	4,565	18.00%	685	3,205	14%	256	10,050	10.00%	251
Food Stamp Program, FNS [Note #8]	30,588	6.20%	1,896	32,168	5.8%	1,866	TBD	5.7%	TBD
National School Lunch & School Breakfast Programs, FNS [Note #8]	7,623	TBD	TBD	7,777	TBD	TBD	TBD	TBD	TBD
Women, Infants and Children, FNS [Note #8]	5,170	TBD	TBD	5,185	TBD	TBD	TBD	TBD	TBD
Child and Adult Care Food Program, FNS [Note #8]	2,074	N/A	N/A	2,074	N/A	N/A	TBD	TBD	TBD
Milk Income Loss Contract Program, FSA/CCC	351	16.00%	56	330	9.00%	30	N/A	N/A	N/A
Loan Deficiency Payments, FSA/CCC	4,839	9.00%	436	4,258	6.00%	255	5,257	4.00%	131
Direct and Counter-Cyclical Payments, FSA	8,962	6.00%	538	7,317	5.00%	439	6,483	4.00%	259
Conservation Reserve Program, FSA/CCC	1,973	8.20%	158	2,100	6.00%	168	2,236	4.00%	56
Disaster Programs, FSA [Note #9]	159	17.00%	27	192	18.00%	33	N/A	N/A	N/A
Noninsured Assistance Program, FSA/CCC	102	26.00%		312			309	17.00	
Wildland Fire Suppression Management, FS	407	1.00%	4	410	0.80%	3	406	0.60%	2
Rental Assistance Program, RD	769	3.44%	26	781	2.94%	23	793	2.44%	19
Federal Crop Insurance Corporation Program Fund, RMA [Note #10]	3,321	4.70%	156	3,300	4.60%	152	3,300	4.50%	149
Farm Security and Rural Investment Programs	291	0.80%	2	482	0.60%	2	556	0.50%	2

Note #1: The NSLP-SBP programs plan to report error rates for the 2005-2006 school year in the FY 2007 report. The national benefit status error rate reported in FY 2006 on applications for school year 2004-2005 is 4.3 percent.

Note #2: WIC, CACFP and the Wildland Fire Suppression Management all tested components of their total program. WIC tested a component of the payment process on a sample of all outlays. CACFP tested a component of the payment process of a component of the total outlays. Wildland Fire Suppression Management tested all of the payment process on a component of the total outlays. While Wildland Fire Suppression Management tested the higher risk vendor payments, it did not test the lower risk outlays related to salaries.

Note #3: MILC was not tested in FY 2006 due to very low outlays during FY 2005. Testing will resume in FY 2007 reviewing outlays during FY 2006. MILC expires, September 30, 2007. Thus, no outlays are expected beyond FY 2007.

Note #4: The DCP, CRP, CDP and NAP programs were declared high risk in FY 2006. No testing was performed or required in FY 2005.

Note #5: USDA is revising the FY 2005 results for the Wildland Fire Suppression Management program. Only the portion of the program related vendor payments was sampled and the 3.7-percent error rate should be applied only to that component of the program. The remaining component of the program, salaries, was not considered susceptible to improper payments and not sampled. The entire program will be sampled for FY 2007 reporting.

Note #6: FY 2005 and FY 2006 results were based on partial samples of the current fiscal year. Starting with FY 2007 reporting, the statistical sample will be based on the entire prior fiscal year. This will result in both the FY 2006 and FY 2007 reporting results being based on FY 2006 outlays.

Note #7: Both the FY 2005 and FY 2006 reports show results of the 2004 crop year. The FY 2005 report was from a industry compliance review performed by the insurance companies. The FY 2006 report is based on an internal review performed by government staff.

Note #8: FNS programs will develop FY 2008 estimated outlay projections and reduction targets as part of the FY 2008 budget process. Currently, only the Food Stamp reduction target is available.

Note #9: The program currently is not authorized in FY 2008 and does not have any estimated outlays.

Note #10: RMA has completed the first third of a three year testing cycle. Until all three years are complete, RMA cannot statistically project an error rate.

V. Discussion of your Agency's Recovery Auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business changes and internal controls instituted and/or strengthened to prevent further occurrences.

In addition, complete the table below.

USDA expanded its recovery audit program to seven additional agencies in FY 2006. The remaining smaller programs were excluded from the review. All agencies used an independent recovery audit firm working on contingency.

Specific types of payment errors found during the course of the recovery audit process include:

- Open credits identified on vendor statements - $373,860.53; and

- Duplicate payments $5,556.10

Steps taken to reduce future errors include strengthening internal controls by providing information related to all recovered monies and the underlying transactions to management. Additionally, training that indicates the causes of improper payments made is provided to various Forest Service employees.

The most successful method of identifying funds to be recovered has been the review of vendor statements. Vendor statement reviews for FY 2006 were delayed until August 2006. USDA anticipates that these reviews will result in significant recoveries during FY 2007. Most amounts identified during FY 2006 were due to the vendor statements reviews started in FY 2005.

FY 2006 Recovery Auditing Results ($ in Million)

Agency Component	Amount Subject to Review for FY 2006 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified /Actual Amount Reviewed	FY 2006 Amounts Recovered [Note #12]	FY 2005 Amounts Recovered
Forest Service	2,385.313	2,385.313	0.005	0.00%	0.164	0.189
Natural Resources Conservation Service	1,745.703	1,745.703	0.000	0.00%	0.000	N/A
Agricultural Research Service	484.787	484.787	0.000	0.00%	0.000	N/A
Animal Plant Health Inspection Service	815.532	815.532	0.374	0.05%	0.374	N/A
Farm Service Agency	178.361	178.361	0.000	0.00%	0.000	N/A
Food Safety and Inspection Service	89.636	89.636	0.000	0.00%	0.000	N/A
Rural Development	152.272	152.272	0.000	0.00%	0.000	N/A
Agricultural Marketing Service	93.061	93.061	0.000	0.00%	0.000	N/A
All Others	1,604.000	0.000	N/A	N/A	N/A	N/A
USDA Total	7,548.665	5,944.665	0.379	0.01%	0.538	0.189

Note #12 Amounts recovered in FY 2006 include some recoveries identified in FY 2005.

VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

FSA

The following steps have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- The A-123 Project Team's corrective action plan requires compliance testing as part of performance review criteria. To enhance the importance of compliance at the individual employee level, a sample of five producer payments will be selected for each employee for testing each quarter. The results from these quarterly tests will be included as part of the employee's annual performance review and rating. Moreover, these results will be rolled up into the performance plans for the county, district and State executive directors;

- National and State office Federal managers must ensure that program policies and procedures are provided to State and county office employees accurately and on time. Federal managers also responsible, as reflected in the performance based rating measures, for overall program administration at the national level;
- All county office employees are charged with paying producers and following all administrative steps in doing so. When program payments are made improperly, the tool of disciplinary action is available; and
- The Deputy Administrator for Field Operations (DAFO) will facilitate necessary meetings among the respective program areas. These meetings organized by DAFO would discuss additional action necessary for senior management to address accountability.

FNS

FNS 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 goal for the Food Stamp Program is to continue to reduce the error rate. The agency goals and priorities are incorporated into each manager's performance plan.

FS

The entire Albuquerque Service Center management team is held accountable by performance metrics that include compliance with the Improper Payments Information Act. Additionally, the agency chief financial officer will provide disbursement performance information to the agency head as part of the performance appraisals for senior leadership.

RD

RD has incorporated all the goals and objectives of the President's Management Agenda (PMA) including IPIA in the performance standards for all senior executive service positions. Additionally, the field offices will incorporate a new servicing goal to implement reduction actions as part of their servicing goal compliance requirements.

RMA

RMA has revised its strategic plan to provide results to enhance accountability. It also has established procedures to ensure RMA management takes future corrective actions to address program vulnerabilities. Additionally, a strategic objective element was been placed into every employee's performance plan agreement beginning in FY 2005.

NRCS

NRCS has incorporated all of PMA's goals and objectives, including IPIA, in the performance standards for all senior executive service positions. These also are planned to be included in the regional assistant chiefs and state conservationist performance plans this year.

VII A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

VII B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2007 budget submission to Congress to obtain the necessary information systems and infrastructure.

While USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. USDA has worked closely with OMB to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

FSA/CCC

The Department of Agriculture Reorganization Act of 1994, Section 281 provides that "[E]ach 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 statue commonly is referred to the "Finality Rule."

FNS

The 2002 Farm Bill restricts the liability levels States can be sanctioned due to high error rates. It also restricts the amount of bonus funding available to States that do a good job reducing and maintaining a low error rate. Additionally, in many instances the goal of providing easy access to benefits must be balanced with the goal of reducing improper and erroneous payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is decentralized and can involve a myriad of governmental and non-governmental organizations;
- States and localities tend to focus on managing local funds, rather than Federal funds; and
- Proper implementation of nutrition-assistance programs requires a high accuracy rate.

IX. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges as a result of IPIA implementation.

USDA has no additional comments.

Appendix C—Table of Exhibits

Appendix D—Acronyms

AALO – Agency Audit Liaison Officials
ABAWD – Able-Bodied Adults Without Dependents
AHMS – Animal Health Monitoring and Surveillance
AI – Avian Influenza
AIT – Assessment Implementation Team
ALLRTE – All Ready to Eat
AMP – Asset Management Plan
ARMS – Agricultural Resources Management Survey
ARS – Agricultural Research Service
ART – Account Relationship Tool
ASB – Agricultural Statistics Board
ASEAN – Association of South East Asian Nations
ASSERT – Automated Security Self-Elevation and Remediation Tracking
ATM – Audit Tracking Module
AWCC – Agricultural Wildlife Conservation Center
B&I – Business and Industry
BBP – Building Block Plan
BEA – Bureau of Economic Analysis
BSE – Bovine Spongiform Encephalopathy
CACFP – Child and Adult Care Food Program
CAFTA – Central American Free Trade Agreement
CAP – Combined Application Projects
CCAP – Child Care Assessment Project
CCC – Commodity Credit Corporation
CCPI – Cooperative Conservation Partnership Initiative
CDC – U.S. Centers for Disease Control and Prevention
CEAP – Conservation Effects Assessment Project
CFP – Conference of Food Protection
CHRP – Citrus Health Response Plan
CNMP – Comprehensive Nutrient Management Plan
CNPP – Center for Nutrition Policy and Promotion
CORP – County Office Review Program
CRP – Conservation Reserve Program
CSP – Conservation Security Program
CSREES – Cooperative State Research, Education and Extension Service
CTA – Conservation Technical Assistance
CWPP – Community Wildlife Protection Plan
DAFO – Deputy Administrator for Field Operations
DC – Disallowed Costs
DCP – Direct and Counter-Cyclical Payments
DCIA – Debt Collection Improvement Act
DOI – United States Department of the Interior
e-LDP – Electronic Loan Deficiency Payment
EA – Enterprise Architecture
EAB – Emerald Ash Borer
ECMM – Enterprise Correspondence Management Module
EDI – Electronic Data Interchange
EPP – Emerging Plant Pest
EQIP – Environmental Quality Incentives Program
ERS – Economic Research Service
EU-25 – European Union
FAPSIM – Food and Agricultural Policy Simulator
FB4P – Federal Biobased Products Preferred Procurement Program
FCIC – Federal Crop Insurance Corporation
FDCH – Family Day Care Homes
FDMS – Federal Docket Management System
FFE – The McGovern-Dole International Food for Education and Child Nutrition Program
FLP – Farm Loan Program
FLPIDS – Farm Loan Program Information Delivery System
FMFIA – Federal Managers' Financial Integrity Act
FMLOB – Financial Management Line of Business
FMMI – Financial Management Modernization Initiative
FNS – Food and Nutrition Service
FRPC – Federal Real Property Council
FRPP – Farm and Ranch Land Protection
FS – Forest Service
FSA – Farm Service Agency
FSP – Food Stamp Program
FSRIA – Farm Security and Rural Investment Act of 2002
FTA – Free Trade Agreement
FTBU – Funds to Be Put to Better Use
FY – Fiscal Year
GAO – Government Accountability Office
GLCI – Grazing Lands Conservation Initiative
GMP – Good Manufacturing Practices
GMSS – Global Marketing Support Services
GWSS – Glassy-Winged Sharpshooter
HACCP – Hazard Analysis and Critical Control Point
HEI – Health Eating Index
HFI – Healthy Forest Initiative
HFRA – Healthy Forests Restoration Act of 2003
HSPD-9 – Homeland Security Presidential Directive 9
IAS – Integrated Acquisition System
IICA – Inter-American Institute for Cooperation on Agriculture
IOU – Investor Owned Utility
IPIA – Improper Payments Information Act

ISO – International Organization for Standardization
IT – Information Technology
MAL – Marketing Assistance Loan
MFIS – Multi-Family Housing Information System
MILC – Milk Income Loss Contract
MWM – Master Woodland Manager
NACMCF – National Advisory Committee on Microbiological Criteria for Foods
NAFTA – North American Free Trade Agreement
NAHSS – National Animal Health Surveillance System
NAHLN – National Animal Health Laboratory Network
NAIS – National Animal Identification System
NAP – Noninsured Assistance Program
NCES – National Center for Educational Statistics
NDB – National Data Bank
NDVI – Normalized Difference Vegetation Index
NECX – North East Correctional Center
NHANES – National Health and Nutrition Examination Survey
NITC – National Information Technology Center
NRCS – Natural Resources Conservation Service
NSLP – National School Lunch Program
NSS – The 2002 National Security Strategy of the United States
OCFO – Office of the Chief Financial Officer
OCIO – Office of the Chief Information Officer
OEPNU – The Office of Energy Policy and New Uses
OIG – The Office of Inspector General
OMB – The U.S. Office of Management and Budget
OPM – The U.S. Office of Personnel Management
ORAS – Operations Review and Analysis Staff
PAM – Polyacrylamide
PART – Program Assessment Rating Tool
PC – Plum Curculio
PMA – Performance Management Agenda
POAM – Plan of Action and Milestones
PRCH – Purchase Order System
PREP – Pathogen Reduction Enforcement System
PP&E – Property, Plant and Equipment
PRS – Performance Results System
QC – Quality Control
QSVP – Quality System Verification Program
R&D – Research and Development
RD – Rural Development
RFE – Request for Information
RMA – Risk Management Agency
RND – Results Not Demonstrated
RTE – Ready-to-Eat
SAFE – Safety Awareness in the Food Environment
SAT – Senior Assessment Team
SBP – School Breakfast Program
SCN – Soybean Cyst Nematode
SCOAP – Sate and County Office Automation Project
SEBAS – Socio-Economic Benefits Assessment System
SFA – School Food Authority
SMCC – Senior Management Control Council
SOD – Sudden Oak Death
SPOTS – Specific Placement of Treatments
SPS – Sanitary and Phytosanitary
SRA – Standard Reinsurance Agreement
TCB – Trade Capacity Building
TFP – Thrifty Food Plan
TOP – Treasury Offset Program System
TPA – Trade Promotion Authority
TSC – Technical Service Center
TTPP – Tobacco Transition Payment Program
USAID – United States Agency for International Development
USDA – United States Department of Agriculture
USTR – United States Trade Representative
WAOB – World Agricultural Outlook Board
WEPS – Wind Erosion Protection System
WFP – World Food Program
WIC – The Special Supplemental Nutrition Program for Women, Infants and Children
WRP – Wetlands Reserve Program
WTO – World Trade Organization