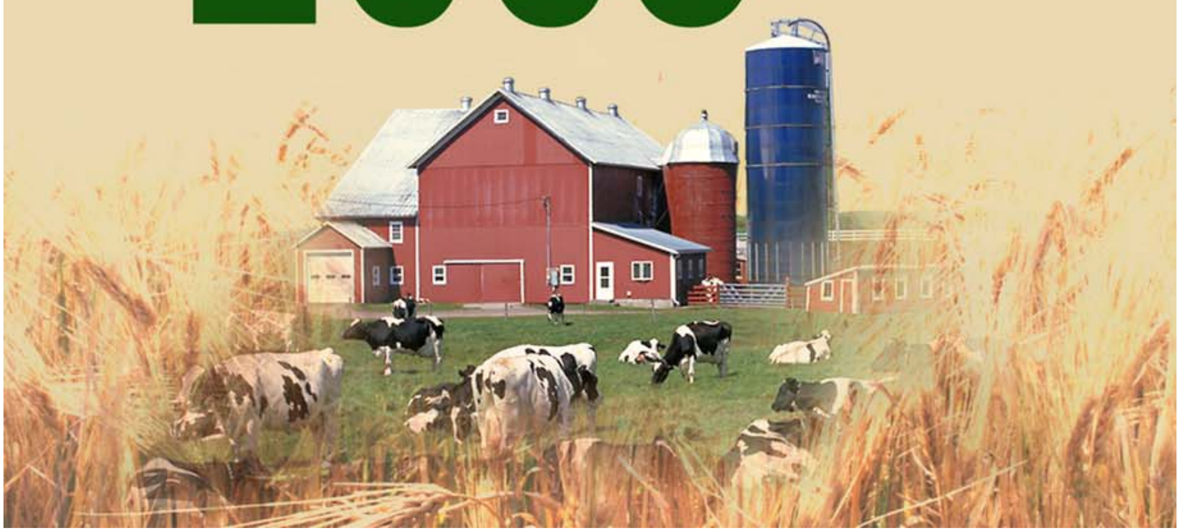
USDA

United States Department of Agriculture

Performance and Accountability Report

2005



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MESSAGE FROM THE SECRETARY

The United States Department of Agriculture (USDA) appreciates this opportunity to share with Congress, the Executive Branch, and all Americans information on the important efforts undertaken and progress made on your behalf during the past year. From expanding the economic security and opportunities available to farmers and ranchers, to safeguarding the Nation's food supply, to enhancing the quality of life in rural America, to promoting nutrition and health, to protecting our natural resources, USDA has a proud record of accomplishment in 2005 advancing timeless objectives for our Nation. We are pleased to share the highlights of our efforts in this *FY 2005 Performance and Accountability Report*.

USDA and its more than 100,000 employees directly touch the lives of virtually every American every day. Evolving over 140 years, USDA is one of the most complex departments in the Federal Government, with more than 300 programs advancing progress in a diverse array of significant public responsibilities. Annually, we spend more than $75 billion of our fellow Americans' money. In 2005, these resources helped:

- 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;
- Aid U.S. agricultural producers battered by severe weather conditions;
- 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 wildland fire season in the West;
- 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 to increase our efforts to 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 dedicated public servants of USDA have good reason to be proud of the work they did in 2005. Their efforts have made a tangible, positive difference in the lives of all Americans—from the safety of the food on your plate, to the abundance and affordability of the food in your grocery store, to the economic viability of America's farms and ranches, to the prosperity and opportunity available in rural communities, to the wholesome meals provided to citizens in need, and to agriculture's contributions to global food security and international commerce. To ensure we have a strong foundation for the performance and accountability process, USDA managers have reviewed the data used in this report. Except where we point out and discuss specific limitations, I hereby provide reasonable assurance that the data we provide are valid, reliable, and an accurate measure of where we have made real progress and where we still have room for improvement. This effort complies with the Federal Managers' Financial Integrity Act (FMFIA), both in terms of the strength of our financial management systems and of the overall efficient, effective operations of our programs.

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

USDA was first called "the people's department" by President Abraham Lincoln. I believe we still live up to that title today. I am proud of our employees and the positive impact their diverse efforts have had on American life over the course of 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, 2005

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.

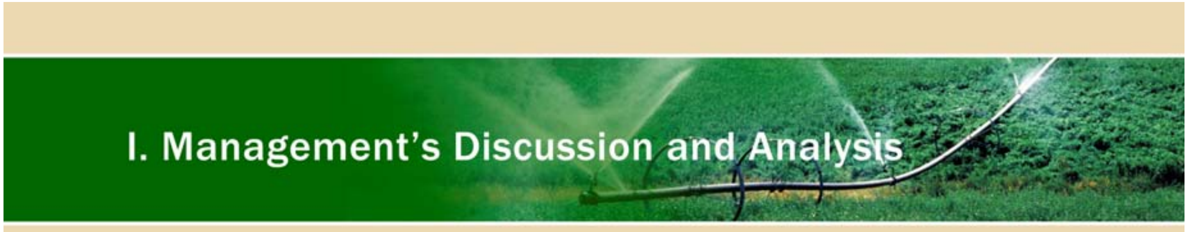
This *FY 2005 Performance and Accountability Report* is the year-end progress report of the U.S. Department of Agriculture (USDA). It reviews the strategic goals and objectives the Department set for itself at the beginning of the fiscal year and compares initial targets to actual performance.

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

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

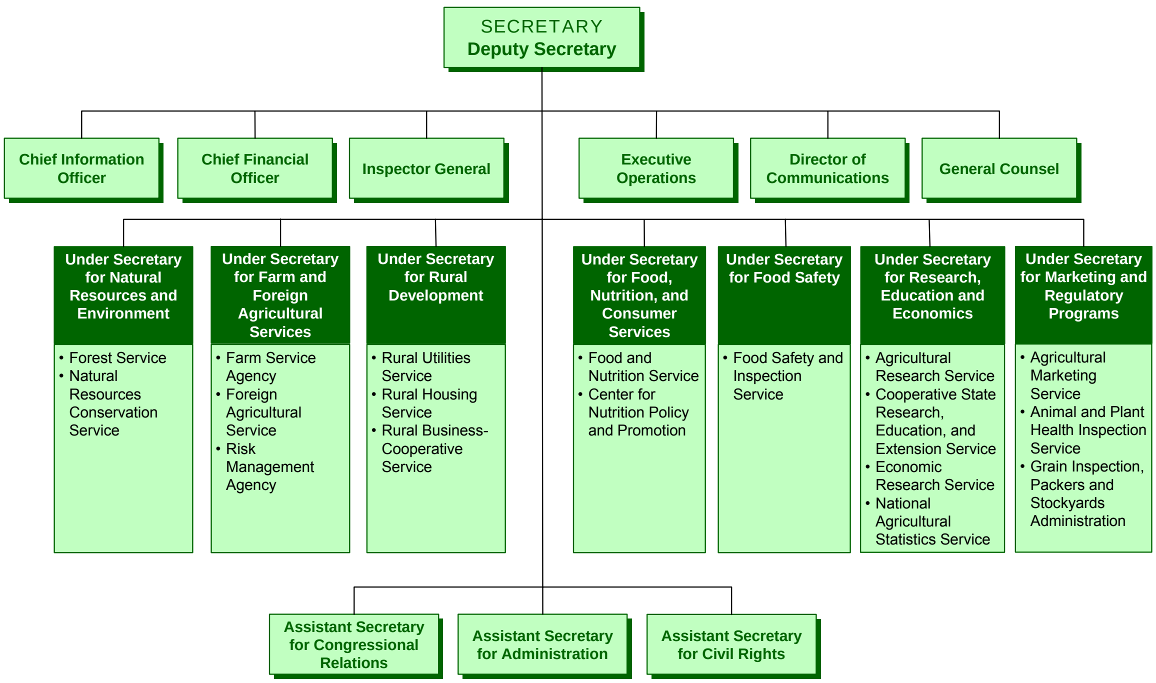
Section I

Management's Discussion and Analysis



AN OVERVIEW OF THE UNITED STATES DEPARTMENT OF AGRICULTURE

Exhibit 1: Headquarters Organization



Mission Statement:

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

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

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

- Enhancing economic opportunities for U.S. farmers and ranchers;

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

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

This report provides information on USDA's core performance measures as described in its revised *FY 2005 Annual Performance Plan/Performance Budget*. There are five strategic goals that guide the Department. They are:

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

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

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

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

As USDA moved into the fourth year of implementing this legislation, FY 2005 key milestones included:

- Announcing $1.7 billion in funding for conservation programs on working lands;
- Allocating funds to States for financial and technical assistance for FSRIA programs and other activities. USDA will use at least $30 million for technical service providers and nearly $41 million to implement the new Conservation Security Program (CSP) under a final rule that will be published

shortly. CSP is a voluntary program that provides financial and technical assistance to promote the conservation and improvement of soil, water, air, energy, plant and animal life, and other conservation purposes on Tribal and private working lands. The allocation also includes $54 million in financial assistance for the Grasslands Reserve Program (GRP), which the Department hopes to operate this year under an interim final rule that will be published shortly. GRP is a voluntary program that helps landowners and operators restore and protect grassland, including rangeland and pastureland, and certain other lands, while maintaining the areas as grazing lands;

- Publishing a Departmental final rule for Conservation Innovation Grants and announcing the availability of more than $19 million to fund selected grant proposals in 2005;
- Publishing a Departmental regulation to establish the USDA policy to increase the purchase and use of biobased products to the extent practicable;
- Implementing the Beginning Farmer and Rancher Contract Land Sales Program. This pilot program guarantees up to five loans each in at least five geographically diverse States. A private seller will make these loans to a beginning farmer on a contract land sale basis provided that underwriting criteria are met and a commercial bank agrees to serve as escrow agent;
- Providing funds to help rural businesses create or save more than 15,000 jobs;
- Approving $331 million of funding for broadband loans and reviewing additional applications;
- Awarding $21 million in grants under the Renewable Energy and Energy Efficiency Program for FY 2005. The program is designed to help rural small businesses, farmers and ranchers develop renewable energy systems and promote energy efficiency improvements;
- Awarding with the U.S. Department of Energy (DOE) $12.6 million in grants under the USDA and DOE's joint Biomass Research and Development Program to 11 projects in FY 2005. The program makes grants available to eligible entities to research, develop and show the benefits of biobased products, bioenergy, biofuels, biopower, and related processes;
- Making almost $67 million in Bioenergy Program producer payments for FY 2005. The Bioenergy Program seeks to expand industrial consumption of agricultural commodities by promoting their use in bioenergy production (ethanol and biodiesel);
- Improving surveillance programs for animal diseases, contributing to the eventual control or eradication of such diseases and assisting in certifying the status of the U.S. or its regions with regard to freedom from specific animal diseases; and
- Utilizing approximately $370 million to purchase fruits, vegetables and other specialty crops for distribution through USDA nutrition assistance programs. USDA made $24 million available to the U.S. Department of Defense for the procurement of fresh fruits and vegetables.

MISSION AREAS

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

Natural Resources and Environment

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

Farm and Foreign Agricultural Services

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

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

Rural Development

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

Food, Nutrition and Consumer Services

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

Food Safety

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

Research, Education and Economics

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

Marketing and Regulatory Programs

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

DEPARTMENTAL OFFICES

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

RESOURCES

Congressional appropriations are the primary funding source for USDA operations. FY 2005 program obligations totaled $134.4 billion, an increase of $20.1 billion compared to FY 2004. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments. Staff year resources totaled 109,558, decreasing 1,943 compared to FY 2004.

Exhibit 2: FY 2005 and 2004 USDA Program Obligations Dedicated to Strategic Goals*

USDA Program Obligations Dedicated to Strategic Goals

FY 2005 Actual

2005 PROGRAM OBLIGATIONS

FY 2004 Actual

2004 PROGRAM OBLIGATIONS

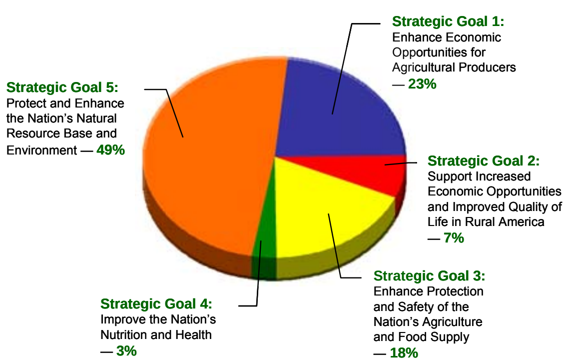
*The sum of the pie chart percentages may be greater than 100 percent because of rounding.

Exhibit 3: FY 2005 and 2004 USDA Staff Years Dedicated to Strategic Goals*

USDA Staff Dedicated to Strategic Goals

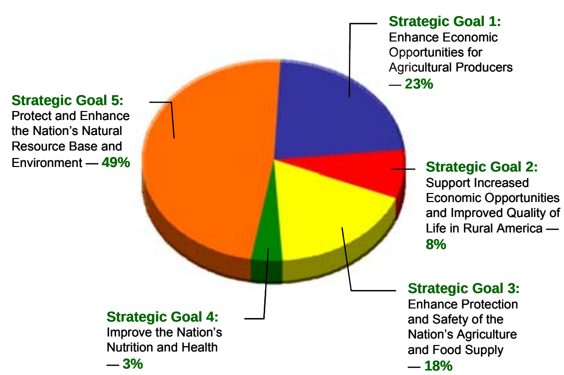
FY 2005 Actual

2005 Staff Years



FY 2004 Actual

2004 Staff Years



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

PERFORMANCE GOALS AND RESULTS

Of the performance goals contained in USDA's FY 2005 Revised Annual Performance Plan/Performance Budget, 29 were met or exceeded, 6 were reported as deferred [unable to report the necessary data until a specified date] and 4 were unmet. The following Performance Scorecard, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analyses of these results can be found in the Performance Section of this report. Information on data quality is contained in the Data Assessment of Performance Measures section.

Exhibit 4: USDA Scorecard for FY 2005

Performance Scorecard for FY 2005				
Objectives		**Annual Performance Goals**		**Result**
Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers				
1.1	Expand International Market Opportunities	1.1.1	Dollar value of trade preserved through USDA staff interventions and trade agreement monitoring	Exceeded
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 through McGovern-Dole International Food for Education and Child Nutrition Program	Exceeded
1.3	Expand Alternative Markets for Agricultural Products	1.3.1	Number of groups of biobased products designated for procurement	Deferred
1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers	1.4.1	Increase the percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA	Exceeded
		1.4.2	Reduce average processing time for direct loans	Exceeded
		1.4.3	Reduce average processing time for guaranteed loans	Met
		1.4.4	Increase the value of risk protection provided to agricultural producers through FCIC-sponsored insurance	Exceeded
Strategic Goal 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America				
2.1	Expand Economic Opportunities through USDA Financing of Businesses	2.1.1	Create or save additional jobs through USDA financing of businesses	Exceeded
2.2	Improve the Quality of Life in Rural America through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities	2.2.1	Homeownership opportunities provided	Exceeded
		2.2.2	Customers served by new or improved telecommunications facilities	Unmet
		2.2.3	Customers served by new or improved water and waste disposal facilities	Exceeded
		2.2.4	Customers served by new or improved electric facilities	Exceeded
		2.2.5	Customers served by new or improved community facilities	Met
Strategic Goal 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
3.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry and Egg Products	3.1.1	Prevalence of *Salmonella* on broiler chickens	Unmet
		3.1.2	Prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products	Met
		3.1.3	Prevalence of *E. coli* O157:H7 on ground beef	Met
		3.1.4	Millions of viewings of food safety messages (mixed media — e.g., USDA Food Safety Mobile, USDA Meat and Poultry Hotline, etc.).	Exceeded

Performance Scorecard for FY 2005				
Objectives		Annual Performance Goals		Result
3.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	3.2.1	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	Met
		3.2.2	Percentage of facilities in complete compliance at the most recent inspection	Unmet
		3.2.3	Number of animals affected by noncompliances documented on inspection reports	Unmet
		3.2.4	Expand the ability to detect plant diseases to protect the Nation from disease outbreaks	Exceeded
		3.2.5	Expand the ability to detect animal diseases to protect the Nation from disease outbreaks	Exceeded
		3.2.6	Provide scientific information to protect animals from pests, infectious diseases, and other disease-causing entities that impact animal and human health	Met
Strategic Goal 4: Improve the Nation's Nutrition and Health				
4.1	Improve Access to Nutritious Food	4.1.1	Rates of eligible populations participating in the Food Stamp Program	Deferred
		4.1.2	Rates of eligible populations participating in the School Breakfast Program	Deferred
		4.1.3	Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children	Deferred
4.2	Promote Healthier Eating Habits and Lifestyles	4.2.1	Improve the Healthy Eating Index (HEI) scores for the U.S. population	Deferred
		4.2.2	Determine food consumption patterns of Americans, including those of different ages, ethnicity, regions, and income levels. Provide sound scientific analyses of U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance programs.	Met
4.3	Improve Food Program Management and Customer Service	4.3.1	Increase Food Stamp payment accuracy	Deferred
Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment				
5.1	Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands	5.1.1	Number of acres of hazardous fuel treated that are in the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	Met
		5.1.2	Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2 or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	Exceeded
		5.1.3	Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class	Exceeded
5.2	Improve Management of Private Lands	5.2.1	Conservation plans written for cropland and grazing lands	Met
		5.2.2	Cropland and grazing lands with conservation applied to protect the resource base and environment	Met
		5.2.3	Reduction in the acreage of cropland soils damaged by erosion	Met
		5.2.4	Number of comprehensive nutrient management plans applied	Met
		5.2.5	Increase Conservation Reserve Program (CRP acres of riparian and grass buffers)	Met

Performance Scorecard for FY 2005				
Objectives		Annual Performance Goals		Result
		5.2.6	Agricultural wetlands created, restored, or enhanced	Met
		5.2.7	Increase CRP restored wetland acres	Met

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 pursued its strategic objective to improve the Nation's nutrition and health successfully, 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 2005. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, while USDA consciously alters its approach to enhance its service to the public, the Department 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.

- **Performance Goal 1.3.1**—Deferred. Number of groupings of biobased products designated for procurement. Regulations advancing this performance goal have been delayed. It is expected that the first designation will be published as a final rule during the second quarter of FY 2006.
- **Performance Goal 2.2.2**—Unmet. Increase the number of subscribers receiving new and/or improved telecommunication services (broadband). The primary reason for this performance goal being unmet is that the budget authority was not fully utilized. USDA is increasing outreach efforts to assist prospective loan applicants and to increase awareness of the Broadband program. However, USDA will monitor this and reevaluate the target if any trends indicated the need to reevaluate how many loan dollars are needed per subscriber receiving new or improved service.
- **Performance Goal 3.1.1**—Unmet. Prevalence of *Salmonella* on broiler chickens. FSIS did not have a risk-based, public policy in place in FY2005 to specifically target upward trends in this performance measure. Beginning in FY 2006, FSIS has identified specific actions that will be published in the Federal Register that are expected to be implemented and will target poultry operations that exceed an action level that is set below the current regulatory limit. The FSIS actions will focus on ensuring that poultry operations are fully addressed factors that contribute to increased likelihood of *Salmonella* presence on broilers.
- **Performance Goal 3.2.2**—Unmet. Percentage of facilities in complete compliance at the most recent inspection. Data for the number of animals affected by compliances documented on inspection reports in 2005 were inaccurate. Thus, there is no means to compare program performance in FY 2005 with previous years. The Licensing and Registration Information System database, which provides these data, is obsolete and will be replaced during the coming year.
- **Performance Goal 3.2.3**—Unmet. Number of animals affected by noncompliances documented on inspection reports. Data for the number of animals affected by compliances documented on inspection reports in 2005 were inaccurate. Thus, there is no means to compare program performance in FY 2005 with previous years. The Licensing and Registration Information System database, which provides these data, is obsolete and will be replaced during the coming year.

- **Performance Goal 4.1.1**—Deferred. Rates of eligible populations participating in the Food Stamp Program. The measure has been deferred due to unavailable data.
- **Performance Goal 4.1.2**—Deferred. Rates of eligible populations participating in the School Breakfast Program. The measure has been deferred due to unavailable data.
- **Performance Goal 4.1.3**—Deferred. Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children. The measure has been deferred due to unavailable data.
- **Performance Goal 4.2.1**—Deferred. Promote the Healthy Eating Index. The measure has been deferred due to unavailable data.
- **Performance Goal 4.3.1**—Deferred. Improve Food Program Management and Customer Service. The measure has been deferred due to unavailable data.

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 responds by providing accomplishments for the current fiscal year and planned actions for the upcoming fiscal year, if required. The chart below compares the challenges reported by OIG in the FY 2004 report with those that remain in the FY 2005 Management Challenges Report.

FY 2004 Management Challenges	FY 2005 Management Challenges
Increased Oversight and Monitoring of Food Safety Inspection Systems are Needed Research Misconduct Policy Not Consistently Implemented Agencies Need to Better Coordinate Program Delivery and Control	Interagency Communication, Coordination and Program Integration Need Improvement
Financial Management – Improvements Made but Additional Actions Still Needed Integrity of the Federal Crop Insurance Programs Must be Strengthened Through Improved Quality Control Systems and IT Processing A Strong Internal Control Structure is Paramount to the Delivery if Forest Service Programs	Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed
Information Technology Security – Much Accomplished, More Needed	Continuing Improvements Needed in Information Technology (IT) Security
Risk Must be Examined and Improper Payments Minimized Within USDA	Reducing Improper Payments Continues to be a Priority of Congress and the Administration
Homeland Security Considerations Should be Incorporated Into Program Design and Implementation	Departmental Efforts and Initiatives in Homeland Security Need to be Maintained
Controls over Germplasm Storage Material and Genetically Engineered Organism Field Testing are Critical to U.S. Markets	Department-wide Efforts and Initiatives on Genetically Engineered Organisms Need to be Strengthened
Civil Rights Complaints Processing Still a Concern at USDA	This challenge has been removed from the list.
Improvements and Safeguards Needed for the Rural Multi-Family Housing Program	This challenge has been removed from the list.

The table that follows includes FY 2005 accomplishments and/or FY 2006 planned actions.

USDA's Management Challenges

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
1) Interagency Communications, Coordination, and Program Integration Need Improvement	
• Establish comprehensive information management systems, data reconciliation processes, and effective data mining for farm programs	USDA has implemented electronic verification of participant eligibility through the Program Contracting System. This system uses a web link to USDA records for: • Obtaining current and prior-year eligibility information; • Internal controls to enforce business rules and screen eligibility; and • Controls to block unauthorized obligations and payments for applicants. Policy guidance was issued in August 2005. The Risk Management Agency, Farm Service Agency and the Natural Resources Conservation Service have joined efforts to develop a web-based: • County office application; • Management reporting application; and • Notification system that will allow county offices and approved insurance providers the ability to communicate on reported discrepancies and track progress.
• Implement a Department-wide Research Misconduct Policy	The REE mission area will: • Coordinate and implement a Department wide research misconduct policy that is compliant with the Office of Science and Technology requirements; and • Develop Memoranda of Understanding with the Department's research agencies for the referral of research misconduct allegations.
• Ensure that animal disease surveillance program policies and procedures are well-defined and supportable and terminology and practices are consistent with public announcements	On July 6, 2005, APHIS and FSIS entered into a Memorandum of Understanding documenting shared responsibilities to ensure the safety of the food supply. USDA's Veterinary Services' National Center for Import and Export (NCIE) established an intranet site to allow staff to communicate on policy changes. For more information, visit www.aphis.usda.gov/vs/ncie/. NCIE has also developed a tracking system that will serve as a central point of access for: • Current policy changes; • Product certifications; and • Permit guidelines. To further strengthen controls, FSIS and APHIS will: • Evaluate the FSIS ante-mortem/alternative collection site procedures to ensure that no condemned animals enter the food supply; • Evaluate the Bovine Spongiform Encephalopathy Surveillance Program for application to other animal disease surveillance programs; and • Continue efforts to enhance communications between APHIS and FSIS on border related investigations.

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
2) Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed	
Strengthen the quality control in the Federal Crop Insurance Programs.	RMA will conduct a review of selected insurance provider operations to evaluate compliance with quality control guidelines as outlined in the Standard Reinsurance Agreement.
Prepare complete, accurate financial statements without extensive manual procedures and adjustments.	OCFO in conjunction with component agencies will continue to improve financial systems and support financial reports by automating manual processes.
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.	FS planned actions include: • Establishing accountability for performance measure reporting accuracy; • Establishing management controls to ensure adequate, reliable, and verifiable information; • Holding managers accountable; and • Ensuring that targets and goals not met are identified. To further ensure accountability, FS will: • Conduct comprehensive risk assessments of its programs and develop plans to address identified risks; • Obtain closure on 50% of audits less than 1 year old; and • Obtain official closure on 70% of outstanding audits more than 1 year old.
3) Continuing Improvements Needed in Information Technology (IT) Security	
Agencies need to: • Emphasize security program planning and management; • Establish an internal control program throughout the systems' lifecycle; • Identify, test, and mitigate IT security vulnerabilities (risk assessments); • Improve access controls; • Implement appropriate application and system software change control; and • Develop disaster contingency (service continuity) plans.	To compliment agency-specific initiatives to address these challenges, OCIO will: • Amend existing certification and accreditation policy to add the Associate Chief Information Officer for Cyber Security as a mandatory concurrence signatory to all accreditations; • Engage multiple contractors to perform a wide variety of security activities including Federal Information Security Management Act tracking and reporting, security strategic planning, and independent verification and validation of accreditations; • Develop an information technology security scorecard to rate agencies/systems owners on security posture; and • Develop and implement a sustainable process to perform periodic on-site compliance reviews.
4) Reducing Improper Payments Continues to be a Priority of Congress and the Administration	
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. Agencies that have identified programs that are susceptible to improve payments need to develop and implement action plans to reduce the amount of these payments.	In addition to agency-specific plans outlined in Appendix B, OCFO will: • Develop a list of all programs and a plan to conduct risk assessments by the end of the second quarter of fiscal year 2006; • Ensure that agencies complete sampling results and corrective action plans for all high-risk programs; and • Ensure that agencies develop plans to measure improper payments for all high risk programs in FY 2007.

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
5) Departmental Efforts and Initiatives in Homeland Security Need to be Maintained	
Continue efforts to coordinate with DHS in implementing effective control systems to ensure the safety and security of agricultural products entering the country.	APHIS will: • Finalize a Memorandum of Understanding with the Department of Homeland Security (DHS) to perform joint port reviews; and • Schedule regular meetings with DHS to ensure effective coordination and communication. FSIS will: • Secure an agreement with the Bureau of Customs and Border Protection (CBP) to share information between agencies to improve cooperation between CBP and FSIS and ensure regulatory compliance and food defense; and • Obtain interim access to CBP data available via the Internet as part of the eCustoms Partnership team.
Conduct vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, handles, transports, stores and distributes.	FSA/CCC will: • Conduct on-site risk assessments of warehouse operations in collaboration with USDA's Homeland Security Office and the U.S. Food and Drug Administration; • Participate in Carver Plus Shock training for future risk assessments. Carver Plus Shock is a risk tool designed to identify vulnerabilities and rate the risk associated with those vulnerabilities. The Department of Homeland Security and the Department of Defense require this tool; and • Evaluate results of risk assessments to identify vulnerabilities and develop corrective measures.
Continue to work with OIG and other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive 9 (HSPD-9); i.e., develop a coordinated agriculture and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile.	The Office of Homeland Security will: • Host bi-weekly discussions with mission area representatives; and • Require quarterly status reports on HSPD-9 tasks.
Strengthen controls over select agents and toxins.	FSIS will: • Utilize data from CBP on the status of imports arriving at U.S. ports of entry; • Participate in the Federal Health Architecture (FHA) food safety work group; and • Participate in the development of the International Trade Data Systems (ITDS). ITDS is a Federal Technology initiative sponsored by the CBP to coordinate, standardize, and simplify federal border clearance and other international trade and transportation processes.
Establish Department-wide policies and procedures for defining sensitive and dual use information and implementing adequate controls to protect such information.	FSIS will: • Participate in the Federal Health Architecture (FHA) food safety group. FHA is an OMB Presidential Initiative, led by the Department of Health and Human Services to link local, State and Federal health information systems into an integrated, national health system; and • Participate with 15 other agencies to develop model architecture for linking food-related public health surveillance systems.

2005 Major Management Challenges	Fiscal Year 2005 Accomplishments and/or Planned Actions for Fiscal Year 2006
6) Department-wide Efforts and Initiatives on Genetically Engineered Organisms (GEO) Need to be Strengthened	
Strengthen germplasm policies and procedures. Strengthen GEO field testing process.	The Biotechnology Regulatory Service (BRS) was established under APHIS to oversee work done with genetically engineered organisms (GEOs). APHIS published a *Federal Register* notice on the scoping of a programmatic Environmental Impact Statement (EIS) to address regulatory revisions. The notice covered issues such as criteria and standards for field-testing and information requirements. BRS will prepare the programmatic EIS that will provide the analysis and public input needed for the major revisions being considered. A draft will be completed in 2006. BRS and Plant Protection and Quarantine (PPQ): • Have signed a Memorandum of Understanding that clarifies roles and responsibilities for field inspections, and outlines a formal work flow for inspections and provides guidance on cross-unit coordination; • Have defined their responsibilities in an inspection manual released in 2005. The manual includes: – New inspection checklists; – Questions directly related to regulations; – Inspection procedures; – Requirements for written inspection reports; and – Guidance for inspectors to improve the consistency and quality of BRS inspections. • BRS and PPQ will conduct monthly conference calls to discuss inspections and other relevant issues.
Establish improved methods to detect GEO products in trade exports.	BRS will develop a comprehensive, integrated management system to track all information on permits and notifications.

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

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

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

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

- Weather-related hardships and other uncontrollable events at home and abroad;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar and political changes in other countries that can impact domestic and global markets greatly in any year;

- The availability of funds for financial assistance provided by Congress and the local and national economies;
- Sharp fluctuations in farm prices, interest rates and unemployment also impact the ability of farmers, other rural residents, communities and businesses to qualify for credit and manage their debts;
- Economic conditions and actions by a variety of Federal, State and local Governments that will influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across national and international boundaries; and
- 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.

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 FY2002-2007, 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;
- Implement business processes and information technology needed to make its services available electronically;
- Link budget decisions and program priorities more closely with program performance and recognize the full cost of programs;
- Reduce improper payments by developing targets and corrective action plans, and tracking the results annually to ensure that the corrective actions are effective;
- Efficiently and effectively manage its real property;
- 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 Office of Management and Budget (OMB) to score departments on each initiative. Green indicates success; yellow indicates mixed results and red indicates an unsatisfactory score. There are two scores awarded. "Status" indicates that a department is meeting the standards established for success. "Progress" indicates that a department is progressing adequately in meeting established deliverables and timelines. As of September 30, 2005, USDA had earned a "green" progress score for all of its initiatives. The following is a summary of major USDA management initiatives and FY 2005 highlights.

Human Capital

The President wants Executive agencies to be responsive to citizens and dedicated to obtaining results. USDA's Strategic Human Capital Plan addresses this by identifying human capital challenges and developing an accountability system. Targeted challenges include meeting the demand for cutting-edge research talent, creating a workforce with a combination of skills not previously required, and fully supporting the Department's mission with the same or fewer staff.

In managing its human capital and delivering its services to customers, USDA will continue to focus on ensuring civil rights and equal employment opportunity for everyone, regardless of race, color, national origin, gender, religion, age, sexual orientation, disability, or marital or familial status. The Department is committed to continuous civil rights progress in the workplace, program delivery and processing complaints timely and efficiently.

USDA's plans include:

- Maintaining the links among Departmental and agency human capital and annual performance plans;
- Integrating the human capital impact of such Presidential initiatives as competitive sourcing and eGovernment;
- Using workforce planning and hiring flexibility to recruit, retain and reward employees while developing a high-performing and accountable workforce; and
- Ensuring employment opportunities for all, while implementing programs targeting critical occupations with projected skill gaps and underrepresented groups; and

Actions taken by USDA in FY 2005 to achieve this result include:

- Aligned performance plans in mission critical occupations with the strategic goals of the organization. The Office of Management and Budget and the Office of Personnel Management (OPM) documented that at least 60 percent of all performance plans were aligned with the strategic goals of the organization;
- Completed a comprehensive review of the Department's human capital plan, analyzed the results and documented how they were used in improving human capital. This involved a review of more than 100 human capital action strategies. It demonstrated the integration of competitive sourcing and eGovernment PMA initiatives with human capital;
- Achieved a hiring timeline of 28 days against the OPM standard of 45 days for general schedule employees and significantly reducing the hiring timeline for senior executive service employees;
- Demonstrated the use of hiring flexibilities to recruit and retain a high performing workforce
- Reduced under-representation and established process to sustain diversity; and

- Reduced skill gaps to less than 3 percent in 18 of the Department's 19 mission critical occupations. Reduced the number of mission critical occupations with skill gaps exceeding 3 percent from 4 to 1.

COMPETITIVE SOURCING

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 competitive sourcing process by ensuring that the studies it conducts reflect more strategically grouped and related functions to maximize the impact of this initiative. The Department 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 jobs to identify those that can be studied to achieve efficiency and/or quality improvement.

Actions taken by USDA in FY 2005 to achieve this result include:

- Completed competitions to improve productivity and produce annual savings;
  - Estimated gross savings is $179.2 million over a five-year period for competitive sourcing studies completed in FY 2004.
- Completed feasibility studies as follows:
  - APHIS—Protection & Quarantine—272 FTEs – December 2004;
    - Results of the feasibility study did not indicate a favorable return on investment.
  - Completed RMA—Program Support – 66 FTEs – December 2004;
    - Results of the feasibility study did not indicate a favorable return on investment.
  - Completed FSIS—Financial Systems Support—44 FTEs;
    - Determined it is not feasible to study. Automation of the function was scheduled for implementation beginning in September 2005. The modernization will eliminate the FTEs, which will save $1,000,000 by July 2007.
  - Completed GIPSA—Rice Inspection—45 FTEs – March 2005;
    - Completed GIPSA feasibility study for rice inspection indicates a positive return on investment. Due to actions by Anheuser Busch to eliminate mandatory rice inspections, GIPSA lost about 25 percent of its rice inspection business. As a result, GIPSA will restructure its program and associated personnel. OMB has agreed to delay the start of the GIPSA competitive sourcing study until GIPSA's personnel restructuring actions have been resolved—approximately in one year. GIPSA will then reevaluate the feasibility of conducting the study on its rice inspection services.

  - Completed FAS—Administrative Support—73 FTEs—March 2005;
    - Results of the feasibility study did not indicate a favorable return on investment.
  - Completed NRCS—Soil Conservation Technicians—280 FTEs – January 2005;
    - Results of the feasibility study did not indicate a favorable return on investment.
  - Completed NRCS—Civil Engineering Technicians—127 FTES – January 2005;
    - Results of the feasibility study did not indicate a favorable return on investment.
  - Completed NRCS—Geological Analysis—36 FTEs – January 2005;
    - Results of the feasibility study did not indicate a favorable return on investment.
- Conducted training on feasibility studies, most efficient organization and FAIR Act inventory; and
- Reviewed the FAIR Act inventory justification for similar positions among different agencies Department-wide and addressed inconsistencies in the classification of like functions.

Challenges

- FS Legislative Restrictions—FY 2005 $2 million cap on competitive sourcing spending;
  - House Appropriations Committee's Interior, Environment and Related Agencies Subcommittee voted to continue cost limits on competitive sourcing—FY 2006 $2.5 million cap.
  - FS will complete and implement the recommendations of the agency's business process reengineering initiatives for Human Resources and the Budget and Finance functions. Additionally, FS is implementing the IT competitive sourcing study during FY 2005 and FY 2006. Completion of these major organizational and cultural changes will enable FS to begin additional competitive sourcing studies in late FY 2006 and/or early FY 2007.
- Farm Service Agency (FSA) and Rural Development (RD) Legislative Restriction—FY 2005 Appropriations Act prohibits funds to be used to study, complete a study of, or enter into a contract with a private party to carry out, without specific authorization in a subsequent Act of Congress, a competitive sourcing activity of the Secretary of Agriculture, including support personnel of the Department of Agriculture, relating to rural development or farm loan programs.

FINANCIAL PERFORMANCE

USDA's Financial Performance is overseen by the Office of the Chief Financial Officer (OCFO), which works in partnership with all USDA agencies to ensure the Department's financial management reflects sound business practices. The 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 2005.

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 (GAO). The Office of the Chief Financial Officer (OCFO) works to improve financial management, in partnership with the Chief Financial Officers 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 management information by helping USDA's agencies craft and access useful, 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.

USDA has issued a Request for Information (RFI) for the Financial Management Modernization Initiative (FMMI) for the replacement of USDA's legacy corporate financial management system. The purpose of the RFI is to solicit vendor comments and suggestions on our financial management concept and USDA's functional requirements for future systems modernization. Implementing the FMMI solution will provide USDA agencies with a modern, efficient core financial management system. FMMI will provide high quality information to our managers who need it, when they need it and will enable them to use the information to manage their business areas more effectively, consistent with the OMB's Financial Management Line of Business initiative. USDA uses the Financial Data Warehouse to integrate program and financial information that complies with system architecture standards in OMB Circular A-127.

USDA's plans include:

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

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA sustained an unqualified audit opinion on its FY 2005 consolidated financial statements, making this the fourth consecutive year for receiving a clean opinion;
- The Financial Data Warehouse (FDW) modernization, used for agency ad-hoc reporting, was completed, migrating platforms to a mid-range environment for faster queries with enhanced query capabilities;
- 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;
- USDA began web enablement of USDA Corporate Financial and Performance Reporting, a quarterly performance system that the Secretary of Agriculture and his senior executives will use to drive program results;
- USDA awarded a contract to build web-enabled Financial Management Dashboards. The dashboards, when implemented, will provide agencies with more timely access to the results of their account relationship tests—a series of 28 tests that measure standard general ledger budgetary and proprietary account relationships. The dashboards will provide the capability to identify specifically where relationship failures occur so that appropriate action can be taken;

- USDA agencies improved their financial performance measures, targets and milestones in their efforts to expand the use of financial information for decision-making;
- USDA continued reviews of year-end adjusting entries; standard general ledger abnormal balances; financial statement line-item variance analysis; and other aspects of financial statement preparation in order to assure quality of financial statement data throughout the fiscal year; and
- USDA developed a new methodology for automating the Statement of Financing and produced an automated prototype using the financial data warehouse information. This methodology was shared with other Departments of the Federal Government and the Federal Accounting Standards Advisory Board as a methodology to improve the timeliness and quality of financial data.

ENHANCING EGOVERNMENT

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 its information and services and reducing costs.

USDA is using an Enterprise Architecture to inform and guide its decision-making. Enterprise Architecture refers to a strategic information asset base, which 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 plans to:

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

Actions taken by USDA in FY 2005 to achieve this result include:

- Provided an OMB-approved eGovernment Implementation Plan;
- Submitted completed Enterprise Architecture (EA);
- Fully executed all memoranda of understanding with managing partners;
- Remediated 36 of 43 business cases on the management watch list;
- Coordinated final earned-value management regulation;
- Published draft earned-value implementation guide; and
- Passed the security assertion markup language testing by the General Services Administration (GSA) and receive GSA certification for eAuthentication service. The service now becomes a Security Assertion Markup Language (SAML)-compliant service provider. SAML allows users with approved credentials to gain access to applications across the Federal Government.

BUDGET AND PERFORMANCE INTEGRATION

USDA continues to improve how it integrates performance information into its budget decisions. Beginning with the FY 2005 President's Budget, the Department integrated budget and performance throughout the budget-formulation process. This integration includes the use of OMB's Program Assessment Rating Tools (PART) assessments. PART is used to assess and improve program performance and efficiency within the Federal Government in order to achieve better results. USDA program analysts and budget staff are working closely with mission area and agency representatives to establish budget priorities based on USDA's strategic goals and desired outcomes. The Department continues to improve its performance information annually.

USDA plans to:

- Continue using performance information during all stages of the budget formulation 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; and
- Align the budget with the Department's strategic plan to keep the focus on results and continue to encourage effective management.

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA issued guidance and continued working with agencies to integrate PART recommendations into the formulation and presentation of agency budget proposals as well as discussing those findings in budget justifications;
- The Deputy Secretary held in-depth meetings with subcabinet officials to discuss the specific plans and milestones to address recommendations in PARTs with a "Results Not Demonstrated" rating in order to complete reassessments by the second quarter of FY 2006;
- The Department continues working with agencies to ensure that their milestones are reasonable and detailed enough to fully address OMB PART recommendations and lead to improved program performance. The Department's budget office uses the Internal Scorecard process to track agency progress toward meeting these recommendations; and
- The Department's budget office enhanced the quarterly financial and performance report in order to enable more active and efficient participation by senior Department officials during the integration of budget and performance.

REAL PROPERTY

Executive Order (E.O.) 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 shall 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 action. As the foundation of the Department'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	6. Provide appropriate levels of investment
2. Maximize facility utilization by co-locating agency operations when possible	7. Eliminate unneeded assets
3. Accurately inventory and describe real property assets using the Corporate Property Automated Information System	8. Use appropriate public and commercial benchmarks and best practices to improve asset management
4. Use performance measures as part of the asset management decision process	9. Advance customer satisfaction
5. Employ life-cycle cost-benefit analysis in the real property decision-making process	10. Provide for safe, secure and healthy workplaces

USDA's plans include:

- Establishing the Real Property Council (RPC) to advise the Assistant Secretary for Administration and Senior Real Property Officer (SRPO). RPC also will provide internal agency coordination and guidance, and disseminate information for implementing E.O. 13327 and the President's Management Agenda within USDA;
- Establishing an asset management planning process for agencies (asset management plan) and agencies' building block plans and monitoring and reporting its performance in implementing this process. This work includes 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;
- Establishing asset management performance measures;
- 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;
- Establishing a three-year rolling timeline that addresses opportunities and determines priorities as identified in agency building block plans, and demonstrates implementation through compliance with the established timeline;
- Institutionalizing the management of the Department's real property assets consistent with its strategic plan, the AMP and performance measures. The Department then would use these documents and indicators as the foundation to assist leadership in formulating and making real property management decisions; 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.

Actions taken by USDA in FY 2005 to achieve this result include:

- Developed a comprehensive asset management plan, including agency-specific building block plans, and submitted to OMB for review and approval;
- Finalized an OMB-approved methodology for implementing FRPC performance measures at the constructed-asset level;

- Submitted and received OMB approval of a strategy and timeline for making necessary system enhancements and capturing constructed asset level FRPC data across USDA agencies; and
- Issued Secretary's Memorandum 5100-002, Implementing Executive Order 13327-Federal Real Property Asset Management.

RESEARCH AND DEVELOPMENT INVESTMENT CRITERIA

This program initiative calls on Federal Government agencies to apply a framework to research 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); and Forest Service Research and Development—have aggressively moved forward to integrate this framework. The use of the criteria is an effective means to ensure that programs are addressing the right issues, meeting high-quality standards and accomplishing what they set out to do.

USDA's plans include:

- Continuing to apply objective criteria as projects are evaluated for funding;
- Closely coordinating among research agencies to ensure that common criteria and performance measures are used where possible; and
- Incorporating results into decision making.

Actions taken by USDA in FY 2005 to achieve this result include:

- USDA research agencies continued to conduct independent external program reviews and committed to implementing such reviews in FY 2006. The reviews were structured by the three investment criteria;
- Program reviews became an integral component of program planning, management and assessment in ARS, CSREES and ERS; and
- ARS and CSREES used the results and recommendations from program reviews in program planning and management.

ELIMINATING IMPROPER PAYMENTS

USDA has developed comprehensive internal control and quality-assurance processes and systems to ensure accurate and complete program payments. In FY 2005, Eliminating Improper Payments became a President's Management Agency (PMA) initiative. The Office of the Chief Financial Officer (OCFO) issued specific policy guidance including templates and timelines for implementing the Improper Payments Information Act (IPIA) and meeting the goals of the PMA initiative.

Based on recent audit estimates, Federal agencies make more than $45.1 billion in improper payments annually. The initiative 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. USDA has identified 11 programs that are risk susceptible. The Department has prepared corrective-action plans for these programs to reduce and recover improper payments. The plans will reduce improper payments by approximately $49 million while recovering approximately $43 million in improperly made payments. Reductions in improper payments will include reducing errors in direct benefit programs and contracting/administrative payments.

USDA plans include:

- Assessing the risk of improper payments in all its programs annually;
- Working at the Department and agency levels to reduce the number of improper payments made; and
- Recovering, where possible, overpayments made to individuals and organizations.

Actions taken by USDA in FY 2005 to achieve this result include:

- Completed risk assessments for all USDA programs and activities (286 risk assessments completed, 11 identified as high risk);
- Developed plans to measure improper payments for all programs determined to be high risk and received OMB approval;
- Completed testing to determine the amount of improper payments for programs determined to be high risk. The results of these tests are shown in Appendix B of this report;
- Planned corrective actions and set targets to both reduce and recover improper payments. These plans were submitted to OMB for approval; and
- Completed a pilot recovery-auditing project at the Forest Service. Using an independent recovery audit contractor working on contingency, USDA was able to identify $333,000 in improper payments and has recovered $189,000 to date.

For a detailed report on FY 2005 management actions, plans to address erroneous payments in progress and results of recovery auditing programs, see Appendix B.

FAITH-BASED AND COMMUNITY INITIATIVE

This initiative strives to support the essential work of faith-based and community organizations. 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 faith-based and community 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 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.

Actions taken by USDA in FY 2005 to achieve this result include:

- Coordinated outreach and technical assistance by developing comprehensive strategy using 12 best practices;
- Worked to ensure barrier-free access, including 7 of 14 best practices;
- Established procedures to collect data on participation by faith-based organizations and community-based organizations in select programs available to the public; and
- Continued to manage 4 pilot programs to test new ways for faith-based organizations and community-based organizations to assist it meeting its program goals. The Department also reported outcome-based evaluations of these projects.

FINANCIAL STATEMENT HIGHLIGHTS

BUDGETARY RESOURCES AND OUTLAYS

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

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

	2005	2004	% Change
Appropriations Received	88,940	94,316	(6)%
Total Budgetary Resources	166,833	142,890	17%
Obligations Incurred	140,835	117,809	20%
Outlays	91,966	78,446	17%

Data in millions

Analysis of Resources

Appropriations Received decreased by $5.4 billion during FY 2005. This decrease is due in part to the Commodity Credit Corporation (CCC) reduced appropriation in the current year of $9.5 billion for its prior year realized losses.

The Food and Nutrition Service (FNS) reflected an increase in appropriations of $4.8 billion, 84% of the increase is attributable to growth in the Food Stamp Program, with 16% attributable to the Child Nutrition Programs for meal services and for higher food costs.

Total Budgetary Resources increased during FY 2005 by $23.9 billion. $15 billion is attributable to the CCC established borrowing authority on its revolving fund. The fund is indefinite in nature and CCC estimates the authority that is needed to cover current fiscal year obligations. FNS contributed with $4.8 billion of increased resources with most of the remaining resources attributable to National Resources and Conservation Services (NRCS) Programs.

Obligations and Outlays

Obligations Incurred increased in FY 2005 by $23 billion. CCC and FNS Programs contributed 95% of the total increase. For CCC, Direct and Counter Cyclical, Crop Disaster and Loan Deficiency Program payment accounted for $16.5 billion of increased obligations. FNS's obligations for the Food Stamp and Child Nutrition Programs accounted for $5.4 billion obligation increases.

Outlay increases in FY 2005 amounted to $13.5 billion. These directly relate to the Program Obligations as described above.

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, 2005 and September 30, 2004
(in millions)

	FY 2005	FY 2004	% CHANGE
Fund Balance with Treasury	$ 42,327	$ 39,488	7 %
Loans Receivable & Related Foreclosed Property	75,176	73,841	2 %
General Property, Plant, and Equipment, Net	4,885	4,914	(1) %
Other	10,596	3,571	197 %
Total Assets	132,984	121,814	9 %
Debt	83,515	69,053	21 %
Loan Guarantee Liability	1,214	1,188	2 %
Other	46,277	36,589	26 %
Total Liabilities	131,006	106,830	23 %
Unexpended Appropriations	21,490	22,158	(3) %
Cumulative Results of Operations	(19,512)	(7,174)	172 %
Total Net Position	1,978	14,984	(87) %
Total Liabilities and Net Position	$ 132,984	$ 121,814	9 %

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.

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 81% of the total USDA loan programs. Commodity Loans and Credit Programs administered by Commodity Credit Corporation (CCC) represent 11% 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% 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 48% of the net PP&E, consist primarily of forest road surface improvements. Building improvements and Other Structures represent an additional 25%. Other primary categories of PP&E include equipment and software.

Other

Accounts Receivable, Net represent 96% of total Other Assets and 7% are Intragovernmental Receivables. In fiscal year 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.

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

CCC's debt to Treasury increased by $11 billion over the prior fiscal year. Funds were used to repay prior year debt and cover current year obligations for the Direct and Counter Cyclical programs, Crop Disaster and Loan Deficiency programs. RD increased its debt to Treasury by $3.2 billion to fund Housing Loan activity.

Loan Guarantee Liability

USDA's loan guarantee liability is affected by guaranteeing new loans, adjustments from loan activity (i.e. collecting fees, interest subsidies, claim payments), and the annual reestimate of loan costs. In fiscal 2005, the increased loan guarantee liability is primarily due to disbursing $3.9 billion in new loans, resulting in increased guarantee liability.

Other

Of the $46,276 and $36,588 million in other liabilities in Fiscal 2005 and 2004, respectively, $16,819 and $17,469 million, respectively, is payable to Treasury. The amount payable to Treasury represents the net resources of pre-Credit Reform programs that will be returned to Treasury after the collections of these loans. In addition, CCC recorded a long-term liability in the amount of $7.1 billion under the TTPP that provides for ten installment payments at the present value of the remaining payout amount to holders and tobacco producers beginning in 2005 and ending in 2014. $2.7 billion were recorded for income support programs.

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 decrease in Net Position by approximately $13 billion can be attributed primarily to the $17 billion of increased costs of operations and a net of $4 billion utilized from prior years results to cover current year operations.

NET COST OF OPERATIONS

CONDENSED STATEMENT OF NET COST

	FY 2005	FY 2004	% Change
Enhance Economic Opportunities for Agricultural Producers:			
Net Cost of Goal 1	$ 28,878	$ 16,604	74 %
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:			
Net Cost of Goal 2	1,014	2,113	(52) %
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:			
Net Cost of Goal 3	2,441	2,415	1 %
Improve the Nation's Nutrition and Health:			
Net Cost of Goal 4	50,987	45,411	12 %
Protect and Enhance the Nation's Natural Resource Base and Environment:			
Net Cost of Goal 5	7,693	7,479	3 %
Net Cost of Operations	$ 91,013	$ 74,022	23 %

USDA Net Cost of Operations totaled $91,013 million and $74,022 million for fiscal years 2005 and 2004, respectively. Grants and Direct Payments for CCC and Grant and Program Benefits for FNS represent the largest portion of USDA cost, with $78,731 million and $56,082 million in cost for 2005 and 2004, respectively. Grants and Direct Payments increased in fiscal 2005 primarily due to changes in CCC activity related to increases in payments for peanut quota buyouts, milk income loss contracts, direct and counter-cyclical programs, crop disaster assistance programs and the Food Stamps and Child and Nutrition Programs.

The cost of Grants and Direct Payments for CCC directly correlates with the USDA goal to enhance economic opportunity for agricultural producers. For FNS, Grants and Program Benefit costs are associated with the goal to improve the Nation's nutrition and health.

Impact of Hurricane Katrina

The devastation of Hurricane Katrina affected several states in the Gulf coast region. USDA agencies provided significant efforts to assist in this national disaster.

The FS committed approximately 7,000 employees to the Federal Emergency Management Agency (FEMA) hurricane effort, including 105 Incident Management Teams (IMT) and 345 crews. Crucial support was provided at the New Orleans International Airport—trained helicopter personnel off-loaded more than 500 evacuees per hour and provided food to more than 600,000 people. An IMT opened 15 distribution points and served more than 10,000 people per day, providing nearly 3 million meals, 4 million gallons of water, and 40 million pounds of ice. Many warehouses included around-the-clock distribution and processing of hundreds of truckloads per day, totaling nearly 7,500 semi-truckloads, using 500,000 gallons of fuel.

RD placed almost 8,000 evacuees in homes and provided more than 18,000 families with temporary relief from their mortgage payments. RD also cooperated with private partners to restore utilities throughout the affected areas.

APHIS was instrumental in rescuing 300 people and 40,000 animals. Many of the animals were treated by veterinarians, most were returned to their owners, and those remaining were placed in shelters operated by animal care organizations.

NRCS used its National Cartography and Geospatial Center to help identify the best areas for animal debris disposal and burial that will not endanger water sources. FEMA provided authority and $10 million to NRCS for the disposal of hundreds of animal carcasses, including more than 6 million birds.

The National Finance Center (NFC) in New Orleans was able to continue sending out paychecks to more than 500,000 federal employees and continued to provide full accounting services to its numerous federal agency customers. Its operations were able to continue almost uninterrupted in spite of the fact that its 1,623 federal and contract employees were scattered across 41 states. Preliminary efforts are underway to bring employees home to the NFC.

Evaluations of losses of USDA real properties have been completed and have revealed that losses were not significant enough to have a material impact on the USDA Consolidated Financial Statements. Assessments of the cost of the hurricane to USDA are continuing but also do not appear to affect the Consolidated Financial Statements.

MANAGEMENT ACCOUNTABILITY AND CONTROL

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

Within USDA, subcabinet officials, agency administrators and staff office directors are responsible for the efficient operation of their programs and compliance with relevant laws. These executives also ensure that their financial management systems conform to applicable laws, standards, principles and related requirements. USDA's goal was to eliminate the remaining material deficiencies by the end of FY 2006, and correct any new material deficiencies within one year.

SUMMARY OF MATERIAL DEFICIENCIES

USDA completed corrective action on one of the three existing material deficiencies. Additionally, it is reporting one new material deficiency for FY 2005. USDA has reduced the number of existing material deficiencies from a high of 19 in FY 2002 to 3 in FY 2005. This is an 84 percent decrease in the number of outstanding material deficiencies reported 3 years ago. Additional information is found in the Systems, Controls, and Legal Compliance section.

Exhibit 5: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness					
Multiple	Multi 00-01: USDA Information Security Weakness: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	• OCIO will: Improve the quality and process for managing USDA information security vulnerabilities and actions; • Complete vulnerability assessments of all mission critical systems; • Continue to manage the USDA information survivability program to guide agencies in the development and testing of disaster recovery and business resumption plans for USDA's highest priority mission critical systems; • Implement and maintain a robust Internet Protocol (IP) database that includes accurate, up-to-date contacts for each IP address; • Refine policy and issue new policy; and • Ensure that security management positions have the authority and cooperation of agency management to implement and manage security programs effectively.	Extensive and wide-ranging weaknesses within USDA's information security program have delayed completion.	FY 2000	FY 2006
		• FS will: Improve controls over the PRCH system data access, input, and integrity and segregation of duties.		FY 2005	FY 2006

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
		• NRCS will: Document change control processes, software changes, and testing processes for the ProTracts System. Improve controls and documentation of change control for payment specifications. Reconcile Protracts appropriations, obligations and payments to FFIS.		FY 2005	FY 2006
		• FSA/CCC will: Collaborate with OCIO to identify and implement additional improvements needed to improve the agency's general control environment.		FY 2004	FY 2006
Multiple	Multiple 05-01: Improvement needed in financial accounting and reporting policies, practices and procedures*	• FS will determine specific actions to be taken.	N/A	FY 2004	FY 2006
		• FSA/CCC will: Re-examine existing accrual policies and analytical procedures with regard to Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements.	In light of their recent audit, FSA is planning comprehensive reengineering of business processes and systems to completely resolve the material non-conformance. Early in FY 2006, FSA will develop a detailed corrective action plan including compensating controls.	FY 2004	FY 2006
Section 4 Financial Management System Nonconformance					
FSA/CCC	MW 04-01: Improvement Needed in Funds Control Mechanisms	FSA/CCC will: • Document and evaluate current system of budgetary accounting controls, identify deficiencies and develop improved control processes; • Obtain training for staff, and implement organizational changes;	In light of their recent audit, FSA is planning comprehensive reengineering of business processes and systems to completely resolve the material non-conformance.	FY 2004	FY 2009

Responsible Agency(ies)	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Year Identified	Current Estimated Completion Date
FSA/CCC (cont'd)		• Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems; and • Enhance usage of existing web services for funds control.	Early in FY 2006, FSA will develop a detailed corrective action plan including compensating controls.		

* While deficiencies in this area were reported in FY 2004 financial statement audits, they did not give rise to a Departmental material weakness.

CONCLUSION

We hope 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 2005 goals.

Section II

Annual Performance Report

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 2005 through such activities as:

- Providing farmers and ranchers with risk management and financial tools;
- Meeting with experts from around the globe to discuss current and new economic opportunities;
- Ensuring the safety and protection of the Nation's food supply;
- Helping millions of low-income households and most of America's children improve their health and diets via Departmental implementation of nutrition assistance programs;
- Delivering targeted nutrition assistance to children and low-income people;
- Fostering better nutrition and health with dietary guidance and promotion;
- Completing new free trade agreements, 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.usda.gov);
- An annual performance budget that outlines year-to-year strategies and targets for achieving USDA's long-term goals; and
- A performance and accountability report that illustrates to Congress and the American people how well the Department did in reaching the goals established in the previous fiscal year.

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 biological, physical and social sciences, and the provision of that knowledge to agriculture, forestry, consumers and rural America are core processes for USDA. Accordingly, selected accomplishments in research are presented throughout this report. Additionally, the report describes the data used to measure performance. These descriptions cover any material inadequacies in the completeness, reliability and quality of the performance data. Also included is a brief reason for why the data are inadequate and the actions USDA is taking to remedy such inadequacies. The thresholds, or ranges, for determining year-end performance results are also identified in the report. These thresholds are identified by program managers and document the process for determining if a performance goal was exceeded, met or unmet. The program managers also provided the rationale used to establish the met range.

The report includes a list of programs that have undergone the Office of Management and Budget Program Assessment Rating Tool (PART). The PART identifies how well and efficiently a program is working and what specific actions can be taken to improve 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) 2005 related to the measures, are also included. Only Federal employees participated in the preparation of the performance information contained in the Annual Performance Report section.

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 2005.

STRATEGIC GOAL 1: ENHANCE ECONOMIC OPPORTUNITIES FOR AGRICULTURAL PRODUCERS

Expanding and maintaining global markets for agricultural products is critical for the long-term economic health and prosperity of our food and agricultural sector. U.S. farmers have a wealth of natural resources, cutting-edge technologies and a supporting infrastructure that result in a production capacity beyond domestic needs. Expanding and maintaining 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 of new U.S. trade agreements and the monitoring and enforcement of existing trade agreements. In cooperation with private sector producer and commodity trade associations, USDA conducts an array of market development and export promotion programs designed to build long-term markets overseas. The Department helps to expand market opportunities through programs of technical assistance and training that support economic development and growth in developing countries and assist them to participate and benefit from international trade. USDA works to facilitate trade through the adoption of science-based regulatory systems and standards.

An economically 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, gain adequate capital, protect itself adequately against financial risk and adjust to changing market needs. Increasing the efficiency of the agricultural sector and developing new uses for agricultural products is critical to the economic health of the Nation; USDA supports farms and farmers in many ways. When natural disasters strike, USDA reacts quickly to help affected producers recover from their losses and restore their lands to prior productivity levels. The Department partners with commercial lenders to guarantee ownership and operating loans. It also makes direct loans to producers to finance operating expenses and farm ownership loans, and provides needed capital in times of emergency. USDA also provides for income stability to keep producers economically viable through economic safety net programs in the form of direct payments, marketing assistance loans and commodity support programs. USDA supports much-needed basic research to identify new uses and more efficient technology for producing and marketing agricultural products.

OBJECTIVE 1.1: EXPAND INTERNATIONAL MARKET OPPORTUNITIES

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

USDA Resources Dedicated to Objective 1.1	FY 2005	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	1,830.0	11.19%
Staff Years	6,655	26.52%

Introduction

Expanding market opportunities through trade negotiations and maintaining market access by enforcing existing agreements to maintain market access are extremely beneficial to the U.S. economy. They create jobs for Americans throughout the agricultural production, processing and marketing process. USDA continues to make this a pillar of its economic enhancement plan.

U.S. agricultural exports were forecast at $62 billion in FY 2005, only slightly lower than the record $62.4 billion set in FY 2004. This year, exports of horticultural products, pork and dairy products reached new records, supported in part by the lower value of the dollar and strong demand. With an export value of $14.5 billion, horticultural products consist of many kinds of fresh and processed fruits, vegetables and tree nuts. This year, almond exports account for nearly half the increase as prices rise in response to strong demand and limited supply. Offsetting gains in high-value products, the value of U.S. bulk commodity exports is lower due to record global supplies. These extra supplies reduced grain, oilseed and cotton prices, and lowered wheat export volume due to increased competition. U.S grain and feed exports are forecast at $15.8 billion in FY 2005, oilseeds and products are set at $11.1 billion, and cotton at $3.9 billion.

FY 2006 U.S. agricultural exports are forecast at a record $63.5 billion. Exports of horticultural products are projected to rise $1.4 billion to a record $15.9 billion on higher unit values and volumes for many products. Predicted to rise $600 million exports of tree nuts (mostly almonds) again will account for nearly half the increase. Gains also are expected for exports of wine, essential oils, and highly processed fruit and vegetable products. Additionally, cotton exports are forecast to rise $600 million on higher unit values. While some increase in grain volumes exported is expected due to reduced competition, lower wheat prices limit any overall value increase for grains. The oilseeds outlook calls for little change in volume of soybean exports due to record demand from China. It also calls for weaker unit values with the expected rebound in Brazil’s crop. A competitive dollar and moderate global economic growth support export expansion.

Overview

The Department’s work with the World Trade Organization (WTO) is key in establishing international market opportunities for U.S. agricultural producers. WTO is a multilateral institution charged with administering rules for trade among its 145 member countries. While WTO did not meet its goal of achieving a “first approximation” of an agricultural text by the end of July 2005, trade ministers will meet again in Hong Kong this December. Work will continue through the fall in preparation for that meeting. The basic goals for which all participating countries will continue to work remain. These goals include eliminating export subsidies, reducing trade distortion and domestic support, and increasing market-access opportunities. A big step toward increasing international marketing opportunities for U.S. agricultural producers took place August 2, 2005, with the passage of the Central American Free Trade Agreement (CAFTA-DR), a comprehensive trade agreement between the U.S., Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua. It is designed to give U.S. agricultural exporters the same or better access to CAFTA-DR consumers as their competitors, providing promising new opportunities in a regional market where domestic exports currently total nearly $1 billion.

USDA also continues to work to create new export opportunities through other free trade agreements. In particular, the Department is focused on the forthcoming expiration of Trade Promotion Authority (TPA) in 2007. The TPA is designed to put the U.S. in a strong position to lead the way in completing major new trade agreements that advance the global interests of domestic agriculture.

Negotiating reductions in trade barriers to create opportunities is just the beginning for U.S. exporters. To help U.S. exporters capitalize on trade agreements, USDA actively works to ensure that market opportunities are maintained. This increases U.S. exporter confidence enabling them to take the risks associated with export sales. These sales depend on consistent and reliable market access. As more international trade agreements are concluded, additional Department resources for monitoring and compliance efforts are necessary. For example, WTO members submit more than 800 notifications of intent annually to alter or create new import requirements related to food safety or plant and animal health. USDA has worked aggressively to increase the notification rate for such new or revised standards so that it can halt or change restrictive measures before they take effect. Each notification must be evaluated for U.S. impacts and immediately addressed if domestic exports or export opportunities are affected negatively. The Department continues to work toward long-term solutions. Challenges include trade restrictions related to Bovine Spongiform Encephalopathy (BSE) and bio-engineered crops. (BSE is a chronic degenerative disease affecting the central nervous system of cattle.)

USDA also continues to monitor the impact of the North American Free Trade Agreement (NAFTA). NAFTA is a comprehensive trade-liberalization agreement among the U.S., Canada and Mexico. U.S. agricultural exports to its NAFTA partners continue to set new records. Canada remains the largest market with annual U.S. sales forecast at $10.5 billion in FY 2005. Free trade agreements (FTAs), which removed trade barriers and promoted a strong economy, propelled Canada past the European Union (EU-25) and Japan to become the U.S.' top overseas market by the mid-1990s. Canada is a major market for U.S. fresh and processed fruits and vegetables, snack foods, juices, wine, and many other consumer-ready products. Forecast at $9 billion in FY 2005, Mexico overtook Japan as the second-largest market. Trade with Mexico, like Canada, benefited from NAFTA because of the removal of trade barriers. Closely tied to the U.S. economy, Mexico has enjoyed strong economic growth, which strengthened domestic demand for international goods. While Mexico continues to be a good customer of coarse grains, cotton and wheat, higher-value consumer foods are increasingly important. Strong Mexican demand supports rising sales of U.S. pork, beef, poultry, fresh and processed fruits, and snack foods.

U.S. agricultural exports to Japan are forecast at $7.6 billion, making it the third-largest market. An absence of new trade agreements to reduce Japan's high tariffs and the country's economic collapse in the 1990s, largely have halted U.S. export expansion to this country. About half of U.S. sales to Japan consist of bulk commodities, mainly coarse grains and soybeans. While most of the remaining sales are consumer-ready foods, much of that is limited to beef and pork, although fruit and tree nut sales are noteworthy. Beef trade has recently been halted since the country imposed its BSE ban.

EU-25 is now the fourth-largest market for U.S. agricultural products, with little change in total sales and estimated at $7 billion. EU-25 is a major market for soybeans and tobacco as well as tree nuts, especially almonds. Wine sales are also noteworthy because wine is among the top five U.S. agricultural exports to the EU-25. Opportunities remain limited in most other categories. Production subsidies keep domestic supplies high, and trade barriers limit market access. Expansion opportunities for U.S. agricultural exports to Europe have remained limited for many years.

China has risen in recent years, now representing the fifth-largest market for agricultural products. After posting a record $6.1 billion in 2004, FY 2005 saw a drop to $5.4 billion. The decrease was attributed to lower soybean and cotton prices, as shipping volumes are expected to continue at higher levels. These numbers compare to $1.8 billion in FY 2002. China's domestic supply-demand situation creates new opportunities to ship greater volumes of cotton, soybeans and wheat. Considerable progress has recently been made to reduce China's trade barriers through its WTO membership. Those dividends will continue during the next several years.

In terms of agricultural trade, China's first year of WTO membership in 2002 involved implementing regulations relating to biotechnology safety, testing and labeling. These rules, issued by China's Ministry of Agriculture shortly before the country's WTO accession, did not provide adequate time for scientific assessment and the issuance of final safety certificates for U.S. biotechnology products. Following concerted high-level pressure from USDA and other U.S. agencies, China agreed to issue temporary safety certificates. Additionally, in July 2005, China issued a final safety certificate for NK603 – the last biotech corn variety needing approval.

Selected Results in Research, Extension and Statistics

Enhanced Statistics to Understand the Impact of Hurricanes on Citrus—Officials added Florida citrus forecasts to the November Crop Production Report because of several hurricanes moving through the State during August and September 2005. Citrus forecasts typically are excluded from the November Crop Production Report.

Enhanced Understanding of Producer Response to Soybean Rust—Due to the discovery of Asian soybean rust in the U.S., speculation rose on how growers would react to the fast-spreading, yield-reducing disease. Thus, USDA included related questions in its March Agricultural Survey for the 31 soybean-producing States. The survey provided information on farmers' awareness of Asian soybean rust and how its discovery has affected their planting decisions for the 2005 crop. *Prospective Plantings* published the results of the survey.

Global Markets for High Value Foods—Understanding the myriad factors that affect the choice of locations to produce and sell food products shows the competitiveness of U.S. agriculture in global markets. Two new reports—New Directions in Global Food Markets and Market Access for High-Value Foods—show how food trade patterns are influenced by the changing nature of competition in the global food industry. Key factors include shifting consumer preferences, the growth in multinational food retailers and changes in global supply chains. Consumer-driven changes increasingly are pushing food suppliers to meet consumer demand

and preferences locally. These moves occur even as the food industry becomes more global. For more information on high-value food markets, including data on trade and international investment, visit www.ers.usda.gov.

Market Analysis and Outlook—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 reviews and approves USDA's commodity and farm-sector forecasts. Several initiatives have increased the exposure and accessibility of the data and analysis. This exposure occurred through the documentation of business rules and models used in the forecasting process. The report *Forecasting the Counter-Cyclical Payment Rate for U.S. Corn: An Application of the Futures Price Forecasting Model* offered details on this process and an associated data product that covers the three major field crops of corn, soybeans and wheat. Another initiative documented key aspects of wheat market analysis.

Fruit Fly Control Techniques Show Promise—A USDA program called the Hawaii Area-Wide Fruit Fly Integrated Pest Management Program could open export markets for the State’s diverse array of tropical fruits. Under the program, USDA teamed up with the Hawaii Department of Agriculture and the University of Hawaii to create techniques to control medfly, melon fly, Malaysian fruit fly and oriental fruit fly, and help Hawaiian farmers implement them. Hawaiian farmers who have adopted the integrated pest management plan have cut chemical pesticide use by 75 to 95 percent and are growing crops they had once given up on because of fruit fly damage. California, Florida and Texas are monitoring the program's ability to control fruit flies. While keeping medfly out of California has cost the State nearly $500 million during the past 25 years, it could lose more than $1.4 billion annually if the pests established themselves there. California would suffer losses from lost markets, export sanctions, treatment costs and reduced crop yields.

Enhanced Statistics on Non-Ambulatory Cattle—USDA, in cooperation with the National Animal Health Monitoring System (NAHMS), conducted the second phase of a two-year survey effort to study non-ambulatory cattle on U.S. farms. NAHMS collects, analyzes and disseminates data on animal health, management and productivity across the U.S. This survey, coordinated with USDA’s January 2005 Cattle Inventory Survey, provided statistical services such as questionnaire development, data collection, keying and editing, and summarization. In May 2005, USDA published figures on non-ambulatory cattle and calves in the U.S. by region, based on data collected in January 2004 and 2005.

Strengthening Access to Agricultural Resource Management Survey—The Agricultural Resource Management Survey (ARMS), USDA’s annual, national survey of farms, is the primary source of information about the financial condition, production practices, use of resources and economic well-being of America’s farmers and farm households. ARMS provides a powerful data source to provide direct answers to key questions from USDA policy officials, Congress and other decision-makers within and outside the Federal Government. The Department continued expanding access through outreach activities to researchers at U.S. universities and agency staff. An increased sample starting in 2004 allows ARMS survey information about farm production, business and households to include detailed data for 15 top farming States. In FY 2005, public access to summarized ARMS data improved greatly. USDA presented ARMS data in a dynamic, technologically advanced and easy-to-use web-based delivery tool. Users can select among survey data sets to build custom reports, refine queries with specific samples/populations, and group summary statistics for comparisons. Advanced statistical analysis is available to registered users for additional statistical analysis and economic modeling.

Challenges for the Future

The next few years present exciting challenges for the Department. USDA can increase export opportunities for the U.S. by reaching agreement in the WTO on new rules for agricultural trade while working toward additional FTAs. New WTO trade rules will 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 counties. In these countries, the food and agriculture sector is the dominant economic driver. They are also the singular focus in establishing a stable social environment and a sustainable market infrastructure. Additional FTAs will address country- or region-specific market-access issues, immediately enhancing trade. USDA will continue to monitor implementation of agreements.

U.S. export opportunities will increase in large and important export markets and emerging markets. This increase could push total U.S. agricultural exports to record levels in the next few years. U.S. meat, grains, soybeans, cotton and especially value-added, consumer-ready products will benefit from expanding export sales. On the U.S. import side, consumers are expected to continue their interest in high-value, internationally produced agricultural products. Additionally, developing countries will want more access to U.S. markets. This new access will allow them to improve their own food standards as they learn to compete in the international marketplace. USDA also recognizes that its international trading partners have concerns about how the Department addresses their market-access goals. Among those concerns is the lengthy rulemaking process—from risk assessment to final rule—that opens the domestic market to international commodities. USDA is looking to improve its processes to ensure it can continue to meet its international obligations as more and more countries seek to enter the global agricultural trading system.

Key Outcome: Improved International Market Opportunities

USDA works closely with the Office of the U.S. Trade Representative (USTR) and other Government agencies to pursue new trade agreements and enforce the provisions of existing agreements. These agreements include technical regulations and measures designed to enhance food safety and protect plant and animal health. 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.

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 and individuals with high-level training and education in economics, marketing and technical fields such as plant pathology and veterinary science. 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 international decision makers. They also help support U.S.-based technical experts who develop science-based protocols and health certification procedures for exporting all U.S. food and agricultural products.

Exhibit 7: Increase U.S. Market Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
1.1.1	Dollar value of trade preserved through USDA staff interventions and trade agreement monitoring ($ Mil)	$2,500	$2,800	Exceeded

Analysis of Results

USDA exceeded its performance goal by $300 million. This was accomplished by trade opportunities preserved through monitoring and compliance enforcement, overseas advocacy services, negotiations of technical protocols, and trade negotiations. Contributing to the performance was a delay in implementation of certain aspects of EU-25’s new regulations on wood-packaging material. The regulations would have impacted tens of billions of dollars in U.S. commercial trade and caused an estimated $1 billion in short-term damage to U.S. food and agricultural trade. USDA estimates that roughly half, or $80 billion, of commercial goods annually are shipped on wood pallets or another wood-packaging material. None of this material meets the proposed EU-25 standards because we have no certification process in place to ensure that the pallets are made from wood that was debarked. Also contributing to the performance was the reopening of many markets that had been closed following the discovery of BSE in Washington State in December 2003. USDA projected a target of $2.5 billion in trade access and opportunities preserved in FY 2005.

The number of trade maintenance issues and their potential impact on U.S. exports depends primarily on foreign governmental action, sometimes in response to such events in the U.S. as a livestock disease outbreak. 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 in the country in question. The impact of any given action can range from a few thousand dollars to billions of dollars. While USDA can use the list of outstanding concerns to help guide work priorities and set annual goals, a portion of the goal recognizes that additional events likely will occur that require immediate regrouping and realigning of staff and work priorities.

USDA’s selection of this performance measure demonstrates the critical role that trade monitoring and compliance enforcement play in protecting U.S. exporter opportunities to capture sales as an outcome of successful negotiations. As the U.S. Government continues to negotiate new bilateral, regional and multilateral trade agreements, the challenge will be to monitor and enforce compliance effectively. This monitoring will ensure that U.S. agriculture receives full benefits from negotiated reductions in tariff and non-tariff barriers.

The exact value of new markets opened through trade agreements is difficult to determine using traditional economic models. In a new market, there is little quantifiable data to estimate how consumer demand will react to import opportunities. Market development takes time and centers on consumer and wholesaler education to create a desire to purchase U.S. products, rather than those of competitors. An estimate of export opportunities can only be made after a few years of observing international demand and growth rates. Assuring market access is critical to stable free trade. From year to year, the number of trade issues and their potential impact on U.S. exports depends on international reaction to such issues as biotechnology, plant and livestock diseases, pests, pesticides and sanitation.

Exhibit 8: Expand and Retain Market Access

Trends	Fiscal Year 2005				
	2001	2002	2003	2004	2005
Dollar value of trade preserved through USDA staff interventions and trade agreement monitoring ($ Mil) Baseline: 1999 = $2,567	$1,329	$1.327	$2,713	$3,950	$2,800[1]

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

The figures themselves reflect the uncertainty of trade disruptions. In FY 2005, the bans on U.S. beef and bovine products due to the potential threat of BSE have proven to be challenging barriers. Through diligent monitoring and resolution of trade disputes, USDA has made remarkable and consistent progress in expanding and retaining sales of U.S. agricultural products that likely would have been lost. The hard work of USDA's domestic and overseas field offices is a critical part of this process. The Department's work with other Federal and State agencies, and its private-sector partners made this achievement possible. Next steps include completion of the Doha Round agriculture negotiations, various bilateral and regional FTAs, reopening markets closed due to BSE and continuing to monitor and enforce compliance on many trade disruptions affecting U.S. agriculture. (The Doha Round refers to negotiations designed to improve market access for agricultural products.)

OBJECTIVE 1.2: SUPPORT INTERNATIONAL ECONOMIC DEVELOPMENT AND TRADE CAPACITY BUILDING

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

USDA Resources Dedicated to Objective 1.2	FY 2005	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	3,140.0	5.73%
Staff Years	1,364	5.44%

Introduction

The ultimate goal for supporting developing countries is to help them become economically stable and capable of supporting their populations with jobs, affordable food and other basic necessities. USDA participates in this effort with food aid and trade and development programs. USDA helps provide these services along with other Federal agencies, such as the U.S. Agency for International Development (USAID). USAID is an independent agency that provides economic, development and humanitarian assistance around the world in support of U.S. international policy goals. USDA technical assistance and training play a vital role in helping these 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 includes market information, agricultural grades and standards, and the refrigeration methods used in transporting perishable agricultural items. The assistance also helps increase capacity to purchase U.S. exports. In combination with food aid that covers gaps in supplies and keeps the population healthy, USDA deploys its unique resources and expertise in agricultural-development activities. This process helps advance market-based policies and institutions, sustainable agricultural systems, and 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 harmonization of regulatory frameworks. Other priorities include reducing hunger and malnutrition with sustainable, productivity-enhancing technologies and supporting agricultural reconstruction in post-conflict or post-disaster areas.

A primary focus for USDA food aid in developing countries is school children and their mothers. The McGovern-Dole International Food for Education and Child Nutrition Program (FFE) provides for the donation of U.S. agricultural commodities and associated financial and technical assistance for pre-school and school-feeding programs in developing countries. The program also authorizes maternal, infant and child-nutrition programs. Its purpose is to support a healthy future population necessary for a stable society and a capable workforce. A healthy and literate workforce attracts jobs, supports a sustainable economy and helps establish a secure food supply through domestic production and imports.

Overview

Like their international counterparts, Americans want a world where all countries are stabilized through economic development and trade capacity building. The 2002 National Security Strategy of the United States recognizes that the root of any threat to the U.S. is the lack of economic development. This deficiency often results in economic and political instability. For most developing countries, a productive and sustainable agricultural sector bolsters economic well-being. Thus, agricultural development is crucial to U.S. national security strategy. In developing and transitioning economies, USDA focuses on:

- Trade and investment liberalization to stimulate job and income growth;
- Research and education to raise agricultural productivity, with applications of science and technology, including biotechnology, to boost food availability;
- Institution building to support sustainable agriculture, market infrastructure, and the development of market-information systems to support production and marketing decisions; and
- Food assistance to support social stability and enhance the health of current and future workers.

A recent example of this is USDA technical assistance to U.S. Central American Free Trade Agreement (CAFTA-DR) partners in trade capacity building. In 2005, the six countries – Costa Rica, El Salvador, Guatemala, Honduras, Nicaragua and the Dominican Republic – agreed to accept exports of U.S. meat and poultry products by using science-based information to make decisions. Costa Rica and Nicaragua received training in U.S. food safety and meat inspection requirements and passed USDA audits for exporting meat to the U.S. As a condition of market access, the Department audits the meat inspection programs of U.S. trading partners annually. These audits are designed to verify that these countries maintain food safety standards and inspection programs equivalent to those of the U.S. The audit's passage allows each country to export meat products to the U.S. The Department also engaged CAFTA-DR countries to improve their regional institutional capacity for data collection and statistical surveys related to agricultural and production information, agricultural prices and rural incomes. Access to timely and accurate agricultural statistics will help producers, exporters and importers better identify opportunities to expand trade in international markets opened by CAFTA-DR.

Selected Results in Research, Extension and Statistics

- **Marketing Plan to Export, Plant, Monitor and Evaluate Seed Potatoes in China**—China is the largest producer and user of potatoes in the world, growing approximately 50 million tons annually. While almost 3 million tons of seed potatoes are needed per year to achieve this level of production, the Chinese have banned the importation of new seed potatoes for more than 17 years. Recently, China has had a significant potato disease problem. In 2003, it authorized the importation of "certified" seed potato from the U.S. Alaska and Washington are two of the few States that meet the strict new phytosanitary conditions required for Chinese approval of seed potato importation from the U.S. Approval will require developing a marketing plan for introducing and evaluating new "certified" disease-free seed potatoes, or minitubers, in China. Following a preliminary evaluation of U.S. seed potatoes planted in northeast China in 2004 and 2005, several potatoes will be submitted for a "Provincial Variety Evaluation Program" in those provinces where the U.S. could be competitive. The sale of U.S. seed potatoes could occur in 2008 if officials approve the formal Provincial Variety Evaluations.
- **China in 21st Century Agricultural Markets**—China is one of the top 10 markets for U.S. agricultural exports and is the world's largest producer and consumer of a range of commodities. USDA continues to investigate how policy and economic developments in China affect global agricultural markets. The report, *China's New Farm Subsidies*, considers the implications of a shift in China's policy in 2004. At that time, China had begun to assist, instead of tax, agriculture. This move reflected a new view of agriculture as a sector needing assistance. China introduced direct subsidies to farmers, repealed its centuries-old agricultural tax, helped producers with seed and machinery purchases, and increased spending on rural infrastructure. While the subsidies are targeted at grain producers, they do not provide strong incentives to increase such production.

Challenges for the Future

Unfortunately, significant food needs continue to limit food security and economic development in many countries. USDA works closely with the World Food Program (WFP) and private voluntary relief organizations to ensure that the U.S. commitment to alleviating global hunger and malnutrition remains strong. WFP offers food aid to natural disaster victims, displaced victims and the world's hungry and poor. USDA's trade-capacity building efforts are aimed at helping developing countries participate in negotiations, implement agreements and connect trade liberalization to a program for reform and growth. Helping these countries achieve sustainable economic development and capacity to trade helps build future growth markets for the U.S.

Key Outcome: Economic Development Enhanced through the Provisions of Foreign Food Assistance

More than 800 million people worldwide suffer from hunger and malnutrition—most of them children. These children are the basis for a sustainable economic future. In many countries, children represent most of the population. A healthy and educated young population is necessary to advance economic development, food security and a stable social structure. Activities aimed at market-capacity building for both domestic and international trade are enhanced by, and in turn support, these basic requirements for a sustainable economic infrastructure.

The U.S. is the world's leader in international food aid, providing more than 50 percent of total worldwide food assistance to combat this challenge. U.S. food-aid programs are a joint effort across several Federal Departments. USDA works with USAID, non-profit organizations and American universities to provide targeted food-aid support and related assistance where it is needed the most.

These activities, combined with USDA technical assistance and training, foster a stable society, economic growth, and market infrastructure development. These potential gains augment recipient countries' ability to boost domestic production. In turn, their dependence on food aid is reduced. The activities also allow recipient countries to build sound economic policies that support sustainable development and participation in global agricultural trade.

Exhibit 10: Support Foreign Food Assistance

Annual Performance Goals and Indicators		Fiscal Year 2005		
		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)	2.2	2.98	Exceeded

Analysis of Results

The performance goal was exceeded. FFE promotes school enrollment and attendance, contributing to an educated workforce and economic growth and development. FFE is unique in that its primary goal of increasing school attendance can be measured with confidence. In FY 2004, 2 million meals were distributed to school children and mothers daily on a $50 million budget. In FY 2005, the funding level increased to $86.8 million. The increased funding, lower commodity prices and greater emphasis on the direct feeding of children allowed USDA and its partners to increase the meals-per-day distribution.

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

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Improve food security and nutrition through McGovern-Dole International Food for Education and Child Nutrition Program by providing daily meals and take-home rations for mothers, infants and school children (Mil)	N/A	N/A	2.5	2.0	2.98

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

Objective 1.3: Expand Alternative Markets for Agricultural Products

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

USDA Resources Dedicated to Objective 1.3	FY 2005 Actual	FY 2005 Percent of Goal 1
Program Obligations ($ Mil)	5075.1	9.26%
Staff Years	3,589	14.30%

Introduction

The Farm Security and Rural Investment Act of 2002 (FSRIA) provided new opportunities for USDA to foster the development and production of bioenergy (commercial fuel grade ethanol and biodiesel) through the Bioenergy Program. This program encourages the production of renewable energy and lessens U.S. dependence on foreign oil. At the same time, it supports market prices for commodities used in bioenergy production, which assists farmers, ranchers and rural communities. Commodity Credit Corporation (CCC) Charter Act authority is also used by the Bioenergy Program to make payments for biodiesel production. This support has been critical in sustaining the developing biodiesel industry. CCC is a Government-owned and operated entity created to stabilize, support, and protect farm income and prices.

FSRIA authorized the Federal Biobased Products Preferred Procurement Program (FB4P) program for the preferred procurement of biobased products by Federal agencies. A final rule establishing the operational guidelines for FB4P was published in the Federal Register in mid-FY 2005. The first of a continuing series of rules to designate generic groupings of biobased products for preferred procurement became available as a proposed rule for public comment in late FY 2005. Rulemaking to designate generic groupings of biobased products for preferred procurement will continue for a number of years as rapidly as the statutory data requirements to support designation can be developed. A proposed rule to establish a voluntary labeling program for biobased products is expected to be available for public comment in early FY 2006 with a final rule in place by late FY 2006.

FB4P is expected to significantly increase the use of biobased products within the Federal Government. This increased usage, in turn, will encourage production of biobased products for that market.

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

Overview

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

USDA's programs are designed to:

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

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 fully implement the program. Once implemented, the aforementioned benefits will be realized.

Selected Results in Research, Extension and Statistics

Organic Produce Development—With partial funding from USDA, Cornell University developed a network of plant trial and breeding sites throughout the country. The move was designed to foster organic product development with public sector, individual and company cooperators. The exchange of genetic materials has been intensified. Thus, more diverse material is being assessed more widely for superior performance in organic systems.

Pork Quality and the Role of Market Organization—A number of developments have captured the attention of the pork industry. One issue centers on health concerns and the corresponding preferences for lean pork. Another is the growing incidence of undesirable quality attributes, such as pale and soft meat, resulting from breeding for leanness. A USDA study found that organizational arrangements that influenced pork quality negatively, such as contracts between packers and producers, can also facilitate industry efforts to address quality and other concerns. These arrangements include reducing measuring costs, controlling difficult-to-measure quality attributes, facilitating adaptations to changing quality standards and reducing transaction costs associated with relationship-specific investments in branding programs.

New Commercial Uses for Poultry Feathers—A patent application for a process to convert cleaned and chopped feather material into plastic products—on a laboratory scale—has been filed. This process would make possible new uses for some of the nearly 4 billion pounds of poultry feathers generated annually in the U.S. The feather-based plastic can be made on traditional processing equipment and molded just like any other plastic. Feather-derived plastic would be a unique material for packaging or any other application where high strength and biodegradability are desired. Feather-based plastics would help solve an environmental problem and increase the commercial and economic value of a natural renewable polymer resource—feathers.

Improved Understanding of Glucosinolates Potentially Benefiting Plants and People—The July 2005 edition of *The Plant Journal* featured a cover story on USDA-supported research funded through the National Research Initiative (NRI). NRI funds research on key problems of national and regional importance in biological, environmental, physical and social sciences relevant to agriculture, food and the environment on a peer-reviewed, competitive basis. The aforementioned University of California-Davis research related to the production of glucosinolates by such crops as broccoli, cauliflower, cabbage and Brussels sprouts. For humans, the glucosinolates in these crops appear to help prevent cancer. In plants, the glucosinolates help protect them from pathogen attack. The research showed that plants with larger amounts of glucosinolates were more resistant to insect damage. This research may lead to a better understanding of how plants defend themselves against insects and other pathogens. It may also lead to the development of new crop varieties with increased glucosinolate content. The content could improve plant resistance to pathogens and provide better nutritional value for human diets.

Serving the Public

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

FB4P serves the agricultural sector, rural communities and their residents, and the broader U.S. economy. Farmers and ranchers benefit from increased demand for their products and new crops used as feedstocks in biobased-product production. Rural communities and their residents benefit from the new investment in handling and processing facilities used in the production of these commodities. New jobs in rural communities related to biobased handling and processing create new economic vigor and bring opportunities to the families living there.

Challenges for the Future

The challenges to future success are:

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

In response to these challenges, USDA is creating regulations and operating procedures for the Bioenergy Program and the FB4P. The Department is also 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 will also allow manufacturers and vendors to identify and evaluate biobased products available in the marketplace for their use. The USDA's Office of Procurement and Property Management will announce the model procurement program once USDA agencies have implemented the model. If successful, this model procurement program will make an important contribution toward creating market-based opportunities to produce and consume increased amounts of biobased products.

Exhibit 13: Increase the Use of Biobased Products

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
1.3.1	Number of groups of biobased products designated for procurement	4	Deferred	Deferred

Analysis of Results

The performance goal was partially met. USDA published the final rule implementing the FB4P guidelines January 11, 2005.

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

USDA has identified more than 100 generic groupings of biobased products for potential designation. The items in the FY 2005 target that the Department designated for rulemaking were selected based on the availability of test data and other information. That availability was based upon the level of cooperation from manufacturers and vendors of products that fell within these items. The manufacturers and vendors provided test material and other product information to USDA to support its designation rulemaking.

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

Since FY 2004 was the first year of the program's implementation, USDA will use performance information from both that year and FY 2005 in determining a baseline.

Exhibit 14: Biobased Products Performance

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Number of groups of biobased products designated for procurement	N/A	Authorized in FSRIA	Developmental stage	Developmental stage	0

USDA has made substantial progress in establishing the regulatory framework necessary for operating the preferred procurement program. It has also created the necessary electronic information system to provide a timely and efficient communication mechanism. Federal agencies can use the system to learn which biobased products are available. It will also provide them with information on qualifying for preferred procurement and contacting the manufacturers and vendors of those products. Manufacturers and vendors whose products are classified as "items" designated for preferred procurement by regulatory rulemaking will be invited to post product and contact information on the web-based information system, which will be the primary source of information on the identity and availability of biobased products for Federal agencies required to purchase such products. This system is also expected to be used by the general public to gather information on the availability and identity of biobased products. This will facilitate broader use of such products.

In FY 2006, manufacturers and vendors will begin to reap the benefits of the program as measured in increased sales of biobased products to Federal agencies. Voluntary cooperation by manufacturers and vendors with the Office of Energy Policy and New Uses (OEPNU) in gathering the information needed to designate generic groupings of biobased products by rulemaking remains a challenge. Another challenge is providing information on those products to USDA's electronic information system to determine how quickly the program grows. (OEPNU assists the Secretary of Agriculture in developing USDA's energy policy and coordinating its energy programs and strategies.)

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

Description of Actions and Schedules

USDA published *Guidelines for Designating Biobased Products for Federal Procurement* on January 11, 2005. The first regulation to designate items was published in the *Federal Register* as a proposed rule for public comment on July 5, 2005. It is expected that the first designation rule will be published as a final rule by the end of calendar 2006.

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

Exhibit 15: Resources Dedicated to Providing Risk Management and Financial Tools to Farmers and Ranchers

USDA Resources Dedicated to Objective 1.4	FY 2005	
	Actual	Percent of Goal 1
Program Obligations ($ Mil)	44,714.5	81.60%
Staff Years	13,487	53.74%

Introduction

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

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

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

Overview

The USDA Federal Crop Insurance Program provides an actuarially sound risk management program to reduce agricultural producers' economic losses due to unavoidable causes. Recently, USDA has seen dramatic growth in this program. In FY 2005, the Department insured 48.7 million acres more than it did in 1999, and approximately 16 percent or 39.2 million acres more than it did 5 years ago. 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. SRA calls for insurance providers to deliver risk-management insurance products to eligible entities under certain terms and conditions. Providers are responsible for all aspects of customer service and guarantee payment of producer premiums to the Federal Crop Insurance Corporation (FCIC). In return, FCIC reinsures the policies and provides premium subsidy to producers and 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 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. During 2005, the number of participating companies increased, bringing the total 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 $44.2 billion in FY 2005.

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

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

Selected Results in Research, Extension and Statistics

The Message is Being Heard—A priority for USDA is providing science-based information, knowledge and education to farmers to help facilitate their risk management. A recent evaluation study shows that the farmers are using this information regularly. Results of the study *Evaluating an Integrated Educational Program for Producers in Wyoming, South Dakota, North Dakota and Montana* indicate that producers who participated in the workshops evaluated their actual operational risk and risk management and operational plans after attending a USDA-supported workshop. Producers further indicated that reducing costs, adopting new technology and crop insurance are their top priorities.

Agricultural Contracting and the Scale of Production—Agricultural contracting occurs when farmers receive income from contracts. Changes in U.S. farm structure can have potentially wide-ranging impacts on the distribution of Government benefits and the sector's responses to supply and demand shocks and policy initiatives. While several major, long-term and familiar trends have characterized structural change in farming since the 1930s, the last two decades have witnessed an important evolution in the nature of such change. Recent changes in farm structure are detailed in the USDA paper, *Agricultural Contracting and the Scale of Productions*. The growth of contracting has had important implications for the structure of the farm sector. The paper presents evidence that contracting is associated positively with the scale of production. In other words, contract production tends to be at a larger scale than its independent counterpart and that larger-scale producers are more likely to contract than smaller-scale ones.

Serving the Public

Agricultural producers are exposed to both production and price risks daily. They can benefit from crop insurance to protect themselves against these economic risks. USDA is a leader in helping producers ease the effects of these risks on farm income. The Department promotes the use of crop insurance and other risk management tools. Federal crop insurance offers producers various types of insurance coverage and other tools to protect against crop and revenue loss.

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

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

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

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

Challenges for the Future

USDA's challenge is to continue expanding and improving coverage, particularly for underserved States, areas, communities and commodities. To do this, the Department needs to address the information technology cost increase associated with maintaining and upgrading existing product data needs. This technology also services new or revised products. USDA is researching how to deliver more products suited for a diverse agriculture and cover specialty crops with unique agronomic and economic characteristics. This research includes reviewing and approving private-sector insurance products reinsured by FCIC that are targeted to the unique needs of underserved areas and various specialty crops. The Department also continues to evaluate risk-management delivery of products to ensure their effective delivery to agricultural producers. To further contribute to the producers' ability to protect their financial stability, USDA will continue to provide education, outreach and non-insurance risk management assistance initiatives and tools through partnerships.

Today, approximately 79 percent of the acreage planted in major crops is covered by Federal crop insurance. Coverage is routinely expanded by providing existing crop insurance programs in new counties and States as crop production reaches these areas. It also occurs by developing new types of coverage, such as for livestock, pasture, forage, rangeland, and revenue protection. These programs, along with diversified production, marketing, and the use of futures and options, allow each producer to customize his or her risk management strategy. These products can help producers protect themselves from yield and/or market risks. To meet producer needs, USDA continues to seek out actuarially sound and innovative risk management solutions for providing coverage suited for a diverse agriculture. For example, USDA is currently evaluating contracts for the development of new and very innovative risk management solutions for insuring pasture, rangeland, forage and hay. They include developing a new plan for pasture, rangeland and dryland hay using a dual index consisting of such tools as a satellite-based vegetative index and a proxy crop, and a Temperature Constrained Normalized Difference Vegetation Index. This index uses data derived from satellite-based remote sensing imagery that will describe the seasonal growth dynamics of vegetation for target areas. One such toll is a Seasonal Growth Constrained Rainfall Index, which uses a weighted warm season/cool season indexing period and the National Oceanic and Atmospheric Administration rainfall data system. Another one is the Precipitation Index, which bases itself on a weighted average amount of precipitation during a particular time period. The FCIC Board will determine which of these approaches meet the criteria for effective risk management coverage. Then the board will approve, modify or reject each approach for pilot testing in specific areas.

USDA consistently reviews its farm loan program activities to assess the effectiveness and impact of its programs. The availability of funds for financial assistance and the local and national economies impacts the efficient delivery of services. Training, human-capital planning and organizational efficiencies are also contributing factors. Farm loan program challenges include ensuring a highly trained staff, assisting farmers during economic distress and natural disasters, and offering credit to eligible buyers unable to obtain it from other sources.

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

Key Outcome: Improve Economic Viability of Beginning and Socially Disadvantaged Farmers and Ranchers

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

Similarly, USDA also targets its lending to socially disadvantaged farmers. Socially disadvantaged farmers are members of a group who have been subjected to racial, ethnic or gender prejudice. Socially disadvantaged farmers are more likely to have smaller farming operations, lower average incomes and a limited asset base. As a result, they are less likely than other farmers to qualify for credit from commercial sources.

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

Exhibit 16: Providing Credit Assistance

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
1.4.1	Increase the percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA.[1]	35.5%	46%	Exceeded
1.4.2	Reduce average processing time for direct loans (# of days)	40	35	Exceeded
1.4.3	Reduce average processing time for guaranteed loans (# of days)	14	14.5	Met

[1] Data reported are proxy, which reflects the percentage of loans to beginning and socially disadvantaged farmers/ranchers.

Analysis of Results

USDA exceeded its performance targets for lending to beginning and socially disadvantaged farmers, and for loan-processing timeliness. In FY 2005, 46 percent of direct and guaranteed farm loans were provided to beginning and socially disadvantage farmers, a 6 percent increase from FY 2004. In all, 12,751 farm loans totaling $1.27 billion were issued to these groups. Loan proceeds are used to acquire, enlarge or improve a farm (farm ownership loans) or provide short- to intermediate-term production or chattel financing (farm operating loans). As the preceding table indicates, USDA has dramatically increased the amount of credit assistance provided to beginning and socially disadvantaged farmers and ranchers since FY 2000.

As indicated above, the data reported for lending to beginning and socially disadvantaged farmers is a proxy measure. Beginning in FY 2006, USDA will be measuring the "percentage of beginning farmers, racial and ethnic minority farmers, and women financed by USDA." This measure, developed as part of the Department's recent strategic planning initiative, is a better indicator of success in meeting the needs of these traditionally underserved groups. Currently, USDA is establishing the measurement parameters for this performance measure. Once that task is completed, baseline data and targets for future performance will be established.

Improvements in loan-processing timeliness can be attributed to many factors. One is the comprehensive streamlining of the Guaranteed Loan Program, completed in 2001. This effort essentially reinvented the program. The work done now is less dependent upon USDA processes and more dependent on the normal business practices of lenders participating in the program. Additionally, USDA created a Preferred Lender Program that continues to yield positive results. The program was established to reward experienced agricultural lenders by streamlining and adding flexibility to loan-application and servicing requirements. It also expedites loan approval and other USDA decisions and allows lenders to originate and service guaranteed loans the way they do other loans in their portfolio. Thus, guaranteed loan processing times continued to drop in FY 2005, averaging 14.5 days, a 27.5 percent reduction from the FY 2000 baseline.

The average time to process a direct loan also continued to decline, decreasing from 46 days in FY 2000 to 35 days in FY 2005. During FY 2005, USDA continued its comprehensive streamlining initiative for Direct Loan Program regulations, handbooks and information collections. This ongoing streamlining effort will result in a significantly reduced burden for both applicants and USDA. It will also contribute to the continued improvement in loan-processing efficiencies.

In FY 2005, USDA implemented Web Equity Manager, a commercially available financial analysis system widely used throughout the agricultural-lending sector. Known internally as the Farm Business Plan, the web-based farm planning software is used to develop business plans and manage loan portfolios. The Farm Business Plan changed the way USDA had operated for more than 50 years. The plan provides improved borrower information, allowing the Department to measure and monitor the financial status of borrowers, perform more in-depth portfolio analysis and focus resources on problem areas. Currently, the system is being used for the Direct Loan Program. Plans include making the system available to lenders participating in the Guaranteed Loan Program and eventually providing customers with direct system access.

Exhibit 17: Performance Trends: Lending to beginning, racial and ethnic minorities, and women farmers and timeliness of loan processing

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Increase the percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA. Baseline: 2000 = 27%	30%	33%	34%	40%	46%
Reduce average processing time for direct loans (# of days) Baseline: 2000 = 46	44	41	43	37	35
Reduce average processing time for guaranteed loans (# of days) Baseline: 2000 = 20	18	15	15	14	14.5

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

Key Outcome: Increased Value of Risk Protection Provided to Agricultural Producers through FCIC-Sponsored Insurance

FCIC improves economic stability within agriculture by ensuring that new and innovative risk management alternatives are available to agricultural producers and their lenders. The increased value of risk protection provided to agricultural producers through FCIC-sponsored insurance illustrates the acceptance of these products by producers. It also shows the broadening of tools to ensure greater economic stability across the agricultural spectrum.

FCIC consists of many public and private risk management alternatives designed to improve the economic stability of agriculture. The long-term agricultural producers' ability to supply U.S. and global food-related markets depends on their ability to manage financial and natural risks associated with production. FCIC promotes the availability of a sound system of crop insurance for American agricultural producers. FCIC-sponsored insurance provides assistance in managing this risk. Private sector insurance companies sell and service these policies. FCIC develops and/or approves the premium rates, administers premium and expense subsidies, approves and supports products, and reinsures a portion of the companies' risk. Contracts or partnerships are used for research and development of new and innovative insurance products. They also provide the means for the research and experience helpful in devising and establishing such a system. Private entities also may submit unsolicited proposals for insurance products to the FCIC for approval. During 2005:

- USDA completed its rulemaking process to allow approved insurance providers to offer premium discounts to farmers corresponding to demonstrated efficiencies in delivering crop insurance known as Premium Reduction Plans. In July, USDA issued an interim final rule based on comments received on the proposed rule issued earlier this year. Additionally, USDA issued a final rule establishing guidelines for submission of crop insurance policies, plans of insurance and premium rates to the FCIC Board under section 508(h) of the Act. The rule specifies procedures for submitting proposals and requesting reimbursement for research development and maintenance costs for products. It also outlines the approval process;

- USDA finalized the Nursery Crop Insurance Provisions to provide coverage for plants in containers equal to or greater than one inch in diameter, provide separate basic units by share for all coverage levels and basic units by plant type when additional coverage is purchased, permit the insured to select one coverage level for each plant type basic unit when additional coverage is purchased, allow increases to the Plant Inventory Value Report up to 30 days before the end of the crop year, allow acceptance of an application for insurance for any current crop year up to 30 days before the end of the crop year, change the starting and ending dates for the crop year, and make other policy changes to improve coverage of nursery plants. The Department also finalized the Nursery Peak Inventory Endorsement to augment changes made in the Nursery Crop Provisions and allow growers of high-priced plants and species to be fully covered;
- USDA awarded two contracts for the development of new and innovative approaches to mitigate declines in yield guarantees following successive years of low yields. Multiple years of low yields in some drought-affected areas have an impact on producers' actual production history (APH). The APH is often used to determine insurance coverage levels. New procedures developed under these contracts must mitigate this impact while maintaining the actuarial soundness and integrity of the crop insurance program;
- Asian soybean rust is a fungal disease that can defoliate plants quickly and reduce pod set, pod fill, seed quality and yield. To ensure that farmers know their rights and responsibilities, USDA augmented the information insurance providers are required to provide to farmers through their agents. The Department has met with commodity groups and crop insurance providers, their associations, and agent organizations to discuss the issue. These meetings allow USDA to clarify all necessary good farming practices;
- The FCIC Board of Directors voted to approve the conversion of the chile pepper dollar pilot program to a permanent APH regulatory program, discontinue processing cucumber and winter squash dollar pilot programs, and continue 12 other pilot programs. The board also approved expansion of the Group Risk Income Protection (GRIP) to cotton, wheat, and grain sorghum. GRIP is an area-based revenue insurance product that pays the insured in the event that the county pre-acre falls below the insured's "trigger revenue." (Trigger revenue is determined by multiplying the expected county yield by the greater of the expected price or the harvest price and by the coverage level percentage of the insured.) The board also expanded coverage to additional areas of corn and soybeans, incorporated the Harvest Revenue Option into current and future GRIP plans, extended the Adjusted Gross Revenue (AGR)-Lite to Virginia, and extended the Livestock Risk Protection Plan for cattle, swine, feeder and fed cattle to Montana;
- USDA updated its Written Agreement Handbook to strengthen underwriting requirements and meet legislative mandates. A written agreement is one between the insurance provider and the insured that allows coverage for areas where the program generally is not offered or alters designated terms of additional coverage authorized for the insured crop;
- USDA announced the awarding of $19.8 million in risk management partnership agreements. The Targeted States Program delivered crop insurance education to producers in 15 historically underserved States. Specialty crop, livestock, nursery, and horticulture producers benefited from the 41 education partnership agreements for commodity partnership programs. Fifty-nine competitively

awarded partnerships with community-based, educational, and non-profit organizations assisted in providing risk management information to women, limited resource, and other traditionally underserved farmers and ranchers. USDA also awarded 12 research partnerships for the research and development of new non-insurance risk management tools;

- USDA has established procedures to participate in the review of loss determinations for claims that are likely to exceed $500,000. This authority, established in the 2005 SRA and 2005 Livestock Price Reinsurance Agreement, is a significant new function that promotes program integrity and prevents fraud, waste, and abuse; and
- The obligation of a product to follow "Good Farming Practices" has long been part of the Federal crop insurance policy. The Federal Crop Insurance Act (7U.S.C. 1501 et seq.) prohibits crop insurance from covering losses due to the failure to follow good farming practices. USDA established procedures for the insurance providers to make objective and scientifically sound good farming practice decisions and for the producer to seek reconsideration of those decisions from USDA.

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

Exhibit 18: Expand Use of Risk Management Tools

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
1.4.4	Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance ($ Bil)	$40.0	$44.2	Exceeded

As of October 3, 2005

Analysis of Results

USDA exceeded its target by $4.2 billion. During FY 2005, the economic risk of American agricultural producers was reduced by approximately $44.2 billion through Federal crop insurance coverage. The performance measure illustrates the dollar value of FCIC insurance in force within the agricultural economy. It also shows the amount of potential collateral provided to qualify for commercial loans. Since FY 1999, the value has increased by approximately $13.3 billion. While there are a number of factors that influence these figures, including market-price increases and inflation, they still represent a major growth in the amount of the agricultural economy insured via the FCIC-sponsored insurance.

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

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Increase the value of risk protection provided to agriculture producers through FCIC-sponsored insurance. ($ Bil) Baseline: 1999 = $30.9	$36.7	$37.3	$40.6	$46.7	$44.2

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

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

Rural America, home to one-fifth of the Nation's population, is a collage of people and economic activities. Today, seven out of eight rural counties are dominated by varying mixes of manufacturing, services and other non-farming activities. Of the 60 million people who live in rural America, only 2 million are engaged directly in production agriculture. While farm income is an important source of revenue for some rural families, most rural residents are not dependent on agriculture. Many family farmers rely on local, off-farm employment to supplement their farm income.

A diversity of other enterprises, including renewable energy and "place"-based opportunities, such as support services for agriculture, forestry, mining, recreation, and manufacturing, provide many of the jobs and income in rural America. USDA enhances economic opportunities and quality of life for rural residents by helping to provide financial and technical assistance for business and industry, water and waste disposal, community facilities, advanced telecommunications and broadband infrastructure, electric utilities, and housing. The Department helps to ensure that rural residents have equal opportunity to share in the Nation's prosperity and technological advancement.

USDA facilitates the achievement of Presidential initiatives by encouraging, for example, minority homeownership and the production of renewable energy. The Department will continue to work with other Federal agencies, State and local governments, and private-sector interests to achieve a coordinated effort for the realization of Presidential initiatives as well as other activities important to rural America.

OBJECTIVE 2.1: EXPAND ECONOMIC OPPORTUNITIES THROUGH USDA FINANCING OF BUSINESSES

Exhibit 20: Resources Dedicated to Support Expanding Economic Opportunities Through Financing of Businesses

USDA Resources Dedicated to Objective 2.1	FY 2005	
	Actual	Percent of Goal 2
Program Obligations ($ Mil)	7,186.6	44.21%
Staff Years	2,836	35.32%

Introduction

Financing of businesses led to the creation or saving of 73,617 jobs in FY 2005. As a result, economic opportunities for rural communities have expanded.

Overview

USDA focuses on expanding economic opportunities in rural areas. With USDA assistance, traditional rural economies are transforming themselves and participating in new opportunities in mechanization, hybridization, biotechnology and world markets. Rural areas have an enormous competitive advantage in abundant land, clean environment and a highly motivated workforce. Thanks to modern technology and transportation systems, the traditional barriers of communication, time, distance and rural isolation are crumbling. The Department's investments in rural communities are multi-faceted and include:

- Guarantees of bank loans to rural businesses;
- Loan guarantees and grants to develop energy savings and alternative energy sources;
- Capitalizing revolving funds that assist rural businesses;
- Grants to develop business infrastructure, such as industrial parks and incubators, and feasibility studies;
- Grants for business planning, public transportation and re-training;
- Technical assistance to help communities develop their own strategies for economic development;
- Economic research and technical assistance that enable agricultural cooperatives to enhance their management skills and business operations;
- Grants to create new enterprises based on value-added products; and
- Grants to rural cooperative development centers to help rural residents explore new business opportunities.

USDA programs help create and save jobs in rural America. USDA administers several programs designed to support businesses in rural communities. The Business and Industry (B&I) Guaranteed Loan Program can help a rural business get needed credit by guaranteeing as much as 90 percent of a business loan made by a commercial lender. Loan proceeds may be used for working capital, machinery and equipment, buildings and real estate, and certain types of debt refinancing. B&I expands the lending capacity of private lenders in rural communities. Typically local lenders are small banks with limited lending authority under banking laws. The guarantee allows these lenders to make larger loans and avoid a "concentration of credit" problem. With the guarantee, lenders can make, sell and service quality loans that provide lasting community benefits. Businesses in rural communities tend to buy local goods and services and boost employment. This investment stimulates the economy. The B&I program represents a true private-public partnership in rural communities.

The Farm Security and Rural Investment Act of 2002 (FSRIA) calls for USDA to make loan guarantees and grants to agricultural producers and rural small businesses. These guarantees and grants are used to purchase and install renewable energy systems and energy efficiency improvements in rural areas. FSRIA is designed to help rural small businesses reduce energy costs and consumption, and help meet the Nation's critical energy needs. In Washington State, funds were used to install an Anaerobic Digester to convert manure from

1,500 cattle on 5 dairy farms into methane gas. The methane produced is used to fire a generator to provide electrical power for a portion of the dairy's needs. The excess energy is sold to the local utility, providing additional income to the participating farmers. Additional benefits include a reduction in greenhouse gases, a reduction in surface and subsurface water contamination and odors, and the production of marketable by-products including soil amendments and bedding materials.

USDA also provides loans to establish revolving loan programs for public bodies, Indian tribes and not-for-profit organizations. These revolving loan programs are capitalized by 1 percent loans from USDA. Revolving loan funds provide financing to help develop small or emerging private business enterprises in rural areas for land acquisition, working capital, building renovation, new construction, new equipment and equipment upgrading. This program helps the beginning entrepreneur and the small business by providing low-cost loans, usually coupled with mentoring. As these loans are repaid, additional local businesses can borrow. Grants permit local fire departments to pay for improved equipment, communications and training.

Through its value-added grant program, USDA assists agricultural commodity producers in adding value to their products by allowing them to capture a greater percentage of the consumer's food dollar. A cooperative of dairy producers in Iowa and Minnesota did just that. They developed a variety of natural rind blue cheese that tied for first place in the American Cheese Society's 2004 national contest. As a result of the quality of their products, the cooperative's production plant now uses more than 5,000 pounds of milk that it purchases from cooperative members daily. Not only has the plant provided employment for 20 members of the community, it has enabled the cooperative families to preserve a way of life they enjoy. Value-added grants may be used for planning purposes, such as feasibility studies or business plans, or to establish working capital accounts to pay salaries and the other eligible expenses of starting a new business.

USDA also invests in rural America's most important resources – its people. USDA has a long-term strategy of providing technical advice and assistance, developing educational material, collecting statistics, and conducting applied economic research that enhances rural entrepreneurs' abilities, strengthens economies and create job opportunities. By investing in America's rural human capital, USDA is helping to develop community leaders that will make our rural towns economically robust in today's global marketplace.

Selected Results in Research, Extension and Statistics

Linking Community Development and Sustainable Agriculture—With USDA seed money, the Southern Rural Development Center (SRDC) and the Southern-Region Sustainable Agriculture Research and Education Program (SARE) developed the Sustainable Communities Grants Competitive Program. SRDC seeks to support research activities at the Nation's historically black colleges and universities. SARE provides grants and information to improve profitability, stewardship and quality of life. The program blends agriculture, community and economic development. Through their joint grants program, SRDC and SARE fund projects that link community development with sustainable agriculture in the South. The groups also work to improve the understanding of the benefits of such linkages. During the past year, this program has enabled Northern Louisiana farmers, community leaders and agriculture and community development technical assistance providers to develop local markets for produce. These groups have also been able to promote value-added activities to grow the local economy and have helped coastal Alabama communities to address farmland preservation issues. In Appalachia, a community college is teaching farmers what students and faculty have learned about raising trout, crawfish and tilapia by using water from abandoned coal mines.

In Kentucky, farm women are improving their policymaking skills so that they may participate more in local resource management.

Improved Decision-making for Civic and Government Organizations—To help local, often volunteer, land-use decision makers with partial funding from USDA, Michigan State University developed the Citizen Planner Program. The seven-week, non-credit course leads to an optional certificate of competency. The curriculum was developed in partnership with the Michigan Society of Planning. Since 2001, more than 2,000 citizens and elected officials representing 76 Michigan counties have learned about the tools available to conserve land while allowing community growth and development. Nearly two-thirds (64 percent) of participants serve on local planning and zoning boards. They indicated that they paid closer attention to legal issues after attending the program.

Rural Entrepreneurship Initiatives—With partial funding from USDA, Cornell University and the University of Vermont partnered to support start-up food companies. In its fifth year of operation, the Northeast Center for Food Entrepreneurship (NECFE) continues to provide comprehensive assistance to business owners in the Northeast. NECFE offers direct counseling and educational programs. To date, the center has helped entrepreneurs commercialize more than 2,200 food products. Based on a follow-up survey, the partners estimate that 806 full-time jobs were created by new businesses and 7,836 existing jobs continue to be supported by established businesses. Ninety-four percent of clients expressed satisfaction with the direct assistance received. Additionally, 65 percent reported that NECFE's services contributed to the success of their businesses.

Enhanced Statistics on Farming Demographics—In February, USDA issued the report *Operators by Race*. The publication combined the relevant 1997 and 2002 principal operator counts into one publication. *Operators by Race* marked the first documented information on operators who indicated that they were of more than one race in the agriculture census. USDA also released *Women Principal Operators* in March.

The Agricultural Atlas, also released by USDA in March, provides graphic representation of data collected for the Census of Agriculture. A variety of maps illustrate agriculture trends and shifts across the U.S. down to the county level. The atlas is available at www.nass.usda.gov/research/atlas02. In June, a new interactive mapping tool became available. Data users now can customize maps using various data items from the 2002 Census of Agriculture. For more information, visit www.nass.usda.gov/census.

Trade and Rural Areas—American farmers produce raw farm products well in excess of domestic demand. Because processing these excess products could yield additional income and jobs, rural planners have viewed the food-export market as a potential base for rural development. Despite its logical appeal, it has been difficult to demonstrate the strength of this potential development effect for rural areas. A USDA study of the growth in U.S. meat exports in the last two decades suggested reasons for this difficulty. The researchers show that, while the U.S. has long had an apparent comparative advantage in meat production, the growth in meat exports resulted from changes that affected the cost of production and the demand for meat and the impact of new public policy. Most, if not all, of these changes were outside the control of rural development policymakers.

Challenges for the Future

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

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

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

Key Outcome: Enhance Capital Formation for Rural Communities

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

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

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

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

In rural Georgia, through B&I loans for business expansions, a home-based baking company grew into a 77,000 square foot warehouse facility generating more than $18 million in annual sales and 350 employees. These business-expansion loans are not offered by traditional rural lenders.

Exhibit 21: Strengthen Rural Businesses

Annual Performance Goals and Indicators	Fiscal Year 2005		
	Target	Actual	Result
2.1.1 Create or save additional jobs through USDA financing of businesses.	63,856	73,617	Exceeded

Analysis of Results

The performance goal was exceeded for the number of jobs created or saved. The number of jobs created or saved is related directly to the funding levels for each program and business conditions in regional and national economies. There are six different programs, which count jobs created differently. B&I counts the jobs when the loan is closed. This is also true for some of the grant programs. The major revolving loan fund uses a formula based on a study that showed the cost of actually acquiring job information on each loan was determined not to be cost effective. These factors are beyond USDA's control. Additionally, State offices substantially improved their ability to gather, record and report job information on all programs.

The 73,617 jobs resulting from USDA's programs for expanding economic opportunities in FY 2005 exceeded the target level. While this number is less than the 2004 number, it is proportionate to lower FY 2005 funding.

In addition to direct jobs created or saved, the economic benefit to the rural community is estimated to be $2.50 for every dollar in guaranteed loans closed, according to U.S. Department of Labor statistics. These investments make a continuing difference in rural communities.

USDA is developing a pilot information system, the Socio-Economic Benefit Assessment System (SEBAS), to enhance its ability to measure program–investment effectiveness. SEBAS, which uses detailed information about Department loan or grant investments, will enable USDA to measure the direct and indirect impact of program assistance on local and regional economic performance, and the quality of life in rural areas.

Exhibit 22: Trends in Creating or Saving Jobs

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Create or save additional jobs through USDA financing of businesses	105,222 Baseline	76,301	88,611	81,010	73,617

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

The national delinquency rate for USDA business loans represents a myriad of conditions across the country in dispersed rural communities. National and regional economic trends are the primary influence, followed by the local business environment and finally the quality of the agency's loan underwriting. While the Department cannot control macroeconomic factors or the conditions of each rural community, it has begun strengthening loan underwriting through continuous training, as well as implementing an accreditation program. The results have started to appear in the form of decreasing delinquency rates.

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

Exhibit 23: Resources Dedicated to Support Improving the Quality of Life in Rural America Through Financing Housing, Utilities and Community Facilities

USDA Resources Dedicated to Objective 2.2	FY 2005	
	Actual	Percent of Goal 2
Program Obligations ($ Mil)	9,069.6	55.79%
Staff Years	5,194	64.68%

Introduction

USDA successfully improved the quality of life in rural America during FY 2005. The Department financed quality homes for 43,224 homebuyers, new/improved water and waste disposal facilities for 1,325,274 subscribers, new/improved electric facilities for 2.4 million subscribers, broadband telecommunications in 80 counties and improved community facilities for 12.9 million rural residents.

Overview

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

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

USDA's rural water and waste programs provided new access to safe drinking water or sanitary wastewater disposal (or improved service) for 1,325,274 subscribers.

The Department's Electric Program makes loans and loan guarantees to finance the construction of electric distribution, transmission and generation facilities. This process also funds system improvements and replacements required to furnish and improve electric service in rural areas, and demand-side management, energy conservation programs and on-grid and off-grid renewable energy systems. Demand-side management refers to understanding customers' needs and preferences, and their use of products. Since its beginning, the Electric Program has invested more than $74 billion in rural America's infrastructure.

USDA issues loans to corporations, States, territories and subdivisions and agencies. The Department also issues loans to municipalities, people's utility districts and cooperative, not-for-profit, limited-dividend or mutual associations. These organizations provide retail electric-service needs to rural areas and supply the power needs of distribution borrowers. Additionally, USDA provides financial assistance to rural communities with extremely high energy costs. This assistance allows the communities to acquire, construct, extend, upgrade and otherwise improve energy generation, transmission or distribution facilities. Overall, the Department services nearly 700 cooperatives, utility districts and other institutions, which provide rural electricity in 46 States and 3 territories.

USDA's Broadband Telecommunications Program provides loans and loan guarantees for broadband services in rural communities. These loans facilitate the deployment of new and innovative technologies to make high-speed data transmission available in low-density, remote areas. Often, the private sector ignores these areas. Since its 2001 inception, the program has grown quickly. Financing has provided broadband access to more than 200 rural counties. These investments in critical telecommunications infrastructure are essential to enabling rural businesses and communities to keep pace with rapid developments in the rest of America and the world.

USDA's assistance reaches large numbers of rural Americans with services crucial to achieving a satisfactory quality of life. The Department provides direct and guaranteed loans to help rural citizens achieve homeownership. These loans served 43,224 households in 2005. Minority households accounted for more than 17.1 percent of all those purchasing homes with USDA loans and 18.1 percent of first-time buyers. USDA also provides programs to develop multi-family housing and offer assistance to make homes affordable. Special emphasis is placed on improving home affordability for minorities.

USDA's grants and loans to help rural communities obtain essential facilities reached 12.9 million residents in 2005. Taken together, these investments bring important benefits to a large number of rural communities and citizens. They increase the availability of essential services and raise rural America's quality of life.

Selected Results in Research, Extension and Statistics

Assisting Small Disadvantaged Farmers—The University of Arkansas, with partial funding from USDA, conducted an outreach program for Small Disadvantaged Farmers (SDF). As a result, approximately 100 SDFs increased their incomes by an average of $5,000 during the year.

The Impact of Recreation and Tourism on Rural Economies—Many rural communities use recreation and tourism to offset the decline in traditional employment opportunities and stimulate local development. While it is generally agreed that recreation and tourism contribute to population and employment growth, the low-skill and part-time jobs associated with the industry raise questions about contributions to local economic and community well-being. The USDA study *Recreation, Tourism, and Rural*

Well-Being estimated the local economic and community impacts of recreation and tourism development on rural America. Study findings are consistent with claims that tourism and recreational development contribute to rural well-being. This development increased local employment, income, and wage levels. It also decreased poverty, and improved education and health. Despite these gains, higher housing costs are a drawback of development. Local conditions also vary significantly, depending on the type of recreation area.

Challenges for the Future

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

In the water and wastewater area, a challenge USDA faces is assisting, with limited program resources, rural communities most in need of its financial and technical services. These communities usually have the least resources for such services. Droughts, limited water resources, extreme temperatures and other environmental factors present unique problems in developing utility systems, and worsen this condition. Since solutions to difficult conditions are expensive, additional grant funds must be used to develop feasible projects.

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

Key Outcome: Improve Rural Quality of Life through Homeownership Opportunities Provided

There continues to be an unmet need for decent and affordable housing in rural America. USDA implements a wide variety of housing programs. Through its Single Family Housing Direct and Guaranteed Loan Programs, USDA helps rural families who would not be able to achieve the dream of homeownership without its assistance. In FY 2005, the Department invested $4.24 billion to assist 43,224 rural families obtain homes, and an additional $66 million to rehabilitate the homes of more than 11,700 very low-income families. The average income for families receiving direct loans is approximately $22,200 while the average for guaranteed loans is approximately $40,627. Families obtaining repair loans had an average income of $11,330, while elderly households receiving repair grants earned only $10,240.

Other programs focus on assisting dwellers in rental housing, farm-worker housing, home rehabilitation and self-help, and new-home construction.

Exhibit 24: Improving Rural Quality of Life Through Homeownership Opportunities

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
2.2.1	Homeownership Opportunities Provided			Exceeded
	▪ Increase financial assistance to rural households to buy a home	38,300	43,224	
	▪ Increase the number of minority homeowners	7,660	7,605	

Analysis of Results

As housing prices have continued to soar, rising more than 10 percent Nationwide, demand for affordable housing has increased. This increase in demand took place at all income levels including low and very low-income residents. These are typically families who cannot obtain credit from a conventional lender because of credit issues and lack of a down payment.

USDA's housing programs are critical for very low- to moderate-income families in attaining affordable homes and sharing in the Nation's prosperity. In FY 2005, direct housing programs provided 9,200 low and very low-income rural Americans with new homes for the first time. A total of 27,600 families who could not obtain mortgages otherwise bought their first homes through USDA's loan guarantee programs.

The Department has responded aggressively to the President's "Ownership Society" initiatives related to housing. His recent call for 7 million new affordable housing units in the next 10 years has been met with changes to USDA's Guaranteed Loan Program to encourage more new construction. A pilot program providing construction financing in the guarantee program is to be expanded Nationwide. Changes to simplify regulations will lead to a higher portion of new home loans in the direct loan program through the self-help and construction contract methods.

While the Nationwide homeownership rate is at a record level near 70 percent, the rate among minority households is less. In October 2002, the President set a goal of increasing minority homeownership by 5.5 million families by the end of the decade. USDA responded by committing to increase minority homeownership, which includes:

- Doubling the number of self-help participants by 2010;
- Increasing participation by minority lenders through outreach;
- Promoting credit counseling and homeownership education; and
- Monitoring lending activities to ensure a 10 percent increase in minority homeownership.

Additionally, each State office was provided benchmarks and goals through 2010. The offices have also developed their own plans to meet the President's goal. While minorities make up 13 percent of rural America, they obtained more than 17.1 percent of USDA loans in FY 2005. USDA helped more than 7,600 minority households achieve their dreams of homeownership in 2005.

One of the major contributors to this success is USDA's Mutual Self-Help Housing Program. Through this program, groups of 6 to 12 families mutually build each other's homes. This program has reduced significantly the barriers experienced by many minorities in achieving homeownership. It allows customers to use "sweat equity," or their own labor, to reduce the overall cost of building the home. Minority families made up more than 50 percent of all program participants. The default rate on loans made through this program is 4 percent lower than other loans in the single-family housing portfolio.

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

Exhibit 25: Trends in Rural Homeownership

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Increase financial assistance to rural households to buy a home (Baseline: 1999 = 55,941)	44,701	43,036	44,130	48,894	44,224
Increase the number of minority homeowners	8,402 Baseline	8,231	8,539	8,500	7,605

Key Outcome: Improve Rural Quality of Life through New or Improved Telecommunications Facilities

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

Building and delivering an advanced telecommunications network is affecting the Nation's economy, strength and growth significantly. Broadband networks in small, rural towns facilitate economic growth and support the delivery of increased educational opportunities through state-of-the-art telecommunications networks. While rural America can be defined by various statistics, the most important one is that 60 million people call it home. Just as the citizens in U.S. cities and suburbs benefit from access to broadband services, so should rural residents. In rural America, access to broadband plays a vital role in solving the problems created by time, distance, location and lack of resources. The promise of broadband is not just "faster access." It means:

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

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

Exhibit 26: Support High-Speed Telecommunications Service

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
2.2.2	Customers served by new or improved telecommunications facilities (Mil)	.325	.232	Unmet

Analysis of Results

The performance goal was not met primarily because the entire lending authority was not utilized. Fewer than expected eligible and complete applications were received in the Broadband Loan Program. Program staff has revised procedures and worked with applicants to improve the efficiency of application review and loan processing, and facilitate participation by borrowers.

The President has announced the goal for all Americans to have access to broadband service by 2007. As such, during the year, USDA has continued to market the broadband program aggressively by reaching out to the telecommunications industry and broadband providers. This move is designed to achieve the Department's part of the goal of funding facilities that deliver broadband service to rural America.

The broadband loan program is distinctively different from the traditional telecommunications program portfolio. First, even in today's technology-driven marketplace, broadband service, while critically important, still is not deemed a "necessity-of-life" in the same manner as electricity, telephone service and water and waste disposal. It is a commodity that must be marketed properly so that potential customers are informed of the many benefits of broadband service. Only then are they likely to spend their hard-earned discretionary dollars on broadband access. Second, a majority of the applicants are "start-up" companies with little, if any, history of doing business in this industry. Third, today's marketplace is a highly competitive one as opposed to the traditional monopolistic environment. Finally, many applications cover multi-State service territories, rather than a single cooperative serving a single rural community. Many are applications requesting to serve 50, 75 or in excess of 100 rural communities in multiple States.

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

Increasing the number of counties with broadband service benefits rural communities. Broadband service allows for businesses to relocate, raises educational standards through distance learning projects and improves health care through the use of telemedicine.

Exhibit 27: Trends in the Number of Subscribers Served by High-Speed Telecommunications Service

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Customers served by new or improved telecommunications facilities (Mil)	N/A	N/A	.382 Baseline	.374	.232

Description of Actions and Schedules

USDA will monitor the telecommunications industry to detect any trends that indicate the need to re-evaluate how many loan dollars are needed per subscriber receiving new or improved service. The Department will review borrowers' performance reports which include subscriber growth compared to projections. The review will determine if the forecasted subscriber performance was achieved with the forecasted budget. USDA will also track trends in the cost and revenue data in loan applications compared to previous applications. This evaluation will determine if any changes in performance assumptions are required. Additionally, the Department will monitor industry events to analyze technology trends and other impacts on borrower performance. At least twice per year, USDA will review assumptions about the loan value/subscriber relationship to determine if modifications in assumptions are required.

Potential challenges to this approach include obtaining accurate information from borrowers on a timely basis, and developing and maintaining staff knowledge of industry trends.

Key Outcome: Improve Rural Quality of Life through New or Improved Water and Waste Disposal Facilities

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

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

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

Exhibit 28: Improving Water and Waste Disposal

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
2.2.3	Customers served by new or improved water and waste disposal facilities (Mil)	0.650	1.3	Exceeded

Analysis of Results

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

- The program successfully targeted assistance for water and wastewater infrastructure to poor rural areas; and

- USDA effectively collects program data and uses that information to manage effectively. Over the life of the program, fewer people in rural areas are experiencing access problems relating to safe, affordable drinking water and wastewater disposal.

In response to recommendations made in the 2003 PART, the program has been proactive in creating better output and outcome measurements. These changes are designed to quantify program success and identify solutions to serve rural residents better. 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. Another long-term goal will focus on maintaining sustainable water systems in rural communities. Annual analyses will track program data to improve funds leveraged for project development. The analyses will also improve the loan-to-grant mix so that more loan dollars are used by systems that can afford maximum debt capacity, and will limit grant funds to the neediest systems.

Exhibit 29: Trends in Water and Waste Disposal Service

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Customers served by new or improved water and waste disposal facilities (Mil)	1.01 Baseline	0.79	0.59	0.97*	1.3

* Previously reported as 0.69 in the FY 2004 Performance and Accountability Report.

Key Outcome: Improve Rural Quality of Life through New and/or Improved Electric Facilities

In 1936, electricity was being taken for granted in American cities. Despite its availability, if one lived in a rural area at that time, chances are that person went without electricity or other necessities of modern life, and the high standard of living they make possible. With more than 70 years of experience, the electric programs have found that electric utility construction, operation and maintenance are best when high-quality, long-lasting materials are used.

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

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

Exhibit 30: Connecting and Improving Electric Service

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
2.2.4	Customers served by new or improved electric facilities (Mil)	1.775	2.360	Exceeded

Analysis of Results

The performance goal exceeded its target by 585,000 subscribers. In FY 2005, USDA's electric programs approved 111 loans to rural distribution, generation and transmission providers, worth more than $3.3 billion. These loans connected 194,181 new consumers and improved electric service to more than 2.36 million consumers.

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

Exhibit 31: Trends in Connecting and Improving Electric Service

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Customers served by new or improved electric facilities (Mil)	6.948 Baseline	11.525	3.746	4.195	2.360

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

Rural America is diverse and the challenges facing such communities are wide-ranging and varied. This diversity presents opportunities for the creative application of programs and policies, and calls for unique partnerships. The electric programs are focused on strengthening the partnership between USDA's borrowers and grantees, and all rural America participating in and benefiting from Department programs. The electric programs continuously study the needs of rural communities, assess their lending practices and identify opportunities to better serve rural America.

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

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

Key Outcome: Improve Rural Quality of Life through New or Improved Community Facilities

USDA provides a series of grants and loans to finance the development of facilities essential to a modern standard of living in rural communities. A wide range of public facilities and equipment can be financed by these programs, including hospitals, fire trucks, police cars, child-care centers, food banks, schools, medical clinics, nursing homes, community centers, town halls, jails and street improvements. Financing these essential community facilities touched 12.9 million rural residents in 2005. Taken together, these investments benefit a large number of rural communities and citizens. They increase the availability of essential services and raise the quality of life in rural America. Moreover, USDA's programs leverage Federal funds with private capital to invest in rural infrastructure, technology and human-resource development. A good example is the opening of a new child care/learning center in Ellsworth, Maine. "Let's put the children first" was the mantra used during the design phase. This 12,000-square-foot facility boasts 6 classrooms, a meeting room, parent space, a commercial kitchen, offices, a library, a secure computer area, a parking area and an outdoor playground. Specific attention was taken to create rooms filled with natural light and promote a safe and creative environment for 60 preschoolers and 24 infants and toddlers. A $605,000 USDA Community Facilities Direct Loan, a $380,000 Department Community Facilities Guaranteed Loan with Union Trust Company, a Head Start grant and community-wide fundraising financed the project.

USDA also began examining the capital-funding needs of critical access hospitals located in rural communities. A total of 28 hospitals and 13 outpatient facilities have been funded in the current fiscal year for a total investment of $135 million. Increased numbers of requests for financing of critical access hospitals are expected in the coming years.

USDA provided funds to construct, renovate or improve 812 essential community facilities in FY 2005. Rural Americans will have improved services available from 112 health-care facilities, 312 public-safety facilities, 92 educational facilities, 15 energy-related facilities, 157 public buildings and improvements, 7 recreation facilities and a number of other essential community facilities.

Exhibit 32: Number of New and Improved Community Facilities

Annual Performance Goals and Indicators	Fiscal Year 2005		
	Target	Actual	Result
2.2.5 Customers served by new or improved community facilities (Mil)	12	12.9	Met

Analysis of Results

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

Exhibit 33: Trends in New and Improved Essential Community Facilities

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Provide access for residents to new improved community facilities (Mil)	6.8 Baseline	7.2	7.2	12	12.9

Strategic Goal 3: 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 by protecting it against pests and diseases, minimizing production losses, maintaining market viability, and containing environmental damage. USDA also ensures that the commercial supply of meat, poultry and egg products moving in interstate commerce or exported to other countries is safe, wholesome, labeled and packaged correctly. Additionally, the Department ensures that products imported from other countries are produced by a system equivalent to USDA's.

A key to enhancing public health is ensuring that employees executing USDA's food safety responsibilities are scientifically and technically skilled. The Department is addressing the training and education of its workforce aggressively. To ensure consistent and accurate inspection, USDA has made a strong commitment to recruiting scientists and retooling its entire training and education program for all employees. These employees will be able to identify and focus on activities that enhance public health. USDA continues to implement five core initiatives to improve food safety for American families. The initiatives, established in 2002, include:

- Improving the management and effectiveness of the Department's regulatory programs;
- Ensuring that policy decisions are scientifically based;
- Improving the coordination of food safety activities with other public health agencies;
- Enhancing public education; and
- Protecting USDA-regulated products from intentional contamination.

To reduce incidences of foodborne illness, USDA works to educate consumers on the importance of following food-safety guidelines.

For the Nation to have affordable and safe food, the food system must be protected at each step from production to consumption. The production and distribution system for food in the U.S. is diverse, extensive and easily accessible. This open system is vulnerable to introduction of pathogens and toxins through natural processes, global commerce and by intentional means. Crop and livestock production systems must be protected from the ravages of diseases whether domestic or foreign. The food supply must be protected during production, processing and preparation from contamination by pathogens and toxins that cause disease in humans.

OBJECTIVE 3.1: REDUCE THE INCIDENCE OF FOODBORNE ILLNESSES RELATED TO MEAT, POULTRY AND EGG PRODUCTS

Exhibit 34: Resources Dedicated to Enhance Protection of Meat, Poultry, and Egg Products Inspection

USDA Resources Dedicated to Objective 3.1	FY 2005	
	Actual	Percent of Goal 3
Program Obligations ($ Mil)	1,230.9	35.83%
Staff Years	11,406	56.89%

Introduction

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

Overview

Significant food safety advances have been made in the past year. How USDA is serving the public in this area can be seen in the selected results in research, extension services, and statistics.

Selected Results in Research, Extension and Statistics

Preventing Contamination by *E. coli* O157 and *Salmonella*—Preventing contamination of ground beef by *E. coli* depends partly on the ability to detect it on the farm. USDA funding support has enabled researchers at the University of Nebraska to develop a method of detecting *E. coli* and *Salmonella* in feedlot cattle with minimal handling of animals. The device, which is being patented, has revolutionized disease-control research at the feedlot level.

Societal Costs of Foodborne Illness—USDA has become well known for pioneering estimates of the social costs associated with foodborne illnesses caused by pathogens. In 2005, Department researchers updated the cost of foodborne illness *E coli* by using the U.S. Centers for Disease Control's estimate of annual cases and newly available data. USDA estimated the annual cost of illness due to *E. coli* to be $406 million in 2003, including $370 million for premature deaths, $31 million for medical care and $5 million in lost productivity.

New Method to Detect Toxins in Food—A new technique to detect heat-resistant toxins in a single food sample should help researchers and inspectors detect those that cause gastroenteritis, an inflammation of the stomach and intestines. Generally, while conventional heating and processing kill foodborne bacteria, it does not destroy their toxins. USDA researchers developed a new biosensor test that uses surface plasmon resonance (SPR) to detect toxins. SPR is an optical method for measuring very thin layers of material adsorbed on a metal.

Online Database of Predictive Microbiology Information—USDA scientists in Pennsylvania have teamed up with the United Kingdom's Institute of Food Research to form the world's largest online database of predictive microbiology information. Predictive microbiology estimates the behavior of microorganisms in response to environmental conditions, including food production and processing operations from the farm to the table. The database, called ComBase, is designed to help make risk assessments and model development easier. The database can be found at wyndmoor.arserrc.gov/combase. The new database will allow producers to respond more quickly to potential food contamination problems caused by bacterial pathogens.

New Technology to Ensure Safer Shellfish—USDA scientists in Delaware are working with university scientists to provide consumers with safer shellfish. Oysters, clams and mussels are considered aquaculture species because of the amount of management that goes into maintaining productive molluscan shellfish beds. These shellfish are a concern because bacterial and viral pathogens can become concentrated within edible shellfish tissues. Some shellfish consumers prefer to eat shellfish raw or only lightly cooked. Thus, the shellfish industry is interested in methods that can inactivate pathogens in their products without cooking. USDA scientists are studying a technique to sanitize raw shellfish and other virus-contaminated foods by using high-pressure processing (HPP). HPP subjects foods to extremely high pressure. The advantage of this technology is that neither heat nor chemicals are involved. Thus, shellfish and other foods can retain their raw, uncooked flavor and character. HPP is already being used commercially to pasteurize fruit juices in Japan and treat sliced deli meats in Spain.

Key Outcome: Basing Policies on Science

USDA's accomplishments concerning food-safety initiatives, including basing policies on science, can be found in the U.S. Centers for Disease Control and Prevention's (CDC) 2005 report on the incidence of infections from foodborne illness. The report noted significant declines from the 1996-1998 baseline in illnesses caused by the pathogens *E. coli* O157:H7 (42 percent), *Listeria monocytogenes* (40 percent), *Campylobacter* (31 percent) *Yersinia* (45 percent), and *Salmonella* (8 percent). These declines help bring the U.S. closer to achieving "Healthy People 2010" goals. "Healthy People 2010" is a long-range plan from the U.S. Department of Health and Human Services. It illustrates a wide range of public health opportunities that exist in the first decade of the 21st century. A broad coalition of experts from many sectors created the plan. The plan introduces a series of objectives designed to bring better health to all people in the U.S. "Healthy People 2010" features 467 objectives in 28 focus areas. It is designed to guide health planners, medical practitioners, educators, elected officials and all who work to improve health. Additionally, CDC attributes the decreases to control measures implemented by Government agencies and the food industry, and enhanced food safety education efforts. Specifically, CDC attributes the reduction in *E. coli* O157:H7-related illnesses to USDA policies implemented in 2002 and 2003.

Listeria monocytogenes

Data gathered during an outbreak of *Listeria*-related illnesses during the summer/fall of 2002, other food safety investigations and in-depth verification reviews led USDA to conclude that some establishments were not addressing the potential for bacterial contamination adequately in their HACCP plans, Sanitation Standard Operating Procedures (SSOP) or other control measures. SSOPs call for all Federally inspected meat and poultry plants to have written practices to demonstrate that they are meeting all basic sanitation requirements. In response, USDA implemented a directive that outlined steps Department inspectors must follow to ensure that establishments producing ready-to-eat (RTE) meat and poultry products were preventing the *Listeria* contamination. The directive was designed to reduce the risk of *listeriosis* from consumption in high- and medium-risk RTE products. It provided for a new form of intensified verification testing. In this testing, inspection program personnel would swab environmental and product contact surfaces within inspected establishments. This new type of testing was used extensively to verify the effectiveness of preventive and corrective actions taken by establishments after *Listeria* contamination had been found.

USDA also released a draft scientific risk assessment on *Listeria* in RTE meat and poultry products. A public meeting was held to discuss the risk assessment. The risk assessment was developed in conjunction with a previously released U.S. Food and Drug Administration/USDA risk ranking. The risk assessment incorporated both public comments and input from a peer review. It provided important data enabling USDA to design a final *Listeria* rule.

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

After the rule took effect, the *Listeria* directive was updated to reflect its policies. USDA accepted comments about the rule for 18 months after publication. This time period allowed the Department to review and evaluate the effectiveness of these approaches.

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

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

***Escherichia coli* O157:H7**

USDA measures to prevent ground beef contaminated with *E. coli* O157:H7 from entering commerce have also yielded significant decreases in this pathogen. In 1994, USDA declared *E. coli* O157:H7 an adulterant in raw ground beef. During the last decade, the Department has undertaken a number of initiatives to reduce the pathogen's prevalence in raw ground beef. Beginning in October 2002, USDA required that each plant producing raw beef products reassess its HACCP plan to prevent adulterated products from entering commerce. Scientifically trained USDA personnel then audited beef establishments' HACCP plans for the first time.

Additionally, USDA has taken steps to begin a science-based baseline study for trimmings used to make raw ground beef. The study was reviewed by scientists serving on the National Advisory Committee on Microbiological Criteria for Foods (NACMCF). 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/FSIS Request for Guidance on Baseline Study Design and Evaluations for Raw Ground Beef Components." The initial phase of the beef trimming baseline study began August 2005.

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

Salmonella

USDA issued new procedures for utilizing *Salmonella* performance standards as a verification tool for food safety. Now, instead of waiting for two consecutive failures of tests to trigger an in-depth review of plant SSOP and HACCP plans, reviews are initiated after any series is declared substandard. Improvements to the in-depth review process have also been implemented. These improvements include the addition of enforcement, investigations and analysis officers, and other HACCP-trained inspection program personnel. This process and other science-based initiatives have been vital in reducing *Salmonella's* presence in raw meat and poultry regulatory samples since the 1996 – 1998 baseline. Out of the number of regulatory samples collected and analyzed by USDA in 2003, 3.78 percent of all products tested positive for *Salmonella*. That compares to 4.29 percent in 2002 and 10.65 percent in 1998. For more information, visit www.fsis.usda.gov/PDF/Salmonella_Progress_Report_1998-2003.pdf.

Although USDA's rate of positive regulatory samples of all three pathogens discussed above may not represent the prevalence of these pathogens Nationwide, it does show a statistically significant downward trend for all foods.

Exhibit 35: Pathogen Reduction (Food Inspection)

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
3.1.1	Prevalence of *Salmonella* on broiler chickens	11.7%	17.0%	Unmet
3.1.2	Prevalence of *Listeria monocytogenes* on ready-to-eat meat and poultry products	0.80%	0.690%	Met
3.1.3	Prevalence of *E. coli* O157:H7 on ground beef	0.37%	0.17%	Met

Analysis of Results

With respect to the prevalence of *Salmonella* on broiler chickens, the percentage of positive samples increased in FY 2005. At the same time, most establishments continue to pass the performance standard established in 1996. This standard provides for a maximum of 12 positives in a compliance set of 51 samples. The data, which can be found at http://www.fsis.usda.gov/Frame/FrameRedirect.asp?main=/OPHS/haccp/salm6year.htm, show that 87 percent of 127 sets completed during 2005 passed the standard. This compliance rate is only slightly lower than the rates in the five previous years. The Department expressed its concern that the percentage of positive *Salmonella* tests (all sizes of establishments combined) increased slightly in all three poultry categories for 2005. USDA is examining *Salmonella* data from 1998 to the present to clearly identify those plants displaying negative performance trends. USDA is now conducting food-safety assessments in establishments having the most difficulty controlling *Salmonella*.

With regard to *Listeria*, the Department had three different RTE sampling projects during FY 2005. Two of the projects targeted establishments or products where the risk of *Listeria* contamination is considered to be higher. The results here are from a project where samples are to be collected randomly from all RTE products.

Results from 2004 and 2005 have shown substantial declines in the percentage of *E. coli* O157:H7-positive raw ground beef samples. In 2002, 0.77 percent of verification samples were positive. In 2003, the percentage dropped to 0.37 percent. For 2005, the level was 0.17 percent. A more detailed year-to-year comparison identified a 50 percent reduction in the rate of positive ground beef samples from FY 2002 to FY 2003 when controlling for seasonality. A detailed analysis showed that this decrease was statistically significant, that is, it is unlikely to have occurred by chance. That analysis was published in a peer-reviewed scientific journal. [See Journal of Food Protection. Naugle, A.L., Holt, K.G., Levine, P., and Eckel, R. 2005. Food Safety and Inspection Service Regulatory Testing Program for *Escherichia coli* O157:H7 in Raw Ground Beef. JFP 68(3) 2005: 462-268]. USDA has significantly increased its testing for 2005.

Exhibit 36: Trends in Pathogen Reduction (Food Inspection)

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Prevalence of *Salmonella* on broiler chickens	11.9%	11.5% Baseline	11.7%	13.6%	17.0%
Prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products	1.26%	1.03% Baseline	0.9%	0.89%	0.690%
Prevalence of *E. coli* O157:H7 on ground beef	0.59%	0.77% Baseline	0.37%	0.19%	0.17%

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 noted significant declines from a 1996-1998 baseline in *E. coli* O157:H7-related illnesses (42 percent). CDC attributes the decline 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* regulatory samples from the previous year, and a 70 percent decline compared with years prior to the implementation of HACCP. Additionally, for *E. coli* O157:H7, USDA has published a peer-reviewed analysis showing that the decrease in the percentage of positive regulatory samples from 2002 to 2003 was statistically significant. This finding is consistent with CDC reports of decreasing illness from *E. coli* O157:H7.

USDA now collects industry data on RTE products as part of the October 2003 *Listeria* rulemaking. The Department used these data to revise its testing program for *Listeria* in RTE products. In January 2005, USDA implemented a new risk-based sampling program to verify control of *Listeria* in higher-risk establishments. This risk-based program uses production volume, control alternatives and previous testing results to generate schedules for verification testing.

Description of Actions and Schedules

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

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

The 2003 data posted on USDA's web site shows that the percentage of positive *Salmonella* tests (all sizes of establishments combined) increased slightly in all three poultry categories.

The Department continues to analyze *Salmonella* data from 1998 to the present to identify establishments displaying negative performance trends. In August 2005, the Department held a scientific meeting to address issues related to controlling the pathogen in the pre-harvest environment. A follow-up scientific meeting will address control measures for poultry processing establishments.

USDA plans to adjust its *Salmonella*-testing program so that additional compliance sets are scheduled for establishments demonstrating the most control problems. This directive, which took effect May 21, 2003, grants inspection-program personnel access to a wide range of records concerning HAACP regulations. It also gives personnel the authority to review certain types of records regularly. Whenever an establishment fails an initial compliance set, Directive 5000 calls for the front-line supervisor and Senior Veterinary Medical Officer/Inspector-in-Charge (PHV/IIC) to conduct and assess the establishment's HACCP and SSOP procedures and, where applicable, analyze data from the establishment's generic *E. coli* testing. That testing will focus on the establishment's corrective and further-planned actions.

The front-line supervisor and PHV/IIC will also develop, document and implement a comprehensive plan to verify any corrective actions the establishment performs.

Key Outcome: Raising Public Health Awareness

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

- Mass media, or reaching out to the broad public;
- Cluster targeting, which uses demographic, geographic and socio-demographic information to tailor communications to segmented audiences; and
- One-on-one interactions, through the USDA's Food Safety Mobile, the USDA Meat and Poultry Hotline and the Department's virtual representative, "Ask Karen," a web-based automated-response system that answers food-safety questions 24 hours a day, 7 days a week. It complements the hotline and is another effective communication tool that allows USDA to expand its outreach programs, promote food safety and defense, and protect the public health. The Food Safety Mobile is a 35-foot, recreational-style vehicle covered with a bold, eye-catching design and prominent food-safety messages. It travels throughout the continental U.S., educating consumers about the risks associated with mishandling food and the steps they can take to reduce their risk of foodborne illness.

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

A 2004 pilot study of the thermometer-education campaign "*Is It Done Yet?*" demonstrated success in getting more consumers to use food thermometers. Based on feedback from focus groups and surveys, USDA revised the educational materials and launched "*Is It Done Yet?*" Nationwide in July 2005.

USDA remains committed to communicating with all food handlers —consumers in the home, foodservice employees, the retail industry and those who work in processing plants. Food-safety publications for both industry and consumers have been translated into several 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. The aforementioned hotline has two Spanish-speaking food-safety specialists. This feature has enhanced outreach to the Spanish-speaking community.

The Department continues to provide technical assistance and compliance guidance concerning major rules, policies and directives to small and very small establishments. It offered outreach and training in FY 2005 via webcasting to reach those unable to travel to one of the workshop locations. USDA held four workshops and four webcasts on food defense from May through July for owners and operators of meat, poultry and egg-processing, import and slaughter establishments. Approximately 650 attendees participated in these workshops. The workshops provide Federal- and State-inspected plants with guidance and tools to use in strengthening the security of their operations and developing a food-defense plan.

The Department has also expanded its distribution of materials aimed at assisting small establishments. Its HACCP documents and other food-safety materials, such as closed-captioned videos and computer disks, are offered to all at no charge. Most materials are offered in both English and Spanish. The program has filled approximately 9,500 requests for resource materials. Additionally, USDA has mailed more than 50,000 food-security guidance documents to meat, poultry and egg establishments, State-inspection programs and HACCP contacts and coordinators.

Additionally, USDA continues to partner with universities to provide small and very small plants with a more in-depth understanding of HACCP systems and emerging food-safety concerns. Through the partnership, the universities develop new food-safety initiatives. They also offer low-cost training to small and very small plant owners/operators to help them improve their food-safety systems and produce safer products. In FY 2005, USDA established cooperative agreements with 15 universities that have scheduled approximately 60 classes.

Exhibit 37: Public Health Outreach & Education

Annual Performance Goals and Indicators	Fiscal Year 2005		
	Target	Actual	Result
3.1.4 Viewings of food safety messages (Mil)	94	99.6	Exceeded

Analysis of Results

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

USDA reached more than 99.6 million consumers through such food-safety education campaigns as "Is It Done Yet?", press releases, videos and newspaper and magazine articles. The Department has also printed food-safety message cards targeted to various underserved populations, including Native Americans, Asian and African Americans, and Hispanics.

Additionally, USDA launched a newly designed web site that offers features and tools to help visitors easily find the food-safety information and services they need. The site, located at www.fsis.usda.gov/Food_Safety_Education/Ask_Karen/index.asp#Question, is arranged by subject so users can navigate by topic rather than through USDA's organizational structure.

This citizen-driven design helps all stakeholders quickly find the food safety information most relevant to them. The site now averages more than 13 million hits, almost 2 million page views and more than 510,000 visitors monthly.

Electronic outreach through "Ask Karen" answers questions about the safe storage, preparation and handling of meat, poultry and egg products. Though this is not a live chat, the 9,000-question database behind "Ask Karen" allows visitors to correspond naturally by typing in questions and receiving an immediate answer. "Ask Karen" can provide visitors with a list of related questions in their area of interest. Nearly 19,000 users have used "Ask Karen" since its April 2004 launch, receiving timely answers to almost 60,000 food-safety questions.

Exhibit 38: Number of Viewings for Food Safety Messages

Trends		Fiscal Year Actual				
		2001	2002	2003	2004	2005
3.1.4	Viewings of food safety messages (Mil)	N/A	90 Baseline	92	123	99.6

Objective 3.2: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

Exhibit 39: Resources Dedicated to Reducing Pest and Disease Outbreaks

USDA Resources Dedicated to Objective 3.2	FY 2005	
	Actual	Percent of Goal 3
Program Obligations ($ Mil)	2,204.2	64.17%
Staff Years	8,643	43.11%

Introduction

To provide a secure agricultural production system and healthy food supply to consumers, USDA protects the country from pests and diseases, minimizes production losses, maintains market viability and contains environmental damage. This is done by:

- Conducting offshore threat assessment and risk reduction activities to identify and eliminate pests, diseases and weeds;
- Regulating and monitoring the importation of animals, plants and commodities to reduce the risk of introduction of invasive species. Other regulatory activities ensure safe research, release and movement of biotechnology and the development of effective veterinary biologics;
- Managing issues related to the health of U.S. animal and plant resources and conflicts with wildlife. It prevents the neglect and inhumane treatment of animals used in commerce, protects their health and reduces the chances of their contracting and spreading disease. Additionally, the Department's work helps to control damage done to agricultural and natural resources by wildlife;
- Planning emergency response and conducting surveillance, detection, containment and eradication activities. By quick detection, scientists can fight pests and diseases while outbreaks remain localized and less costly to control. USDA educates and trains public and private sector organizations to report pests and diseases when they are first observed. It coordinates larger, complex eradication and control efforts. USDA stops movement of host materials by surveying infestation boundaries and establishing quarantines; and
- Developing and applying scientific methods for agricultural producers and consumers. USDA is working to increase the number of animal diseases for which a pure, safe, potent, and effective veterinary biologic is licensed and also to increase the number of states that can provide Federal veterinary diagnostic services.

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

Overview

Because of USDA's effort, no foreign animal diseases introduced into the U.S. spread beyond their original area of introduction. This work prevented severe economic and environmental damage, as well as threats to animal health. This met the target established in the *FY 2005 Annual Performance Plan/Performance Budget*.

No new plant pests or diseases spread beyond their original area of colonization to cause severe damage before they were detected.

Diseases and pests have profound effects on the performance and well-being of plants and animals. They cause poor growth, decreased yield, higher production costs and unacceptable quality. Billions of dollars are lost through trade embargoes, quarantines, and the destruction of national livestock herds or vast crops when emerging or reemerging diseases or pests strike. A sound surveillance system is integral to preventing outbreaks of foreign animal diseases and controlling and eradicating domestic diseases of concern. Thus, USDA is continually exploring ways to enhance its comprehensive disease surveillance systems. These systems detect threats and manage them before they spread. During the past year, the Department has worked to enhance and strengthen its surveillance systems by, among other things, establishing the foundation of a national animal tracking system and expanding its low pathogenic *avian influenza* program.

For emerging diseases to be detected and controlled, the make-up and environment of pathogens must be understood and their weaknesses exploited. Rapid diagnostic tests, novel genetic vaccines, immune modulatory strategies, disease resistance genes, and increased biosecurity measures will be needed to prevent or control outbreaks and the spread of plant and animal diseases in the future.

Increased concern about the intentional introduction of disease agents and pests has resulted in the development of a network of diagnostic laboratories. These laboratories have enhanced the Nation's collective capacity for surveillance and identification of specific pathogens greatly. The network uses standardized diagnostic tests and common software platforms to process diagnostic requests and share information among diagnostic laboratories. Through the network, producers gain an understanding of threats from diseases and pests, and learn effective and efficient ways to control economically significant pests, pathogens and diseases.

Selected Results in Research, Extension and Statistics

New Tests for Devastating Cattle Disease—With partial support from USDA, researchers at the University of Minnesota are working with Department scientists. The groups are using genetic information to develop a highly specific, sensitive and rapid test for detecting Johne's disease. This chronic wasting disease is found in cattle, sheep, goats and deer. These new tests, which enable detection of the bacterium in fecal matter or milk, can be completed in 72 hours or less. This research, published in the August 30, 2005 issue of the *Proceedings of the National Academy of Sciences*, gives scientists a better understanding of the disease, allowing them to create vaccines to prevent infection. Johne's disease costs the U.S. dairy industry millions of dollars each year due to reduced milk production.

Bacteria Genome—Researchers at Oregon State University and The Institute for Genomic Research (TIGR) have determined the genetic make-up of a bacterium known to fight harmful plant pathogens. This information will help scientists determine how to fight plant diseases caused by other pathogens without using products that might harm the environment. The project to study Pseudomonas fluorescens Pf-5, a biological control agent, was supported by competitive funding from USDA's Microbial Genome Sequencing Program. This agent protects plants from pathogens and frost. TIGR and a USDA scientist led the team that altered Pf-5. They found that it contained many genes for chemicals harmful to pathogens. About one-third of these chemicals were previously unknown.

Biosecurity—USDA is partnering with State agencies and universities to achieve a high level of agricultural biosecurity. The groups are focusing on the early detection, response and containment of outbreaks of invasive pests and pathogens. The establishment of this network of institutions provides the means necessary for ensuring that all participants are alerted of possible outbreaks and/or introductions, and technologically equipped to detect and identify pests and pathogens rapidly.

Program of Research on the Economics of Invasive Species Management (PREISM)—PREISM is designed to inform Federal and State decision makers regarding allocation of scarce resources to exclusion and control strategies for different types of pests. Recipients of PREISM FY 2003 and FY 2004 funding participated in several workshops to share their research findings with USDA staff and other Federal agencies that manage invasive species. PREISM research resulted in the critical analysis of the economic and policy implications of soybean rust. The research also led to the almost immediate release of information about these matters soon after soybean rust detection in the United States.

New Test to Detect Sudden Oak Death—Sudden oak death, which has caused the death of tens of thousands of oak trees in this country, also afflicts many other trees, shrubs and plants. The pathogen *Phytophthora ramorum* (*P. ramorum*) causes sudden oak death. The discovery has forced officials to destroy at least 500,000 ready-to-sell plants in nurseries in 20 states. In response, USDA scientists in California and Maryland have developed a genetic test that relies on a sophisticated yet increasingly common technology known as polymerase chain reaction (PCR). PCR determines whether a piece of a leaf, for example, contains the genetic material from this pathogen. Importantly, many technicians in plant-health labs across the country already have the skills and equipment to run the test. The scientists have turned their test over to California agriculture officials and USDA for possible use with other molecular diagnostic methods. This fast, accurate test makes it possible to distinguish P. ramorum from other suspicious microbes.

Sequencing the Genome of a Key Wheat Pathogen—USDA scientists and a cooperator from The Netherlands are leading a project to sequence the genome of a key wheat pathogen called *Mycosphaerella graminicol (M. graminicola)*. The U.S. Department of Energy's Joint Genome Institute chose M. graminicola—one of the top five wheat disease pathogens—to alter its genetic make-up. M. graminicola causes major wheat damage worldwide, costing American wheat farmers $275 million annually in yield losses. It also costs European farmers more than $800 million a year in fungicide sprays. Determining the pathogen's genetic make-up can help researchers understand how the fungus infects crops. This information should help control the fungus and related species.

New Tools Being Developed to Defend Rice Plants against Pathogen—USDA scientists are providing rice plants with the genetic tools needed to recognize and identify incoming attacks from the damaging pathogen known as rice blast. The fungus *Magnaporthe grisea (M. grisea)* causes rice yield losses of up 30 percent annually worldwide. Two-thirds of the global population relies on rice. While many farmers around the world are growing record amounts of the staple grain, they cannot compete with the blast fungus' adaptability to different situations. The blast pathogen is so adaptable that it can defeat a rice cultivar, specially bred to resist it, after just one growing season. The scientists are developing rice plants with the resistance gene and researching how to apply the *M. grisea* gene optimally to already-resistant rice plants to achieve even greater blast defenses.

New Live Vaccines Developed for Farm-raised Catfish—USDA scientists in Alabama and Maryland have developed two new immersion-applied, modified live vaccines for farm-raised catfish and other species. While fish are susceptible to diseases and need vaccines, it is difficult to inject them. So, scientists try to develop vaccines that can be immersed in water. The two new vaccines provide protection against *Flavobacterium columnare*, the second-leading cause of catfish deaths and a hazard to many other fish species. While one field-tested vaccine cannot prevent disease, it can persist long enough to stimulate immunity in the fish. The other prevents a pathogen from colonizing while allowing it to persist for immunity to develop. These vaccines could save producers millions of dollars while lowering the cost of fish to consumers.

Key Outcome: Provide a Secure Agricultural Production System and Healthy Food Supply

Of the many threats to the security of our agricultural production system and food supply, pests and diseases are particularly dangerous because they are unexpected and can have quick, disastrous consequences. In the last few decades, increased travel and trade have contributed toward the spread of invasive species around the world. At the same time, the U.S. has come to rely heavily on agricultural export dollars, which depend on having an effective safeguard system. Congress has sought to protect the U.S. agriculture production system by appropriating funds for more than 30 programs to reduce the number and severity of agricultural pest and disease outbreaks. Two of the programs funded are Animal Health Monitoring and Surveillance (AHMS) and Animal Welfare. AHMS is designed to enhance the quality, safety, and competitiveness of U.S. food animal products. Animal Welfare is designed to ensure the humane care and treatment of all warm-blooded animals covered by AWA and used for research or exhibition, sold wholesale as pets, or transported for commerce. These two programs are highlighted in the *FY 2005 Performance and Accountability Report*. Next year, the Emerging Plant Pest (EPP) program will replace the Animal Welfare Program in this report. EPP refers to pathogens introduced in the U.S. after 1990, but not yet eradicated.

Animal Pests and Diseases

A key benefit of AHMS is rapidly detecting emerging foreign animal diseases. These may be introduced accidentally or intentionally. Information about the health status, productivity and health-related attributes of the U.S. animal population, products and biologics is critical to understanding the spread of animal pests and disease, establishing necessary quarantines, and planning effective eradication and control measures. Public concerns about diseases that affect both animals and people reinforce the need for accurate, timely and thorough information.

The Department has enhanced the National Surveillance System that was previously directed at specific diseases and commodities. Under the new approach, USDA has broadened its network by developing partnerships with State Governments, Tribes, veterinary colleges, animal and livestock industries, public health agencies, and other governmental and private groups. As part of this effort, USDA established a National Surveillance Unit (NSU) to coordinate and integrate surveillance activities to maximize the efficiency of U.S. animal health surveillance programs. During FY 2005, NSU developed and implemented a new surveillance plan in the National Animal Health Laboratory Network (NAHLN) for classical swine fever—an economically significant disease that could devastate the Nation's swine herd if an outbreak occurred. NAHLN coordinates the veterinary diagnostic capacity of State animal health laboratories and their facilities, equipment and professional expertise. The Department also focused on strengthening its association with accredited veterinarians—important animal health surveillance partners—by developing an updated reference guide for them and streamlining its communications infrastructure to ensure they could be mobilized quickly in an emergency. USDA also collaborated with other Governmental agencies to address issues that involved linkages between farm-raised, wildlife, zoo and companion animals. This program is designed to quickly mitigate and manage the potentially devastating impacts animal diseases may have on the Nation's food supply and economy. It also implements recommendations made by the National Association of State Departments of Agriculture in the Animal Health Safeguarding Review.

Animal care in USDA adds a critical piece to the surveillance of diseases that can be spread from animals to humans. USDA inspectors in zoos, research facilities, and pet wholesale businesses have collaborated in surveillance efforts for LCVM in rodents, monkey pox and tuberculosis in elephants. These efforts will be vital in *avian influenza* surveillance because birds and big cats are susceptible to the disease and may play a role in transmission. This will be especially important in facilities where the public comes into contact with birds and exotic species exhibited at places such as zoos and sanctuaries.

To protect both animal and human populations, USDA has several avian influenza programs in place. The USDA Animal and Plant Health Inspection Service (APHIS) works with states to monitor and respond to outbreaks of low pathogenicity (LPAI) and high pathogenicity (HPAI) avian influenza. APHIS also conducts outreach through "Biosecurity for the Birds," which targets poultry producers and provides the latest information on *avian influenza*. In addition to these programs, APHIS maintains an *avian influenza* vaccine it uses to create a buffer around outbreak areas.

USDA, with industry cooperation, randomly tests commercial flocks for avian influenza, and tests some wild migratory flocks, as well. The USDA Agricultural Research Service diagnostic test was used in the eradication of avian influenza in Texas in 2004. The test has now been distributed to the National Animal Health Laboratory Network, which includes university and state veterinary diagnostic labs throughout the United States, to better enable laboratories to monitor for and respond to avian influenza outbreaks.

A USDA Food Safety and Inspection Service (FSIS) goal is to educate the public about food and avian influenza. For example, LPAI is not transmissible by eating poultry, and the chance of poultry infected with transmissible HPAI entering the food chain is very low. Proper handling and cooking protects against HPAI as well as other contaminants; food safety tips are disseminated in various venues by FSIS.

Exhibit 40: Strengthen the Effectiveness of Pest and Disease Surveillance and Detection Systems

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
3.2.1	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	0	0	Met

Analysis of Results

The target was met. USDA selected a target of zero because all program leaders, partners and cooperators, and Congress do not want a single instance of an animal disease to spread and cause severe damage. During FY 2005, the U.S. had several introductions of foreign disease agents that were reported to the World Organization for Animal Health.

Despite these introductions, there were no outbreaks of significant foreign animal diseases or pests that spread beyond the original area of introduction and caused severe economic or environmental damage or damage to the health of animals.

Exhibit 41: Trends in Strengthening the Effectiveness of Pest and Disease Surveillance and Detection Systems

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	0	0	0 Baseline	1	0

Since the first U.S. case of *BSE* was announced in December 2003, only one other case has been confirmed in the country—in June 2005. In the 2003 case, an investigation revealed that the affected animal was of Canadian origin. The *BSE* exposure was assumed to have occurred in Canada. In the second case, while an investigation determined that the animal was of U.S. origin, it was born prior to a 1997 feed ban instituted by the U.S. Food and Drug Administration (FDA). FDA's ban helps minimize the risk that a cow might consume feed contaminated with the agent thought to cause *BSE*. FDA has concluded that the animal in the second case was most likely infected prior to the 1997 *BSE*/ruminant feed rule. The animal did not enter the food supply.

Throughout the past year, domestic demand for U.S. beef has remained strong due to the effective risk-mitigation measures currently in place. USDA has a series of interlocking safeguards to protect U.S. consumers and animal health. These safeguards also prevent the introduction or dissemination of the *BSE* agent. The system of human health protections includes the USDA ban on specified risk materials (SRMs) from the food supply. SRMs are most likely to contain the *BSE* agent if it is present in an animal. Additional measures include a longstanding ban on importing cattle and beef products from high-risk countries, a ruminant-to-ruminant feed ban, U.S. slaughter practices and aggressive surveillance. Data obtained from the enhanced *BSE* surveillance effort will help USDA determine whether any further changes to these risk management practices are necessary.

USDA published a draft strategic plan and draft program standards for Natural Animal Identification System (NAIS) in FY 2005 that explain its phased-in approach and provide direction to stakeholders who wish to participate. Premises identification is the first key component of the system. During 2005, all States used a premises-registration system and more than 100,000 premises were registered. USDA is working with industry cooperators to implement the animal identification component of the system while the animal movement tracking database is being privatized.

Animal Welfare

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

The Animal Welfare Program has conducted several canine-care workshops and big cat symposiums to educate the general public and licensees on issues dealing with the health and well-being of animals. USDA also hosted listening sessions for animal welfare organizations, industry, Federal and Congressional workers, and others.

In 2005, USDA's Animal Care Program conducted an "amnesty campaign" under which unlicensed dog breeders conducting sales covered by AWA could apply for a license without a penalty, unless they had been notified previously of the need for a license.

The Animal Care Program also created a stakeholders' letter. The letter, distributed periodically, keeps AWA licensees and others informed about AWA-related issues. In other outreach activities, USDA's Animal Care Program sponsored a national State-Federal workshop to clarify lines of responsibility/jurisdiction and make partnerships better. This workshop was designed to ensure the welfare of wild/exotic (i.e., tigers, elephants, etc.) animals. A meeting planned for 2006 will address domestic animals.

The Animal Welfare Program continued to focus on adapting new technology to improve the effectiveness and efficiency of its field inspectors, especially regarding enforcement of the Horse Protection Act (HPA). HPA prohibits horses subjected to a process called soring from participating in exhibitions, sales, shows or auctions. It also prohibits drivers from hauling sored horses across State lines to compete in shows. In soring, chemicals are applied to the legs of show horses to make them feel sore so that they lift them high during performances. The Animal Welfare Program involves the use of two different instruments. The first is a handheld gas chromatograph capable of identifying chemical vapors within 10 seconds. Applications for this technology include identifying illegal soring chemicals, bacteria from wounds or animal solid waste, and harmful chemical vapors in animal housing facilities. The other is a handheld infrared camera capable of detecting surface temperatures on living or inanimate objects. The device evaluates the adequacy of temperature, shade and ventilation management in zoos, kennels and research facilities. It can also determine the heat patterns in horse limbs that have been subjected to chemical and physical soring methods.

Exhibit 42: Ensure the Humane Care and Handling of Animals Used in Commerce

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
3.2.2	Percentage of facilities in complete compliance at the most recent inspection	70%	69%	Unmet
3.2.3	Number of animals affected by noncompliances documented on inspection reports	360,000	Not Available	Unmet

Analysis of Results

Through regulatory inspections and educational efforts, the Animal Welfare Program raised the level of facility compliance from a baseline of 58 percent in 2001 to a level of 70 percent in 2004. The level dropped slightly from 70 percent in 2004 to 69 percent in 2005 due to approximately 1,000 additional dog dealers being licensed during the year.

Data for the number of animals affected by noncompliances documented on inspection reports in 2005 were inaccurate. Thus, there is no means to compare program performance in FY 2005 with previous years. The Licensing and Registration Information System (LARIS) database provides these data. LARIS is obsolete and will be replaced during the coming year.

Exhibit 43: Trends in Ensuring the Humane Care and Handling of Animals Used in Commerce

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Percentage of facilities in complete compliance at the most recent inspection	58% Baseline	68%	70%	70%	69%
Number of animals affected by noncompliances documented on inspection reports	588,961 Baseline	371,856	344,866	383,563	Not Available

While the number of animals affected by noncompliances probably did not decrease during FY 2005, the Animal Welfare Program has reduced the total number of animals affected by noncompliances by more than 200,000 since the baseline was established in FY 2001. The benefits of this achievement for the Nation are:

- Assurance that the animals are being treated properly; and
- Detection and treatment of diseases that might move from captive animals to wildlife and humans.

Description of Actions and Schedules

As mentioned above, USDA intends to replace LARIS during the next year. The new database will provide the program with more reliable performance measures and additional flexibility in the measures evaluated. The system will track the amount of animal suffering prevented due to Animal Care interventions for the three activities under AWA research, exhibition, and commerce.

Key Outcome: Improve Animal and Plant Diagnostic Laboratory Capabilities

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

Exhibit 44: Ensure the Capabilities of Plant and Diagnostic Laboratories are Improved

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
3.2.4	Expand the ability to detect plant diseases to protect the Nation from disease outbreaks (Number of plant diseases)	3	5	Exceeded
3.2.5	Expand the ability to detect animal diseases to protect the Nation from disease outbreaks (Number of animal diseases)	6	7	Exceeded

Analysis of Results

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

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

Animal disease-detection criteria have been developed for the following seven 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* is a virus that can cause varying amounts of clinical illness in poultry. *Bovine Spongiform Encephalopathy*, or mad cow disease, 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.

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

Exhibit 45: Trends Improving the Capabilities of Diagnostic Laboratories

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Specific Plant diseases labs are prepared to detect.	N/A	N/A	2 Baseline	3	5
Specific animal diseases labs are prepared to detect.	N/A	N/A	N/A	6 Baseline	7

N/A = Not Available

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

Key Outcome: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

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

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

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

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

Exhibit 46: Provide Scientific Information to Protect Animals from pests, Infectious Diseases, and Other Disease-Causing Entities that Impact Animal and Human Health

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
3.2.6	Provide scientific information to protect animals from pests, infectious diseases, and other disease-causing entities that impact animal and human health.			Met
	▪ Number of organisms or variants of the microorganisms sequenced each year.	70	70	
	▪ Number of resistance markers for a variety of diseases identified.	10	10	
	▪ Number of tests that are transferred to universities, State laboratories, private industry, or other countries for use.	3	3	

Analysis of Results

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

Exhibit 47: Trends in Providing Scientific Information to Protect Animals from Pests, Infectious Diseases, and Other Disease-Causing Entities that Impact Animal and Human Health

Trends	Fiscal Year Actual					
	2000	2001	2002	2003	2004	2005
Number of organisms or variants of the microorganisms sequenced each year.	20 Baseline	30	40	50	55	70
Number of resistance markers for a variety of diseases identified.	N/A	N/A	3 Baseline	5	8	10
Number of tests that are transferred to universities, State laboratories, private industry or other countries for use.	N/A	1 Baseline	2	4	3	3

N/A = Not Available

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

Challenges for the Future

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

As in all farming, unexpected events in the natural environment can impact pest and disease programs. A pest may move from wild to domestic populations. Migratory birds may carry diseases across boundaries. Climatic factors may create unusually good conditions for the growth and spread of a pest or disease. Unusually wet weather can prevent program survey actions. If a pest or disease with unknown biological information or survey methodology enters the country, it might go undetected before spreading and causing significant damage.

The outbreak and spread of a significant emerging, foreign animal or plant, pest or disease in the U.S. can drain available resources quickly. The occurrence of multiple instances of these problems or one instance in multiple locations would limit USDA's prevention methods severely. When large or multiple outbreaks occur, personnel must be shifted temporarily from non-emergency programs. This could leave the donor program unable to achieve its outcomes if the emergency runs longer than expected. In the emergency programs, activities such as developing guidelines and training cooperators may suffer, thereby affecting the ability to shorten response times in the future. An outbreak of epidemic proportions can overwhelm the program's ability to conduct timely testing. Personnel involved in support activities, such as regulatory enforcement, veterinary diagnostics and biologics, may find their workload outpacing their ability to provide effective services. When work priorities are reviewed, some of the burden may be shifted to cooperators.

Animal cloning and genetic engineering activities are expected to pose a growing challenge. The development of transgenic animal species will present new problems in regulation, both in terms of maintaining the health and safety of agriculture and developing policy regarding their welfare. A transgenic animal refers to one whose genetic make-up has been altered with the genes of another species. In response to a petition, USDA's program responsible for enforcing Animal Welfare Act (AWA) considered whether cloning and genetic engineering of animals should be regulated under the act. The Department determined that AWA covers genetic engineering as a research activity in certain circumstances. Cloning activities will be evaluated on a case-by-case basis for coverage under the act.

USDA must communicate and coordinate with its employees and partners so that they clearly understand their roles and responsibilities, and ensure they have the necessary resources to respond quickly and effectively. The Department relies on State and local Government agencies, professional societies and industries to implement, administer and pursue the program standards required to complete them successfully. The cooperation and participation of all these groups is essential to achieving goals. Nowhere was this more evident in 2005 than when USDA was called upon to work within a framework of many partnerships to assist with rescuing and caring for pets impacted by Hurricane Katrina. In the absence of clear authority of any Federal Government agency over private pets, such as dogs and cats, the USDA program that enforces AWA was asked to fill that role. The responsibilities of USDA's Animal Care Program are expected to continue to grow in this area. The program provides leadership for determining standards for the humane care and treatment of animals.

The Animal Care Program is experiencing an increase of about 100 AWA licensees per month. Almost all of these new licensees are commercial dog breeders. Providing services to this growing number of new licensees will continue to be a challenge for USDA.

Planning responses to emergencies before they occur and developing the infrastructure to respond to them is an activity of growing importance in the post-9/11 and post-Katrina world. Preparing for a world pandemic requires coordinating large numbers of experts from widely diverse scientific disciplines and professional settings. Coordination increases the ability of USDA to respond as needed. Cooperative agreements with international organizations and countries allow information to be shared across wider boundaries. Mobilizing specialized personnel requires advance work establishing information on resource types and locations.

STRATEGIC GOAL 4: 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. in 2005. Through its leadership of Federal nutrition-assistance programs, the Department made a healthier diet available for millions of children and low-income working families. Meanwhile, USDA's Center for Nutrition Policy and Promotion used the latest science information to update Federal nutrition guidance and interactive tools. This information was designed to help consumers establish and maintain healthy diets and lifestyles that are consistent with the President's HealthierUS Initiative. HealthierUS is a health and fitness initiative that promotes increased physical activity, the consumption of nutritious foods, regular preventive health screenings and the avoidance of risky behaviors, especially involving alcohol, tobacco and illegal drugs. Key accomplishments included:

- **Promoting access to the Food Stamp Program (FSP).** Food stamps help low-income families and individuals purchase nutritious low-cost meals. FSP is the Nation's largest nutrition assistance program serving more than 25 million people monthly in FY 2005. The program enables participants to improve their diets by increasing their food-purchasing power via benefits redeemable at retail grocery stores across the U.S. USDA promoted FSP through a national media campaign designed to reinforce the availability and importance of food stamps as nutrition assistance and work support. The campaign distributed radio spots in 35 media markets, 10 of which aired ads in both Spanish and English, and more than 2.2 million flyers and posters written in these languages across America;

- **Continuing to ensure that Food Stamp benefits are accurately issued**. The national payment error rate for FY 2004 is 5.88 percent, an all-time low error rate for FSP and a 34 percent improvement from just 5 years ago. This improvement is a result of strong partnerships with States administering the program and the implementation of program simplifications and policy options provided in the Farm Security Rural Investment Act of 2002 (FSRIA). The FY 2005 Food Stamp Payment Accuracy Rate will become available in June 2006 and will be reported in the *FY 2006 Performance and Accountability Report*;
- **Implementing new provisions in the Child Nutrition Programs.** With the passage of the Child Nutrition Act of 2004, USDA began implementing new provisions of the law. Child Nutrition Programs are designed to provide nutritious meals to students at participating schools, with low-income students receiving free or reduced-price meals. USDA took steps to ensure access to Federal nutrition-assistance programs for the children who need them, while maintaining and improving program integrity; and
- **Launching MyPyramid** so that consumers are motivated to make healthier food and physical activity choices consistent with the 2005 *Dietary Guidelines for Americans* and other standards, resulting in improved well-being and Healthy Eating Index scores. These guidelines give science-based advice on food and physical activity choices for health. MyPyramid, which can be accessed at www.mypyramid.gov, translates the guidelines' principles. It features the concepts of personalization, variety, gradual improvement, physical activity, moderation and proportionality. By accessing MyPyramid, consumers can use several of its features to individualize their diet and physical activity patterns.

In FY 2005, USDA made strides in improving 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 for food consumption, a sedentary lifestyle and the easy 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 consumers integrate these choices into a diet that promotes their long-term health. In FY 2005, 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 choices.

USDA's success in promoting public health through good nutrition and effective nutrition-assistance education programs relies on research. The research provides critical knowledge of what one needs to eat for proper growth and development, continued health, and productivity. Research also shows how that knowledge can be conveyed to the public in a manner that leads to true dietary changes. Further, USDA has research supporting the development of new healthy and tasty food products. This process provides another avenue for helping consumers eat well. In FY 2005, USDA conducted and supported research that resulted in a new understanding of how nutrients, such as isoflavins, promote health and influence what people eat. The Department also worked on developing healthy new products made from common commodities, such as rice and cheese by-products.

Objective 4.1: Improve Access to Nutritious Food

Exhibit 48: Resources Dedicated to Improving Access to Nutritious Food

USDA Resources Dedicated to Objective 4.1	FY 2005	
	Actual	Percent of Goal 4
Program Obligations ($ Mil)	49,396.9	98.31%
Staff Years	845	28.39%

Introduction

The Federal Government is committed to ensuring that no child or family goes hungry. USDA's nutrition-assistance programs represent the Federal Government's core effort to reduce hunger and improve nutrition. These programs aided one in five people nationally during FY 2005. 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 population is healthier and more productive.

Overview

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 eligible individuals and families do not participate in these programs. In FY 2005, USDA focused on increasing the participation rate among people eligible for food stamps. The Department also focused on expanding access to the School Breakfast Program (SBP), which is not as widely available as the National School Lunch Program (NSLP). SBP provides cash assistance to States to operate breakfast programs in schools and residential child-care institutions. NSLP provides nutritionally balanced, low-cost or free lunches to children each school day.

In 2005, USDA continued to work with States to implement FSRIA's FSP provisions. These provide States with options to simplify the program's administration. The Department also continued monitoring and tracking outreach efforts to targeted populations. USDA embarked on the second year of its 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.

Despite SBP's availability, many children that could benefit from breakfast at school currently do not use the program. On an average school day in FY 2005, more than 50 million children had access to school lunch and nearly 29 million children chose to eat a program lunch. Additionally, about 9.3 million children received a school breakfast. USDA identified opportunities to promote SBP. The Department raised awareness of SBP's availability with State and civic leaders, and supported and celebrated National School Breakfast Week. This program involves schools across America emphasizing the importance of a good breakfast through events, posters and student activities.

The Department also continued to serve those eligible for the Special Supplemental Nutrition Program for Women, Infants and Children (WIC) who wish to participate within authorized funding levels. WIC helps safeguard the health of low-income women, infants and children up to age 5. The program provides nutritious foods to supplement diets, information on healthy eating and health-care referrals. About 8 million pregnant women, new mothers and their young children benefited in an average month in FY 2005. The Department worked with the Office of Management and Budget, Congress and State partners to ensure that WIC funding levels were available and distributed effectively to serve all eligible persons who wished to participate.

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, Extension and Statistics

Understanding Economic and Behavioral Influences on Fruit and Vegetable Choices—The newly released USDA MyPyramid and the 2005 Dietary Guidelines encourage Americans to increase their consumption of fruits and vegetables. USDA food supply data indicate that Americans consume 1.4 servings of fruit daily. This figure is less than half the 4 servings or 2 cups recommended in the 2005 *Dietary Guidelines for Americans* eating 2,000 calories per day. Marketers and nutritionists alike have pondered the reasons for Americans' fruit and vegetable shortfalls. USDA examined how economic, social and behavioral factors influence consumers' fruit and vegetable choices. Researchers found ways for consumers to meet the Food Guide Pyramid recommendations for fruit and vegetable consumption for less than $1 per day. Despite this finding, other research indicated that low-income consumers:

- Spent less on fruits and vegetables than others; and
- Were less likely to respond to a small change in income by purchasing more fruits and vegetables than their higher-income counterparts.

New Super-Carb Product Created—A USDA scientist has created a new all-natural, super-carb product called Calorie-Trim. Derived from whole oats and barley, Calorie-Trim contains 20 to 50 percent beta-glucan, a soluble fiber found in these grains. When eaten, the biologically active fiber helps the body regulate blood glucose and lower bad cholesterol. This process helps lessen the risk of heart disease. Calorie-Trim can mimic some fat and carbohydrates' properties in food without overburdening the body with calories that contribute to diabetes and obesity. Additionally, Calorie-Trim, with less than 4 calories per gram, boasts 5 to 10 times more soluble fiber than regular milled oats, flour and oatmeal.

New Alternative to Peanut Butter—USDA scientists have developed a tasty sunflower-seed butter that can be used for spreading on breads or crackers. Marketed as SunButter, the spread comes in an array of flavors and textures. Scientists have also created a low-carb version. Twelve States now include SunButter in their school lunch programs. Some airlines provide snacks made with SunButter as an alternative to peanuts. The product gives the roughly 3 million Americans who suffer from peanut allergies a satisfying option.

Potassium for Better Melons—USDA scientists studying ways to make melons more nutritious have found that spraying potassium on them as they grow boosts their beta carotene and vitamin C levels. Beta carotene is one of the most powerful dietary antioxidants. Vitamin C is a protein that gives structure to bones, cartilage, muscle, and blood vessels. The potassium application increased the fruits' sugar content, which, in turn, raised levels of vitamin C and produced a better-tasting and sweeter melon. The potassium formulation is relatively simple, inexpensive, safe and readily available. It can also be combined with sprays for insects or disease.

New Techniques for Pre-cut Fruit and Vegetables—USDA has developed three techniques for prolonging the shelf life of pre-cut fruits and vegetables. This process should help expand the fresh-cut produce supply—one of the fastest growing food categories in U.S. supermarkets. When plant cells detect a nearby injury, as occurs with slicing, they send electrical, chemical and hormonal signals to initiate defense responses to protect the plant. Such wound signaling changes plant tissue texture and chemical properties. One way to bypass the plant's alert system, scientists have found, is to slice the fruit while it is held under water. This method prevents plant tissues from detecting pressure changes that would accompany the slicing. The water forms a barrier that prevents fluids from escaping from the fruit or vegetable tissues being cut. Heat and ultraviolet light treatments also can be used to fool a plant's defense system and keep just-sliced fruit crisper and more flavorful longer.

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 could be significantly enhanced if additional legislative authority for policies and program initiatives were enacted. This would enhance initiatives that 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 USDA's efforts to reduce hunger and improve nutrition. Economic changes can affect both the number of people eligible and the ability of cooperators to provide services.

Key Outcome: Reduce Hunger and Improve Nutrition

As noted above, the resources and services USDA delivers through its nutrition-assistance programs represent the Federal component of efforts to improve the nutrition of children and low-income people. The Department is committed to providing access to nutritious food through the major nutrition assistance programs for eligibles who wish to participate. While data are not yet available to assess the success of these FY 2005 efforts in increasing the rate of participation among eligible people, the period did see increased participation in all three targeted programs.

Exhibit 49: Improve Access to Nutritious Food

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
Improve Access to Nutritious Food (Mil):				Deferred
4.1.1	Rates of eligible populations participating in the Food Stamp Program	59.1%	N/A	
4.1.2	Rates of eligible populations participating in the School Breakfast Program	18.0%	N/A	
4.1.3	Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children	N/A	N/A	

Analysis of Results

The measure has been deferred because data on the number of eligible persons are currently unavailable. Data for the SBP measure should be available for reporting in the *FY 2006 Performance and Accountability Report (PAR)*. FY 2005 data for the FSP and WIC measures should be available for the *FY 2007 PAR*. An analysis of the most recent information available follows.

Food Stamp Program—The most recent available information indicates that in FY 2003, Food Stamp Program participation increased for the second year in a row after a 7-year decline. The new data indicates that the Food Stamp Program served approximately 56 percent of all who were eligible to participate in FY 2003, an increase from 54 percent in FY 2004. Ensuring that all who are eligible to participate is a top priority for USDA. The increase in participation is attributed, in part, to the use of State policy options that promote outreach and improve access to the program. Participation in the Food Stamp Program is also responsive to changes in unemployment; when the number of unemployed increase, program participation also rises.

- Additional waivers to increase FSP access to programs for elderly and other targeted groups. USDA works with a number of States on combined application (CAP) demonstration projects. CAPs allow elderly and disabled populations receiving Supplemental Security Income to apply for food stamps through a simplified process. Four additional States were approved to operate CAPs in FY 2005 for a total of 10 projects operating Nationwide;
- The awarding of 6 grants totaling $5 million to increase food-stamp awareness of low-income households and simplify the application process;
- The awarding, for the second year in a row, of $1 million in grants to faith- and community-based organizations and public agencies to educate people about the benefits of food stamps so that they can make informed decisions about applying and participating;
- Free outreach and educational materials, including posters, brochures and flyers in English and Spanish, a national media effort to raise awareness of FSP availability, an expanded web site with new outreach resources, and radio public service announcements. Materials in 35 languages are available for download. Additionally, USDA continued a toll-free information line—available in English and Spanish—to help the public learn more about the FSP such as how and where to apply;

- Working with the U.S. Department of Justice to develop and distribute brochures in multiple languages to inform Federal program administrators of their obligations to accommodate people with limited English proficiency and other beneficiaries of their rights;
- Coordinating an FSP National Outreach Coalition to partner with and strengthen educational and outreach efforts nationally by sharing efforts and joining forces and resources; and
- Partnering with stores and retailer associations to promote food stamp outreach and nutrition education-related activities. This work included the use of an in-store FSP "pre-screening" tool to help people learn if they are eligible for the program, encouraging store use of FSP public service announcements and distributing outreach materials and MyPyramid nutrition information.

SBP—FY 2005 SBP participation rate data will be available in December 2005, and will be reported in the *FY 2006 USDA Performance and Accountability Report*. SBP makes healthy, nutritious meals available to nearly 41 million students, however, an average of 9 million children actually eat a program breakfast. More than 76,000 schools operated the program in FY 2005, which is an increase of approximately 1,000 schools from the previous year. USDA continued to support and encourage SBP participation in FY 2005 by:

- Continuing SBP promotion through such activities as School Breakfast Week, which involves schools across America in highlighting the program through events, posters and student activities that emphasize the importance of a good breakfast—either at home or served through the program—in being ready for school; and
- Implementing provisions in child nutrition reauthorization included in the Child Nutrition and WIC Reauthorization Act of 2004. The provisions expand program access by: 1) requiring States to enroll children who receive food stamps in the free school meals program without an additional application; 2) combining applications for subsidized meals so that each household can submit just one for all its children; and 3) making each certification valid for the school year, eliminating the need to re-apply if circumstances change.

WIC—FY 2005 WIC participation rate data will be reported in the *FY 2007 PAR*. In FY 2005, USDA continued efforts to ensure that funding was available to support participation for all those eligible who wish to participate.

Exhibit 50: Trends in Improving Access to Nutritious Food

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Food Stamp Program % of eligible people participating	53.2%	53.8%	55.6%	N/A	N/A
School Breakfast Program % of eligible school children participating	14.5%	15%	15.5%	16.3%	N/A
WIC Program % of eligible people participating (measure under development)	N/A	N/A	N/A	N/A	N/A

FSP—The most recent available information indicates that, in FY 2003, the FSP participation rate increased for the first time after a seven-year decline. The new data indicate that FSP served approximately 56 percent of all who were eligible to participate in FY 2003. Ensuring that all who are eligible participate is a top priority for USDA. One reason for the increase in participation since FY 2000 is changes in the law. Another is that policy reforms in recent years have increased the number of eligible low-income individuals and families. Additionally, USDA has increased efforts to improve program access.

SBP: Trend data indicate that the proportion of children enrolled in school who participate in SBP has risen slowly but steadily in recent years. This use reflects USDA's continuing efforts to encourage schools to operate the program and children in those schools to participate. In FY 2005, approximately 9.3 million children received breakfast through the program each school day.

WIC: A methodology to estimate the number of people eligible to participate in WIC is currently being developed. Data for FY 2005 are expected to be available in 2007 and will be reported in the *FY 2007 PAR*.

OBJECTIVE 4.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

Exhibit 51: Resources Dedicated to Promote Healthier Eating Habits and Lifestyles

USDA Resources Dedicated to Objective 4.2	FY 2005	
	Actual	Percent of Goal 4
Program Obligations ($ Mil)	561.1	1.12%
Staff Years	919	30.86%

Introduction

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 known fact, a large gap remains between recommended dietary patterns and what people in the U.S. actually eat. USDA's nutrition-assistance programs focus on improving eating behaviors through promotion and services.

For the benefit of the total U.S. population, USDA uses Federal nutrition policy and nutrition education to provide scientifically-based information about healthful diets and lifestyles. For example, the Department promotes the aforementioned *Dietary Guidelines for Americans* and MyPyramid to help Americans make wise choices related to food and physical activity.

Overview

USDA used its nutrition-assistance programs and broader nutrition-education efforts to promote healthier eating and physical activity across the U.S. It worked to improve nutrition-education efforts within each of the major nutrition assistance programs. Highlights in FY 2005 included a series of projects to identify new strategies to address unhealthy weight gain through WIC, new Team Nutrition educational materials targeted to fruit and vegetable consumption and healthier school environments, and a major review and reengineering effort of food stamp nutrition education, still underway, to ensure that the Department focuses on changing behaviors using the best strategies available.

USDA also released MyPyramid and the accompanying interactive tools that U.S. consumers can use to assess their diet and physical activity, which is located at www.MyPyramid.gov. USDA agencies promote healthy food choices, dietary habits, and eating behavior through research to improve understanding of optimal nutrient requirements at all stages of the life cycle, the relationship between diet, physical exercise and health and the factors influencing individual food choices. The Department conducts and supports multidisciplinary nutrition research and education that considers interrelated factors affecting nutritional status, such as genetics, physiology, sociocultural factors, psychology, economics, agricultural and food systems, and public policy.

Excessive weight gain and obesity will soon rival cigarette smoking as a leading cause of premature death and disability in the U.S. Improved diets can help with weight management and reduce the risk of certain types of cancers and type II diabetes—the disease's most common form. Thus, USDA's efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can reduce excessive weight gain, obesity and other diet-related health conditions. These actions hold the potential to improve the lives of millions of Americans and reduce the health care and social costs of these conditions. These social costs include lost years of work productivity related to morbidity and mortality from diet-related health conditions.

Researchers have identified poor diet and physical inactivity as the second-most common preventable cause of death in the U.S. The total cost attributed to excessive weight gain and obesity is estimated to be nearly $120 billion annually. Even small improvements in the average diet could yield large health and economic benefits to individuals and society as a whole.

To this end, USDA 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 *Guidelines* and MyPyramid, the educational tool of the guidelines, USDA will continue its leadership role of providing advice on patterns people can follow to improve overall health through proper nutrition.

In the same vein, according to Department and U.S. Census Bureau statistics, the nutrition assistance programs managed by USDA touch the lives of one in five Americans – an enormous opportunity to promote healthier behaviors. In 2005, the Department maintained its focus on getting benefits to children and low-income people to encourage healthy eating and increased physical activity.

Selected Results in Research, Extension and Statistics

Selected Results in Research, Extension and Statistics Promoting Healthy Diets—The Expanded Food and Nutrition Education Program (EFNEP) is improving the diets of disadvantaged Americans. EFNEP is also helping prevent high blood pressure, heart disease, diabetes and obesity. This program is designed to assist limited-resource audiences acquire the knowledge, skills, attitudes and behavior modifications necessary for nutritionally sound diets. In FY 2004, EFNEP reached 378,206 youth and 157,809 adults. An additional 578,366 family members were reached indirectly through adult participants. While low-income people often do not consume enough key nutrients—including protein, iron, calcium and vitamins A, C and B6—data confirmed that, depending on the particular nutrients, EFNEP participants Nationwide increased their intake of these nutrients by 5 to 50 percent. Thus, participants improved their diets. Science and Education Impact Statements from October 2004 report that, of the nearly 74,000 surveyed, 87 percent of past EFNEP participants now make healthier food choices, prepare foods without added salt, read nutrition labels or ensure their children eat breakfast.

Obesity Policy and the Law of Unintended Consequences—Effective action to combat obesity and excess weight could come in many forms since many variables influence diet and lifestyle choices. The wide range of factors contributing to food choices is compounded by the incredible variety of foods and consumption opportunities available today—choices among thousands of food products, about whether to eat at home or in a variety of restaurants, and about lifestyles. Thus, public policy targeting specific foods or lifestyle choices could have surprising unintended consequences. USDA examined some of the potential intended and unintended consequences of three widely discussed obesity policies—nutrition labels in restaurants, taxes on snack foods, and restrictions on food advertising to children—focusing on the likely effect of each program on producer and consumer incentives and health outcomes. In every case, the unintended effects could dampen the policy's success in reducing excess weight and obesity.

Link between High-Carbohydrate Diet and Cataracts Studied—USDA-funded research has revealed new details about the association between a high-carbohydrate diet and cataract risk. Cataracts are a major cause of blindness worldwide and afflict an estimated 20 million Americans. Women who ate an average of 200 to 268 grams of carbohydrates daily were more than twice as likely to develop cortical cataracts as women who consumed between 101 and 185 grams per day. The recommended daily allowance of carbohydrates for adults and children is 130 grams. The connection between high-carb intake and increased cataract risk remains unknown; one possibility is that increased exposure to glucose, a breakdown product of carbs, might damage the eyes' lenses.

Zinc and Prostrate Cancer Links—USDA scientists in California have discovered new information about how zinc might help fight prostate cancer, the second-most common cause of cancer-related deaths among American men. Laboratory investigations using cancerous and cancer-free human prostate cells indicated that the afflicted cells accumulated less zinc than healthy ones. In a related finding, the cancerous cells had lower levels of ZIP1, a protein that moves zinc through the membrane that encloses a cell. Although another zinc-ferrying-protein, ZIP3, existed in the cancer cells, its location prevented it from being most effective.

Cereal Fiber and Heart Disease—A USDA study found that women with a history of heart disease and who reported eating six or more servings of whole grains per week had slower progression of atherosclerosis. Atherosclerosis causes plaque to clog the passageways through which blood flows. Researchers found that stenosis—the narrowing of the diameter of arterial passageways—occurred less in women who ate more cereal fiber from whole-grain foods than those reporting lower intakes. The data suggest that following current dietary recommendations can slow the rate of heart disease progression. While the 2005 *Dietary Guidelines for Americans* urges people to consume at least three servings of whole-grain foods per day, experts say that most Americans consume less than a single serving daily.

Challenges for the Future

USDA's effort to reduce excess weight gain and obesity and improve diet is expanding its reach. Immense resources are available in both the private and public sectors that can enhance the effects of the Department's work on this issue. USDA works to create science-based resources that can be used within nutrition-assistance programs. These resources primarily target low-income persons and foster the much larger public and private-sector effort to achieve America's ambitious nutrition goals.

While USDA's goal of reducing obesity levels begins with understanding what constitutes a healthy diet and the appropriate amount 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 habits and the relationships between these decisions and their attitudes, knowledge and awareness of diet/health links. This requires data that link behavior and consumption decisions of individuals of various backgrounds, regions, ages and genders. While national data exist, 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 major challenge because 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. The Department will also use partnerships to maximize the reach and impact of these materials. Promotional materials will be available within Federal nutrition-assistance programs, and to the general public.

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

Key Outcome: Promote More Healthful Eating and Physical Activity across the Nation

USDA promotes healthy eating through its comprehensive nutrition research and education programs. Both of these programs are targeted to nutrition-assistance program participants and the general public. For each target audience, the challenge is to find effective ways to translate research into working knowledge to improve what people eat and find effective strategies to reach target populations with promotional information and messages. USDA assesses its performance in promoting healthful eating and physical activity among low-income populations served by Federal nutrition-assistance programs. This is done by monitoring the Healthy Eating Index score (HEI). HEI is 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.

Exhibit 52: Promoting Healthier Eating Habits and Lifestyles

	Annual Performance Goals and Indicators	Fiscal Year 2005		
		Target	Actual	Result
4.2.1	Improve the Healthy Eating Index (HEI) scores for			Deferred
	▪ People with incomes under 130% of Poverty	65	N/A	
	▪ The U.S. Population	65.0	N/A	

Analysis of Results

The measure has been deferred because data are not yet available. FY 2005 data will be available in 2006 and reported in the *FY 2006 PAR*. USDA continued its efforts to promote improvement in dietary practices for low-income people. To meet the needs of the general population, the Department also continued its leadership role in developing nutrition guidance and educational tools designed to motivate Americans to eat healthier. USDA also:

- Continued to provide technical assistance and training in support of State agencies or partners at conferences and meetings like the Head Start Conference and State Nutrition Action Plans;

- Prepared to distribute the Food Stamp Nutrition Education (FSNE) Guiding Principles as approved by the Under Secretary (formerly the FSNE Framework). FNSE provides information on who provides the nutrition education, the strategies used in providing that education and how to contact local offices;
- Distributed more than 5.2 million *Eat Smart, Play Hard* nutrition education materials requested by program partners. This program offers practical suggestions designed to help motivate children and their caregivers to eat healthy and be active;
- Continued work on healthy school nutrition-environment activities, especially promoting the Healthy School Challenge at regional and State meetings. This program is designed to help encourage schools and parents to continue promoting healthy lifestyles for children; and
- In partnership with the U.S. Department of Health and Human Services, released the 2005 *Dietary Guidelines for Americans* and disseminated *Finding Your Way to a Healthier You*. The guidelines provided 41 key recommendations (23 for the overall population and 18 additional ones for specific population groups). This nutrition information is useful for the development of educational materials and tools and for the design and implementation of nutrition-related programs (including Federal food, nutrition education, and information programs). The *Dietary Guidelines* and the consumer brochure are available at www.healthierus.gov/dietaryguidelines/index.html.

Exhibit 53: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Healthy Eating Index (HEI) for People with Incomes under 130% of Poverty	N/A	N/A	N/A	N/A	N/A
Healthy Eating Index for the U.S. Population	N/A	N/A	N/A	N/A	N/A

While data on trends in diet quality from 2001 to 2005 currently is unavailable, evidence from other sources indicates that problems related to diet quality persist, both among low-income people and the general population. USDA's ongoing efforts during this period to promote behavior change, both through the nutrition assistance programs and its Nation-wide nutrition policy and promotional efforts have been focused on motivating changes to reduce and prevent excessive weight gain and obesity.

Key Outcome: Increase Nutrition Information Available to the Public

In 2005, USDA labs released four dietary databases and search tools to the public. Users can access the databases and tools at www.ars.usda.gov. One of the major releases was the National Nutrient Database for Standard Reference, Release 18. The release featured the most essential nutrients in foods commonly eaten in the U.S. As the American diet changes, updates to this database are essential to know if the public can get adequate amounts of essential nutrients. The database is available for use on personal digital assistants, personal computers and web-based applications. Availability in a variety of formats has increased access to and utilization of this valuable national resource by the scientific community, private industry and the general public.

USDA also released the latest "What We Eat in America" survey. This survey is the dietary component of the National Health and Nutrition Examination Survey conducted by the U.S. Department of Health and Human Services. The results are for the years 2001-2002 for 9,701 participants of the only nationally representative study of its kind. Additionally, the 13,000 foods covered by this survey can be accessed at www.ars.usda.gov/Services/docs.htm?docid=7783. The Department also released a set of products from the Community Nutrition Research Group. These products support the revised Food Guide Pyramid, including an updated pyramid servings database, search tool and intake tables. The USDA Center for Nutrition Policy and Promotion is using the tools in MyPyramidTracker.gov and for revising the Healthy Eating Index.

Exhibit 54: Increasing Nutrition Information Available to the Public

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
4.2.2	Determine food consumption patterns of Americans, including those of different ages, ethnicity, regions, and income levels. Provide sound scientific analyses of U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance programs.			Met
	▪ Number of reports from the USDA food and nutrient database.	4	4	

Analysis of Results

In 2005, USDA scientists compared four popular diet plans in a controlled study for one year. It found that intake of protein, carbohydrate or fat was less important than total calories. Adherence to any diet was the best predictor of weight loss and adherence to the more restrictive diets was lower than to those that offered more balanced menu choices. Weight loss was correlated with improvements in such risk factors for heart disease as blood cholesterol.

As part of long-term research on nutrient needs, USDA scientists determined that high protein intake did not have an adverse effect on calcium metabolism or bone health. Substituting some plant protein for animal protein in the diets of female volunteers had no impact on these health outcomes. This research definitively refutes the long-held belief that eating large portions of meat would lead to acidification in the body. This acidification, the process of conversion into an acid, would increase turnover of calcium from the skeleton.

USDA scientists have increased public access to data and easy-to-use tools. Such information can help users apply state-of-the-art nutrition knowledge to dietary improvement. This assists consumers in improving their dietary choices to stem the increase in obesity and improve the health of people across the Nation.

Exhibit 55: Trends in Determining Food Consumption Patterns

Trends	Fiscal Year Actual					
	2000	2001	2002	2003	2004	2005
Number of reports from the USDA food and nutrient database.	6	4	5	6	7	4

N/A = Not Available

OBJECTIVE 4.3: IMPROVE FOOD PROGRAM MANAGEMENT AND CUSTOMER SERVICE

Exhibit 56: Resources Dedicated to Improve Food Program Management and Customer Service

USDA Resources Dedicated to Objective 4.3	FY 2005 Actual	Percent of Goal 1
Program Obligations ($ Mil)	290.4	0.58%
Staff Years	1,213	40.75%

Introduction

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

Overview

USDA continued to improve management by reducing program errors and continuing its use of electronic technology to enhance customer service. After achieving the critical goal in FY 2004 of completing the Nationwide implementation of electronic benefit transfer (EBT) for the delivery of food-stamp benefits, the Department continues to work with its State agency partners to ensure timely re-procurement of EBT systems awarded on the basis of free and open competition. EBT is an electronic system that allows a recipient to authorize transfer of his or her government benefits from a Federal account to a retailer account to pay for products received. The National Food Stamp payment error rate, which fell to a record low of 6.64 percent in FY 2003, improved further in FY 2004 to 5.88 percent.

These efforts are part of USDA's 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. Customer service deficiencies undermine the effectiveness of the programs in reaching clients with the benefits they need. Maintaining public trust in Federal nutrition-assistance programs is vital to their success and continued support.

Challenges for the Future

The nutrition-assistance structure is intended to serve people in special circumstances and settings. USDA must reshape its management approach because of the need to make services convenient and accessible to participants. Additionally, State and local Governments must deliver the programs. Thus, the Department must address erroneous and improper payment problems by providing 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. The staff must also prevent or minimize error, waste and abuse.

To meet the challenge of continued improvements in FSP payment accuracy, USDA continues to dedicate resources to this area. Despite these efforts, two significant challenges will impact future success.

Congressional action has changed the quality-control process, lowering the risk of penalties for poor State agency performance. It remains to be seen how States will react to these changes. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in the payment-accuracy arena. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing program environment.

Key Outcome: Maintain a High Level of Integrity in the Nutrition Assistance Programs

While 2005 data are unavailable, Food Stamp payment accuracy reached a record high in 2004. This record demonstrates strong efforts in this area, resulting in significant error reductions during the past several years. Even small changes in the food stamp error rate can save millions of dollars.

Exhibit 57: Increase Efficiency in Food Management

Annual Performance Goals and Indicators	Fiscal Year 2005		
	Target	Actual	Result
4.3.1 Increase Food Stamp Payment Accuracy Rate	93.5%	N/A	Deferred

Analysis of Results

The FY 2005 food stamp payment accuracy rate will become available in June 2006 and will be reported in the *FY 2006 PAR*.

The FY 2004 food stamp payment accuracy rate posted a record high of 94.12 percent. Of the total FY 2004 payment error rate of 5.88 percent, 4.48 percentage points are attributed to the over-issuance of benefits. The other 1.4 percentage points are attributed to the under-issuance of benefits. Twenty-eight State agencies, including Illinois, New York, and Texas, achieved a payment error rate of less than 6 percent. California, with a payment error rate of 6.32 percent, continued to improve from its FY 2002 error rate of 14.84 percent. Eight State agencies experienced a high enough error rate to be subject to sanction if they do not improve in FY 2005.

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

Exhibit 58: Trends in Increased Efficiency in Food Management

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Food Stamp Payment Accuracy Rate	91.3%	91.7%	93.4%	94.1%	N/A

USDA's close working relationship with its State partners during the last several years and program changes to simplify rules and reduce the potential for error have caused consistent increases in the food stamp payment accuracy rate. The most important factor in maintaining improved performance in this area is the need for

State partners to continue and renew their commitment to utilize findings from the quality control system. To support State improvement, USDA will continue efforts with the National Payment Accuracy Workgroup to share best practice methods and strategies. USDA will also continue to resolve Quality Control liabilities through settlements. These settlements require States to invest in specific program improvements.

Strategic Goal 5: Protect and Enhance the Nation's Natural Resource Base and Environment

High-quality soils and abundant supplies of clean water are the essential building blocks for production agriculture and forestry, rural economies, and all life. America's soils, water supplies and range and forest ecosystems produce the raw materials for food, clothing, shelter, and energy. They also provide the settings for recreation and other activities valued by Americans.

USDA is the steward of 192.5 million acres of National Forests and Grasslands. It also helps farmers and ranchers make sound conservation decisions on the 1.5 billion acres of private lands in the U.S. The Department's activities are designed to help ensure that the Nation's natural resources meet the long-term needs of a dynamic society with an increasing population.

All of USDA's conservation activities on public and private lands are cooperative efforts with State and local Governments, conservation districts, tribal governments and local interests. In the future, USDA will increase its emphasis on cooperative conservation. This will ensure that natural resource use and management decisions are made by the people most affected by the decisions and most knowledgeable about local conditions.

Objective 5.1: Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands

Exhibit 59: Resources Dedicated to Protect the Nation's Resource Base and Environment

USDA Resources Dedicated to Objective 5.1	FY 2004	
	Actual	Percent of Goal 5
Program Obligations ($ Mil)	5,313.5	55.16%
Staff Years	36,402	68.37%

Introduction

USDA and the U.S. Department of the Interior (DOI) are implementing tools provided by the Healthy Forests Initiative (HFI). They are also using authorities provided by the Healthy Forests Restoration Act of 2003 (HFRA) to expedite planning for projects to reduce fire hazards. HFI provides land managers with the ability to reduce the accumulation of hazardous fuels and restore wildfire-damaged areas effectively. HFRA is designed to reduce the threat of destructive wildfires while upholding environmental standards. The USDA-DOI projects largely consist of removing excess vegetation and controlled burning (collectively, hazardous fuel treatment) to reduce the risk from catastrophic wildfires. In 2005, these wildfires burned more than 7 million acres. The integration of the fire hazard reduction program with other restoration programs and the overall increase in hazardous fuel treatment is the direct result of HFRA authorities and USDA leadership. The Department will continue to treat hazardous fuel and be adequately prepared to suppress wildland fires as the primary method of protecting the Nation's natural resources.

Overview

USDA is implementing HFI and HFRA through collaboration among Federal, State and local Governments, and non-Governmental organizations. The Department is using HFRA authorities to work with communities to develop Community Wildfire Protection Plans (CWPP). CWPP reduce wildland fire hazards in areas surrounding communities. USDA's partners are also engaged in this process. Additionally, the Department is working to integrate vegetation management programs better to achieve restoration goals. This effort will increase efficiency throughout the Department. USDA is also an active participant in the President's Conference on Cooperative Conservation. This conference directs Federal agencies that oversee environmental and natural resource policies to promote cooperative conservation in full partnership with States, local Governments, tribes and individuals. This event will have lasting impact on USDA's role in Federal land management and fire-risk reduction. The Department is also cooperating with DOI, State and local Governments, and non-Governmental partners to update the 10-year Comprehensive Strategy Implementation Plan. This plan identifies a collaborative approach for reducing wildland fire risks to communities and the environment.

Other 2005 accomplishments include:

- Implementing more than 70 percent of hazardous fuel treatments in areas located near communities;
- Fuels reduction efforts remaining comparable from the previous year due to more work being done in high-priority locations around communities and areas with high resource values;
- The continued development of LandFire, an interagency landscape-scale fire, ecosystem and vegetation-mapping project. The information provided in LandFire will help land managers make informed decisions for reducing wildland fire risks across landscapes;
- Increased use of naturally ignited fires to achieve management objectives to more than 250,000 acres in 2005; and
- Initiated 9 pilot projects to develop a new performance measure. The measure will evaluate the effectiveness of strategically placed hazardous fuel reduction and other integrated vegetation treatments to change the undesired outcome of problem wildfires. The new performance measure will be finalized in 2006 for full implementation in 2007.

Hazardous fuel reduction treatments help protect life and property by reducing the intensity of wildland fires. While the FY 2004 fire season was considered light with just a little more than 550,000 National Forest Systems acres burned, wildfires consumed more than 6.7 million acres nationally. These totals include 508,751 acres in the Southern Nevada Complex and 49,515 acres, 109 residences and 106 other buildings in the School Fire in Washington State. This ongoing trend of catastrophic wildfire seasons indicates that the USDA, along with all other land-management agencies, must increase efforts to reduce fire hazards using hazardous fuels funds. Reduction of excess vegetation decreases fire hazards while also improving firefighter and public safety. In 2005, USDA treated 2.6 million acres to remove excess vegetation. Approximately 1.66 million of these acres were treated specifically to reduce hazardous fuels. An additional 700,000 acres were treated using other restoration and rehabilitation programs (i.e., wildlife habitat, watershed, timber and pest management that also reduced fire hazards). USDA also used naturally ignited fires to achieve management objectives on more than 250,000 acres. To improve upon this level of accomplishment in 2006 and reduce the risk of future catastrophic wildland fires, USDA must use available resources to work collaboratively with all Federal, State and local entities.

Selected Results in Research, Extension and Statistics

Fire Research Findings Used to Update National Monument Fire Plan—The research in question comes from the findings of a USDA-supported Oregon State University project related to woodland expansion, fire history and plant community response following fire. The National Park Service, the Bureau of Land Management and the U.S. Fish and Wildlife Service have implemented the findings in their southeast Oregon, northeast California, and northwest Nevada locations. For example, the Lava Beds National Monument has incorporated the findings to develop fire prescriptions for different plant communities. USDA's Paisley district implemented an aggressive fuels reduction program based on the fire history findings. Although the Winter Fire threatened the area, treated areas were easy to defend and burned at low intensity.

Prescribing Fire Information to Promote Productive Land—Oklahoma landowners get prescribed fire information to restore their land to productive and biologically diverse states through an Oklahoma State University educational program. With partial funding from USDA, in the past 5 years, more than 200 field days have been presented based on this program, and attended by more than 10,000 participants. During this time, the number of acres burned in Oklahoma's forested habitat has increased by more than 100 percent to approximately 800,000 acres. This increase has resulted in habitat improvement for the endangered red-cockaded woodpecker and black-capped vireo. The improvement also benefits the wild turkey and white-tailed deer.

Integrating USDA Surveys to Evaluate Conservation Programs—A USDA project integrated two major surveys based on different sampling frames. This integration has enhanced the Department's capacity to analyze the implications of its conservation programs. It has also improved the cost-effectiveness of USDA's surveys and reduced respondent burden.

Grass Islands Combat Invasive Weeds—USDA research indicates that planting grass in a series of small "seed source islands" across western rangelands might be the most environmentally friendly way to reclaim lands overrun by invasive weeds. To create the islands, scientists planted a small plot of the desired species—such as purple coneflower or cudweed sagewort—in the middle of a weedy area. These plots are fenced off for several years to allow new plants to grow. In the meantime, the weeds around the island either are eaten by livestock or removed by other means. Once the fence is removed, the desirable plant moves naturally into the area where weeds once grew. So far, the introduced plants have spread as far as 100 feet from the islands. Seed source islands keep costs down because only small areas have to be planted and they require fewer chemicals than other re-vegetation methods.

Challenges for the Future

Future challenges include ensuring public and firefighter safety while protecting lands still threatened by fire in forests dense with vegetation and fuel. Additional challenges are the continued drought conditions in many western states and the expansion of communities into previously uninhabited wildlands. This expansion makes up what is known as the wildland-urban interface (WUI). 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.

Existing hazardous fuel treatment performance is currently based on outputs of acres treated and the number of acres treated as a result of local collaboration. The Office of Management and Budget (OMB) Performance Assessment Rating Tool (PART) determined in 2002 that the Wildland Fire Management Program did not demonstrate effective results. The PART, designed by OMB to assess and improve program performance, found that the program lacked baselines and targets for recently created performance measures developed as a result of the "10-year Comprehensive Strategy for the National Fire Plan." Research has shown that treatments to remove excess vegetation for fire and restoration purposes can impact the size and behavior of wildland fires dramatically. The current performance measures for hazardous fuel treatment do not capture the results of treatments on the landscape. They track acres treated as an output measure. USDA and DOI are developing a new performance measure that demonstrates the impact of treatments beyond the direct area treated. This new performance measure is part of a pilot process to identify spatially explicit treatments for hazardous fuel reduction and the restoration of fire-adapted ecosystems at the landscape scale. For more information on the PART, visit www.whitehouse.gov/omb/budget/fy2004/pma/usdawildlandfire.pdf. Performance measures are being reviewed and improved by USDA and DOI in consultation with partners as part of the update of the 10-Year Comprehensive Strategy Implementation Plan. This plan was launched in 2005 in response to the Wildland Fire Leadership Council. For more information, visit www.fireplan.gov/leadership/about.html.

Recent research has identified 73 million acres administered by USDA and 59 million acres of privately-owned forest land at high risk of ecologically destructive wildland fire. Commercial utilization of excess vegetation has been identified as one way to lower the cost of Government forest fuel-reduction treatments. A barrier to expanding forest biomass utilization is the limited market for this material because of reduced forest products' processing capacity in much of the Western U.S. Much of this material is small diameter and non-traditional species. This factor presents a further barrier to utilization where forest products processing capacity remains. Title II of HFRA authorizes measures to further commercial use of biomass. A significant challenge for USDA and DOI is to expand the acreage of hazardous fuel and restoration treatments with available funding by increasing the commercial utilization of hazardous fuel. USDA and DOI hope to promote the increased use of biomass as a domestic source of energy. They are developing a strategy to encourage biomass utilization.

Key Outcome: Reduce the Risk from Catastrophic Wildland Fire

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

Exhibit 60: Hazardous Fuel Reduction

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual*	Result
5.1.1	Number of acres of hazardous fuel treated that are in the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	1,281,000	1,187,854	Met
5.1.2	Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1, 2 or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan[1]	292,000	371,980	Exceeded
5.1.3	Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class	927,000	1,085,408	Exceeded

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

* Estimated.

Analysis of Results

USDA met its 2005 performance goals for protecting the health of the Nation's forests and other public lands through aggressive pro-active efforts. These increased efforts have significant value to all Americans. They protect human life and whole communities that reside in areas adjacent to national forests and other public lands. The 2.6 million acres treated in FY 2005 met the Department's FY 2005 goal. Improved management tools and favorable weather conditions allowed teams to treat significantly more at-risk acreage. This Condition Class is in areas with frequent fire occurrence (Fire Regimes 1, 2, and 3). 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 productivity in fire-adapted ecosystems contributed over 730,000 acres toward these goals in FY 2005.

In FY 2006, USDA plans to reduce fire hazard on 1.8 million acres using direct funding and on an additional 800,000 acres as a secondary benefit from other management activities. The USDA Strategic Plan proposes that the Department treat 11 million cumulative acres by FY 2007. The successes of FY 2005 moved USDA well on its way toward meeting this goal.

Exhibit 61: Trends in Treatment of Hazardous Fuel

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Number of acres of hazardous fuel treated that are in the wildland-urban interface and the percentage that are identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	611,551	764,364	1,114,106	1,311,000	1,187,854
Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1,2, or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	N/A	N/A	293,127	441,000	371,980

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class	N/A	N/A	N/A	848,000	1,085,408

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 in FY 2004 and FY 2005 included the contribution of improved Condition Class resulting from resource restoration activities and direct hazardous fuel reduction treatments.

OBJECTIVE 5.2: IMPROVE MANAGEMENT OF PRIVATE LANDS

Exhibit 62: Resources Dedicated to Improving Management of Private Lands

USDA Resources Dedicated to Objective 5.2	FY 2005 Actual	Percent of Goal 5
Program Obligations ($ Mil)	4,319.8	44.84%
Staff Years	16,844	31.63%

Introduction

Non-Federal land makes up almost 70 percent of the total area of the U.S. The vast majority of that land is privately-owned cropland, rangeland, pastureland and forestland. Millions of individuals decide how to use and manage these lands. Their decisions form the foundation of a substantial and vibrant agricultural economy that provides food and fiber for the Nation. Thus, the productive and sustainable use of natural resources or private lands is a vital goal for the Nation. Achieving the dual goals of a productive and profitable agricultural sector and a high-quality environment requires good management based on sound science and practical technology. Sound environmental stewardship of private agricultural lands benefits wildlife and provides food and fiber to Americans and the rest of the world. Conserving the Nation’s cropland, forests and grazing land helps provide clean water and air, sustains productive capacity and protects soil productivity, and benefits human and wildlife populations.

In 2005, USDA helped producers develop conservation plans for approximately 33 million acres. Its work provided producers with a management tool to know the capability of their soils, condition of their rangeland and woodlands, and requirements for irrigation. These plans provide the land user with the knowledge on how best to use the land to continue supporting healthy plant, animal and human communities. USDA also provided producers conservation cost-share benefits and incentive payments to help offset the cost of installing conservation covers, riparian and grassland buffers, and maintaining sound conservation practices while improving the productivity of agricultural lands. USDA’s most recent inventory of resource conditions on non-Federal lands indicated that progress in controlling erosion is being maintained and that the loss of wetlands has been halted. It also showed that net wetland gains have been achieved on agricultural land. USDA's technical and financial assistance to agricultural producers has been crucial in helping them address both of these resource concerns.

Overview

USDA helps farmers and ranchers improve their management of the soil, water and related resources on non-Federal lands. In 2005, the Department worked with natural resource managers to maintain and improve land productivity and environmental quality by providing:

- Technical assistance tailored to the needs of individual farmers and ranchers;
- Financial assistance in the form of cost shares and incentive payments to apply key practices on working land;
- Easements and rental payments to protect sensitive land; and
- Financial and technical assistance enabling producers to restore lands damaged by natural disasters.

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

In 2005, USDA provided technical assistance to hundreds of thousands of producers in planning and applying conservation to better manage their soil and water resources. The Department's assistance helped managers of private lands maintain soil quality, protect water and air quality, and enhance wildlife habitats.

Selected Results in Research, Extension and Statistics

Assessing the Impact of Open Space and Potential Local Disamenities on Residential Property Values—Researchers, with partial funding from USDA, are investigating the impact of open space on residential property values in Berks County, Pennsylvania. The project demonstrated the effectiveness of using the Geographic Information System (GIS). Researchers use GIS to investigate how space impacts land use. These interactions affect house prices and the pattern of development that occurs over time. Key findings provided Berks County officials with science-based knowledge to support their land use decisions.

Cleaning the Water Supply—The prevention of agricultural pollution and mitigating existing pollutant contamination are critical to the improved management of private land. A USDA grant allowed a project in Florida to develop a scientific method of detecting the pathogen E. faecalis. This process will result in a new instrument that detects pathogens and their sources rapidly and at low cost. Over the longer term, identifying the sources of pathogens among agriculture, wildlife and human origin will enable strategically targeted remediation and prevention methods, resulting in cleaner water supplies.

Understanding Use of Irrigation—USDA released the 2003 Farm and Ranch Irrigation Survey in November 2004. The survey supplements the basic irrigation data collected during the full Census of Agriculture. It provides one of the most complete, detailed profiles of irrigation in the U.S. The survey features State-level data for irrigation practices and water usage. Results are available at www.nass.usda.gov/census/.

Furrow Dikes Improve Water Infiltration for Crops—New preliminary data from USDA studies indicate that furrow dikes—small basins formed in loosened soil between crop rows—may lead to the greater absorption of water and reduced runoff during rain. This process will make more water available for crop use. USDA found that, even in a wet growing season, the use of furrow dikes resulted in better water infiltration and maintenance of soil moisture. Furrow diking is commonly used by farmers in the arid regions of the western and northwestern U.S. on crops such as cotton, sorghum and potatoes. USDA scientists are adapting furrow diking to accommodate the sloping crop sites often found in the southeastern states, where peanuts, cotton and corn are grown. Slopes in topography lead to quick water runoff and ponding at lower elevations. Furrow dikes capturing more rainfall could improve yield stability in non-irrigated cropping systems.

Pond Water Used to Grow Forage Crop—USDA has developed a unique way to reduce space-stealing evaporation ponds in California—and nurture a new crop in the process. On the west side of California's San Joaquin Valley, for every nine acres of land in production, one is needed for an evaporation pond. Farmers who tend the region's heavily irrigated lands use these ponds to catch excess water runoff from saturated fields. Despite the excess runoff, the ponds have been found to contain concentrated salts and trace elements, including selenium, boron and arsenic. These elements can be toxic to wildlife and migratory birds seeking water in California's desert. Now, in the sixth year of the project, USDA scientists are using water pumped from evaporation ponds to nourish a tough and hardy forage crop—a salt-loving Bermuda grass—which supports a herd of beef cattle. This technique of drying the pond's waters benefits growers and wildlife, and helps make less-arable land profitable again.

Drift Software Aids Pesticide Spray Control—USDA and its university collaborators have released the first user-friendly computer software for estimating droplet drift distances for pesticide spray applications. This draft simulator, or DRIFTSIM, can help farmers and educators minimize pesticide drift by helping them choose equipment, settings and techniques. To calculate the likelihood of pesticide drift, the program allows pesticide spray operators and manufacturers to specify wind speed, droplet size and speed, nozzle height, operating pressure, air temperature, and relative humidity. It also helps manufacturers design pesticide formulations and pesticide spraying equipment to minimize drift potential of their products.

Wind Erosion Model Released—USDA is overseeing the implementation of the Wind Erosion Prediction System (WEPS). WEPS can simulate weather, soil and crop conditions, and wind erosion daily, and project the emission of the tiny dust particles. For the past 40 years, growers have made erosion-related decisions based on a simple equation that did not take into account new advances in erosion science and computer technology. Today, USDA personnel and farmers can use WEPS to formulate specific wind erosion control practices. WEPS is designed for establishing a soil-stabilizing crop cover, setting up windbreaks and barriers, and reducing the soil's erodibility by improving soil stability.

Serving the Public

Farmers, ranchers and private forest and other landowners manage two-thirds of the Nation’s land. They are the primary stewards of U.S. soil, air and water. USDA assists them in adopting environmentally sound management practices and provides information on soil quality, water management and quality, plant materials, resource management and wildlife habitat. Additionally, USDA provides financial assistance to agricultural producers to promote good stewardship of agricultural and environmentally sensitive lands. USDA assists landowners and land managers in using this information and funding to implement sustainable production techniques. Those 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. In 2005, the Department assisted people in developing conservation plans for approximately 33 million acres of cropland and grazing lands, and creating or restoring 260,000 acres of agricultural wetlands. USDA also administered long-term conservation contracts on over 34 million acres, representing environmentally sensitive cropland in all 50 States and Puerto Rico. By establishing long-term conservation covers on cropland, USDA's programs assure that Americans receive an environmental annuity at a reasonable cost. These programs target land for enrollment precisely where the 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 monies provided to these communities preserve and protect the environment, which benefits society as a whole.

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

Challenges for the Future

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

Key Outcome: Maintain the Productive Capacity of the Resource Base and Quality of the Environment

Privately owned cropland, grazing lands and forestland represent a substantial and vibrant agricultural economy that provides food and fiber for the Nation. In FY 2005, USDA's conservation programs helped producers maintain the productive capacity of approximately 33 million acres by developing and implementing conservation plans on cropland and grazing land. This work helps support healthy and productive plant, animal and human communities. Additionally, the conservation measures applied with USDA assistance in the past continue to protect the landscape.

The basis for sound management of agricultural land is a conservation plan that helps each producer manage a specific production unit. Each producer needs to know the capabilities of the soil of the farm's fields and the condition of rangeland and woodland that is part of the operation. In areas where irrigation is practiced, producers also need forecasts of water supply to plan the year's crops. In FY 2005, USDA continued to increase emphasis on helping producers develop technically sound plans to provide a framework for their activities. Implementing a conservation plan is the first step toward good land stewardship. Plans one year beget better plans the next. Successfully implemented plans represent progress toward protecting soil, water and related resources.

USDA's conservation operations provide the basic resource inventory data, technical tools and comprehensive-planning approach producers need to manage their soil and water resources well. The Conservation Technical Assistance Program is the primary instrument through which USDA assists agricultural producers and other land managers to plan environmentally and economically sustainable operations. USDA provides technical and financial assistance to apply conservation practices through the Environmental Quality Incentives Program and other programs authorized by the Farm Security Rural Investment Act of 2002 (FSRIA). In FY 2005, USDA worked hard to ensure that this increasing level of public investment in conservation was directed to solving high-priority resource concerns.

Exhibit 63: Maintain the Productive Capacity of the Natural Resource Base and the Quality of the Environment

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
5.2.1	Conservation plans written for cropland and grazing lands (Mil acres)	30	33	Met
5.2.2	Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)	8.5	9	Met
5.2.3	Reduction in the acreage of cropland soils damaged by erosion (Mil acres)	3	3	Met
5.2.4	Number of comprehensive nutrient management plans applied	1,500	1,600	Met
5.2.5	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (Mil acres)	1.75	1.75	Met

Analysis of Results

USDA met its FY 2005 goals for helping producers plan for conservation efforts on U.S. private lands. Conservation plans are essential to good management of soil and water resources. A conservation plan describes the schedule of operations and activities needed to solve natural resource problems and take advantage of opportunities. Conservation planning helps individual managers consider their operations within the larger landscape to which a farm or ranch belongs. It 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.

The targets for application of conservation methods and programs were also met. The availability of technical expertise to help producers apply conservation methods is a major determinant of the rate at which producers can act. In FY 2005, USDA continued to encourage technical-assistance providers in the private sector to come forward to help the Department implement its conservation programs. The long-term goal is to have a land-management system that maintains a highly productive resource base for future generations.

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

Exhibit 64: Trends in Planning and Application of Improved Management of Cropland and Grazing Lands

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Conservation plans written for cropland and grazing lands (Mil acres)[1]	N/A	N/A	31.4 Baseline	37.9	33
Grazing lands with conservation applied to protect the resource base and environment (Mil acres)[2]	N/A	9.0 Baseline	9.9	9.7	9
Reduction in the acreage of cropland soils damaged by erosion (Mil acres)[2]	N/A	3.4 Baseline	3.3	3.3	3
Comprehensive Nutrient Management Plans applied (number)[2]	N/A	2,292 Baseline	2,132	2,376	1,600
Increase CRP acres of riparian and grass buffers (Mil acres)	.95	1.24	1.45	1.65 Baseline	1.75

[1] Includes all planning reported as assistance provided through the CTA. Data for FY 2001-2002 are not comparable to later years. In FY 2003, policy on planning was revised and reporting instructions were clarified.

[2] Data include only land where conservation was applied with assistance from CTA.

USDA's strategic plan for FY 2002-2007 set a strategic goal of helping producers apply needed conservation treatment on 130 million acres during that period. For the FY 2002-2005 period, USDA had provided assistance to improve management on almost 110 million acres.

As a voluntary program, the characteristics of land enrolled in the Conservation Reserve Program (CRP) depend on which lands are offered for contracts. CRP provides technical and financial assistance to eligible farmers and ranchers to address soil, water and related natural resource concerns on their lands in an environmentally beneficial and cost-effective manner. Increasing the number of acres of riparian buffers and grass filters is essential to providing cleaner water. The system intercepts sediment and nutrients before they reach surface waters. USDA established a target of 1.75 million acres for FY 2005. This figure is an increase of 110,000 acres from the prior fiscal year. USDA exceeded this target.

Challenges for the Future

A major challenge is to develop a practical and reliable tool to document the effects of conservation practices on water and air quality. Better knowledge will enable USDA to focus programs on the most serious problems. In 2005, The Department analyzed the initial results from the interagency effort—the Conservation Effects Assessment Project (CEAP)—to identify areas in greatest potential need of conservation treatment. A preliminary report will be released in early 2006. It will be followed in subsequent years by more refined estimates of effects of conservation practices and systems. The information will cover reducing the movement of sediment, nitrogen and phosphorus from agricultural operations.

Key Outcome: Ensure Diverse Wildlife Habitats

Wetlands are among the most biologically diverse areas on earth. They provide habitat for a rich mixture of plants and animals, including many rare and endangered species. Wetlands also protect shorelines, filter impurities from water, help control floodwaters, regulate water flow and decrease soil erosion. Since the early 1980s, USDA has focused increasing attention on protecting wetlands. The strategy for protecting wetlands and wetland wildlife habitat relies heavily on encouraging private landowners to protect wetlands under long-term or permanent easements offered through USDA's Wetlands Reserve Program. This is a voluntary conservation program that offers landowners the means and opportunity to protect, restore and enhance wetlands on their property with the financial assistance of USDA. The Department also provides cost-share benefits and incentive payments to producers enrolled in USDA's Conservation Reserve Program, the aim of which is to reduce agricultural runoff using riparian grassland buffers and to restore wetland acres. From the inception of these programs through the end of 2004, USDA enrolled 34.9 million acres in CRP. This figure includes 1.6 million acres of riparian buffers and grass filters and 1.9 million acres of wetlands and wetland buffers. These numbers represent increased prime wildlife habitat and water storage capacity, as well as a net increase in wetland acres on agricultural land. The Department also requires agricultural producers to protect wetlands in order to participate in other USDA programs.

Exhibit 65: Ensure Diverse Wildlife Habitats

Annual Performance Goals and Indicators		Fiscal Year 2005		
		Target	Actual	Result
5.2.6	Agricultural wetlands created, restored or enhanced (thousand acres)	256.2	260	Met
5.2.7	Increase CRP restored wetlands acres (Mil acres)	1.99	1.96	Met

Analysis of Results

The target for the measure was met. The measure includes all land on which wetlands restoration or improvement practices were applied in FY 2005 with technical or financial assistance.

In 1990, the U.S. set a goal of preventing any net loss of wetlands. USDA's 2003 National Resources Inventory found that the U.S. had reached and surpassed this goal, achieving net wetland gains on agricultural land between 1997 and 2003. This progress resulted from USDA's efforts to help people restore wetlands and discourage conversion to agricultural and other uses.

Exhibit 66: Trends in Wetland Protection

Trends	Fiscal Year Actual				
	2001	2002	2003	2004	2005
Agricultural wetlands created, restored or enhanced (Thousand acres)	N/A	321.2 Baseline	288.9	239.7	260
Increase CRP restored wetlands acres (Mil acres)	1.65	1.74	1.79	1.89	1.96 Baseline

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

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

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

One challenge in wetlands protection is developing better tools for tracking wetlands status and values. Another is improving coordination among Federal agencies with a role in wetlands protection.

Additionally, better coordination is needed on remote sensing and ground-level data collection on wetlands gain, loss and quality. USDA will continue to work with other Federal agencies and conservation partners to ensure wetlands protection.

CRP wetlands and wetland buffers increase prime wildlife habitat and water storage capacity, contributing to a net increase in wetland acres on agriculture land. USDA established a target of 1.99 million acres for FY 2005. This target is an increase of 100,000 acres from the prior year. While the Department has reached 98 percent of this target, it does not expect to meet it by the end of the fiscal year.

Efforts to increase wetlands acres and provide adequate enrollment opportunities include several initiatives. One involves allowing the enrollment of larger wetland complexes and playa lakes beyond the 100-year floodplain. Playa lakes are areas that hold water for only a short period of time. Despite these efforts, there is an inherent uncertainty in knowing how soon these initiatives will start generating demand for enrollment in wetlands initiatives. One wetlands initiative, Bottomland Hardwoods, has had lower than anticipated enrollment to date. Another potential performance shortfall is the availability of technical assistance resources. USDA intends to use private-sector vendors, not-for-profit organizations and public-sector agencies as additional resources for providing technical assistance.

Fiscal Year 2005 Program Obligations Incurred

The following table depicts the component agencies and staff offices of the U.S. Department of Agriculture with total program level dollars for each account allocated to each objective. The program level dollars are displayed in millions and have been rounded to the nearest tenth. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments. An account's funding was allocated to more than one objective when the amount for each objective was significant and could be identified. The table provides a general indication of the funding dedicated to each objective. Staff office and departmental management accounts generally support all USDA objectives and, in most cases, have been reallocated equally among all strategic objectives.

Exhibit 67: USDA Program Obligations

USDA FY 2005 Program Obligations
($ in Millions)

		Program	Objectives												
Agency	**Account**	**Obligations**	**1.1**	**1.2**	**1.3**	**1.4**	**2.1**	**2.2**	**3.1**	**3.2**	**4.1**	**4.2**	**4.3**	**5.1**	**5.2**
OSEC	Office of the Secretary	15.0	0.8	0.8	0.8	0.8	1.5	1.5	1.5	1.5	1.0	1.0	1.0	1.5	1.5
OCFO	OCFO	10.0	0.5	0.5	0.5	0.5	1.0	1.0	1.0	1.0	0.7	0.7	0.7	1.0	1.0
	Working Capital Fund	242.0	12.1	12.1	12.1	12.1	24.2	24.2	24.2	24.2	16.1	16.1	16.1	24.2	24.2
OCIO	OCIO	57.0	2.9	2.9	2.9	2.9	5.7	5.7	5.7	5.7	3.8	3.8	3.8	5.7	5.7
	Common Computing Environment	337.0	16.9	16.9	16.9	16.9	33.7	33.7	33.7	33.7	22.5	22.5	22.5	33.7	33.7
DA	Agriculture Buildings and Facilities Rental Payments	233.0	11.7	11.7	11.7	11.7	23.3	23.3	23.3	23.3	15.5	15.5	15.5	23.3	23.3
	Departmental Administration	37.0	1.9	1.9	1.9	1.9	3.7	3.7	3.7	3.7	2.5	2.5	2.5	3.7	3.7
	Hazardous Materials Management	5.0	0.3	0.3	0.3	0.3	0.5	0.5	0.5	0.5	0.3	0.3	0.3	0.5	0.5
OCR	Office of Civil Rights	23.0	1.2	1.2	1.2	1.2	2.3	2.3	2.3	2.3	1.5	1.5	1.5	2.3	2.3
OC	OC	17.0	0.9	0.9	0.9	0.9	1.7	1.7	1.7	1.7	1.1	1.1	1.1	1.7	1.7
OIG	OIG	81.0	4.1	4.1	4.1	4.1	8.1	8.1	8.1	8.1	5.4	5.4	5.4	8.1	8.1
	IG Assets Forfeiture Funds	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OGC	OGC	38.0	1.9	1.9	1.9	1.9	3.8	3.8	3.8	3.8	2.5	2.5	2.5	3.8	3.8
OCE	OCE	12.0	0.6	0.6	0.6	0.6	1.2	1.2	1.2	1.2	0.8	0.8	0.8	1.2	1.2
NAD	NAD	14.0	0.7	0.7	0.7	0.7	1.4	1.4	1.4	1.4	0.9	0.9	0.9	1.4	1.4
OBPA	OBPA	8.0	0.4	0.4	0.4	0.4	0.8	0.8	0.8	0.8	0.5	0.5	0.5	0.8	0.8
HSS	Homeland Security Staff	1.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
ERS	Economic Research	76.0	21.6	2.0	3.0	10.0	4.3	4.3	1.5	2.4	2.8	7.7	5.3	-	11.1
NASS	NASS	151.0	106.0	-	-	7.9	29.7	-	-	3.2	-	-	-	-	4.2
ARS	ARS Salaries and Expenses	1,179.0	-	-	110.8	-	-	-	110.8	667.3	-	106.1	-	92.0	92.0
	Buildings and Facilities	113.0	-	-	10.6	-	-	-	10.6	64.0	-	10.2	-	8.8	8.8
	ARS-No Year Funds	3.0	-	-	0.3	-	-	-	0.3	1.7	-	0.3	-	0.2	0.2
	Miscellaneous Contributed Funds	17.0	-	-	1.6	-	-	-	1.6	9.6	-	1.5	-	1.3	1.3
CSREES	Extension Activities	467.0	32.7	18.7	42.0	23.4	23.4	23.4	23.4	56.0	-	79.4	-	72.4	72.4
	Research and Education Activities	677.0	60.9	60.9	88.0	20.3	20.3	20.3	47.4	94.8	-	54.2	-	104.9	104.9
	Integrated Activities	49.0	0.0	0.0	0.6	0.6	0.6	0.6	3.9	23.5	-	6.9	-	6.4	5.9
	Native Americans Institutions Endowment Fund	1.0	0.1	0.0	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	-	0.2	0.2
	Community Food Projects	5.0	0.4	0.2	0.5	0.3	0.3	0.3	0.3	0.6	0.4	0.5	-	0.8	0.8
	Section 2501	6.0	-	-	-	-	-	-	-	-	-	-	6.0	-	-
	Biodiesel Fuel Education Program	16.0	-	-	16.0	-	-	-	-	-	-	-	-	-	-
APHIS	Salaries and Expenses	1,292.0	155.0	-	-	-	-	-	-	1,137.0	-	-	-	-	-
	Buildings and Facilities	4.0	-	-	-	-	-	-	-	4.0	-	-	-	-	-
	Trust Funds	27.0	-	-	-	-	-	-	-	27.0	-	-	-	-	-
FSIS	FSIS-Salaries & Expenses	813.0	-	-	-	-	-	-	813.0	-	-	-	-	-	-
	FSIS-No Year Funds	102.0	-	-	-	-	-	-	102.0	-	-	-	-	-	-
	Trust Funds	3.0	-	-	-	-	-	-	3.0	-	-	-	-	-	-
GIPSA	Salaries and Expenses	36.0	36.0	-	-	-	-	-	-	-	-	-	-	-	-
	Inspection and Weighing Services	37.0	37.0	-	-	-	-	-	-	-	-	-	-	-	-
AMS	Marketing Services	78.0	78.0	-	-	-	-	-	-	-	-	-	-	-	-
	Payments to States and Possessions	4.0	4.0	-	-	-	-	-	-	-	-	-	-	-	-

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
AMS (cont.)	Payments to States and Possessions - Florida	6.0	6.0	-	-	-	-	-	-	-	-	-	-	-	-
	Perishable Ag. Commodities Act Fund	10.0	10.0	-	-	-	-	-	-	-	-	-	-	-	-
	Funds for Strengthening Markets/Income/Supply	871.0	871.0	-	-	-	-	-	-	-	-	-	-	-	-
	Wool Research Development and Promotion Trust Fund	4.0	4.0	-	-	-	-	-	-	-	-	-	-	-	-
	Expenses & Refunds, Inspection & Grading of Farm Products	189.0	189.0	-	-	-	-	-	-	-	-	-	-	-	-
RMA	Administrative and Operating Expenses	70.0	-	-	-	70.0	-	-	-	-	-	-	-	-	-
	Federal Crop Insurance Corporation Fund	4,180.0	-	-	-	4,180.0	-	-	-	-	-	-	-	-	-
FSA	Salaries and Expenses	1,299.0	-	201.3	-	1,097.7	-	-	-	-	-	-	-	-	-
	Salaries and Expenses /Transfer to CCC	106.0	-	19.1	-	86.9	-	-	-	-	-	-	-	-	-
	State Mediation Grants	4.0	-	-	-	4.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund (Prog.)	609.0	-	-	-	609.0	-	-	-	-	-	-	-	-	-
	Emergency Conservation Program/Transfer to CCC	85.0	-	-	-	85.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund	9.0	-	-	-	9.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Direct (Fin.)	1,528.0	-	-	-	1,528.0	-	-	-	-	-	-	-	-	-
	Agricultural Credit Insurance Fund-Guar. (Fin.)	150.0	-	-	-	150.0	-	-	-	-	-	-	-	-	-
	CCC Export Loans Program Account	176.0	-	-	-	176.0	-	-	-	-	-	-	-	-	-
	CCC Export Loans Program Account (Admin.)	4.0	-	-	-	4.0	-	-	-	-	-	-	-	-	-
	Commodity Credit Corporation	39,534.0	-	-	4,744.1	34,789.9	-	-	-	-	-	-	-	-	-

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FSA (cont.)	CCC Export Guarantee Financing Account	800.0	-	-	-	800.0	-	-	-	-	-	-	-	-	-
	CCC Export Guaranteed Loans Liquidating Account	6.0	-	-	-	6.0	-	-	-	-	-	-	-	-	-
	CCC Tobacco Trust Fund	899.0	-	-	-	899.0	-	-	-	-	-	-	-	-	-
	CCC Farm Storage Facility Loans Financing Account	87.0	-	-	-	87.0	-	-	-	-	-	-	-	-	-
	CCC Farm Storage Facility Loans Program Account	14.0	-	-	-	14.0	-	-	-	-	-	-	-	-	-
NRCS	Conservation Operations	866.0	-	-	-	-	-	86.6	-	-	-	-	-	-	779.4
	Conservation Operations	26.0	-	-	-	-	-	2.6	-	-	-	-	-	-	23.4
	Watershed Rehabilitation Programs	29.0	-	-	-	-	-	29.0	-	-	-	-	-	-	-
	Biomass Research and Development Program	1.0	-	-	1.0	-	-	-	-	-	-	-	-	-	-
	Farm Security and Rural Investment Programs	1,805.0	-	-	-	-	-	-	-	-	-	-	-	-	1,805.0
	Resource Conservation and Development	52.0	-	-	-	-	-	26.0	-	-	-	-	-	-	26.0
	Watershed Surveys and Planning	7.0	-	-	-	-	-	2.8	-	-	-	-	-	-	4.2
	Watershed and Flood Prevention Operations	478.0	-	-	-	-	-	95.6	-	-	-	-	-	-	382.4
	Waterbank Program	-1.0	-	-	-	-	-	-	-	-	-	-	-	-	(1.0)
	Forestry Incentives Program	-3.0	-	-	-	-	-	-	-	-	-	-	-	-	(3.0)
RD	Rural Community Advancement Program	849.0	-	-	-	-	254.7	594.3	-	-	-	-	-	-	-
	Salaries and Expenses	653.0	-	-	-	-	195.9	457.1	-	-	-	-	-	-	-
RHS	Rental Assistance Program	593.0	-	-	-	-	-	593.0	-	-	-	-	-	-	-
	Rural Housing Assistance Grants	56.0	-	-	-	-	-	56.0	-	-	-	-	-	-	-

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
RHS (cont'd)	Mutual and Self-Help Housing Grants	42.0	-	-	-	-	-	42.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Prog.)	774.0	-	-	-	-	-	774.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund (Liq.)	88.0	-	-	-	-	-	88.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund Direct (Fin.)	2,372.0	-	-	-	-	-	2,372.0	-	-	-	-	-	-	-
	Rural Housing Insurance Fund-Guar. (Fin.)	108.0	-	-	-	-	-	108.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Direct (Fin.)	839.0	-	-	-	-	-	839.0	-	-	-	-	-	-	-
	Farm Labor Housing	46.0	-	-	-	-	-	46.0	-	-	-	-	-	-	-
	Rural Community Facility Loans-Guar. (Fin.)	8.0	-	-	-	-	-	8.0	-	-	-	-	-	-	-
	MFH Preservation Demo Revolving Fund	6.0	-	-	-	-	-	6.0	-	-	-	-	-	-	-
RBCS	Rural Cooperative Development Grants	24.0	-	-	-	-	24.0	-	-	-	-	-	-	-	-
	Renewable Energy Programs	23.0	-	-	-	-	23.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund (Prog.)	20.0	-	-	-	-	20.0	-	-	-	-	-	-	-	-
	Rural Economic Development Grants	8.0	-	-	-	-	8.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Prog.)	5.0	-	-	-	-	5.0	-	-	-	-	-	-	-	-
	Rural Economic Development Loans (Fin.)	30.0	-	-	-	-	30.0	-	-	-	-	-	-	-	-
	Rural Development Loan Fund -Direct (Fin.)	53.0	-	-	-	-	53.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans (Fin.)	11.0	-	-	-	-	11.0	-	-	-	-	-	-	-	-
	Rural Business and Industry Direct Loans-Guar. (Fin.)	101.0	-	-	-	-	101.0	-	-	-	-	-	-	-	-
	Rural Empowerment Zones/Enterprise Communities	12.0	-	-	-	-	12.0	-	-	-	-	-	-	-	-

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
RUS	RETRF (Prog. Acct.)	280.0	-	-	-	-	196.0	84.0	-	-	-	-	-	-	-
	Rural Telephone Bank Program Account	5.0	-	-	-	-	3.5	1.5	-	-	-	-	-	-	-
	Distance Learning and Medical Link Programs	24.0	-	-	-	-	16.8	7.2	-	-	-	-	-	-	-
	High Energy Cost Grants	20.0	-	-	-	-	14.0	6.0	-	-	-	-	-	-	-
	Distance Learning Telemedicine Direct Loan (Fin. Acct.)	124.0	-	-	-	-	86.8	37.2	-	-	-	-	-	-	-
	Rural Development Insurance Fund (Liq. Acct.)	11.0	-	-	-	-	7.7	3.3	-	-	-	-	-	-	-
	Rural Telephone Bank (Fin. Acct.)	214.0	-	-	-	-	149.8	64.2	-	-	-	-	-	-	-
	RETRF (Fin. Acct. - Direct)	6,037.0	-	-	-	-	4,225.9	1,811.1	-	-	-	-	-	-	-
	Rural Water & Waste Disposal Loans (Direct Fin. Acct.)	1,359.0	-	-	-	-	951.3	407.7	-	-	-	-	-	-	-
	RETRF (Liq. Acct.)	801.0	-	-	-	-	560.7	240.3	-	-	-	-	-	-	-
	Rural Telephone Bank (Liq. Acct.)	50.0	-	-	-	-	35.0	15.0	-	-	-	-	-	-	-
	Appalachian Reg. Commission Transfer	13.0	-	-	-	-	9.1	3.9	-	-	-	-	-	-	-
	National Sheep Industry Improvement Center - Revolving and Program Account	1.0	-	-	-	-	0.7	0.3	-	-	-	-	-	-	-
FAS	Trade Adjustment Assistance for Farmers	27.0	27.0	-	-	-	-	-	-	-	-	-	-	-	-
	Salaries and Expenses	216.0	175.0	41.0	-	-	-	-	-	-	-	-	-	-	-
	McGovern-Dole International Food for Education	87.0	-	87.0	-	-	-	-	-	-	-	-	-	-	-
	Title I Ocean freight Differential Grants	4.0	-	4.0	-	-	-	-	-	-	-	-	-	-	-
	Miscellaneous Contributed Funds	1.0	-	1.0	-	-	-	-	-	-	-	-	-	-	-

USDA FY 2005 Program Obligations ($ in Millions)															
		Program	Objectives												
Agency	Account	Obligations	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FAS (cont'd)	P.L.480 (Liq. Acct.)	23.0	-	23.0	-	-	-	-	-	-	-	-	-	-	-
	P.L.480 (Prog.)	105.0	-	105.0	-	-	-	-	-	-	-	-	-	-	-
	P.L 480 Title II	1,710.0	-	1,710.0	-	-	-	-	-	-	-	-	-	-	-
	P.L.480-Direct (Fin. Acct.)	179.0	-	179.0	-	-	-	-	-	-	-	-	-	-	-
	Debt Reduction (EAI) Fin. Acct.	489.0	-	489.0	-	-	-	-	-	-	-	-	-	-	-
FNS	Food Donations Programs	142.0	-	142.0	-	-	-	-	-	-	-	-	-	-	-
	Food Stamp Program	32,096.0	-	-	-	-	-	-	-	-	31,877.8	182.9	35.3	-	-
	Commodity Assistance Program	200.0	-	-	-	-	-	-	-	-	200.0	-	-	-	-
	Food Program Administration	142.0	-	-	-	-	-	-	-	-	-	2.8	139.2	-	-
	Special Supplemental Nutrition Program (WIC)	5,200.0	-	-	-	-	-	-	-	-	5,171.0	14.8	14.2	-	-
	Child Nutrition Programs	12,103.0	-	-	-	-	-	-	-	-	12,069.5	18.5	15.0	-	-
FS	Land Acquisition Title VIII	3.0	-	-	-	-	-	-	-	-	-	-	-	3.0	-
	Capital Improvement and Maintenance	617.0	-	-	-	-	-	-	-	-	-	-	-	617.0	-
	Forest and Rangeland Research	336.0	-	-	-	-	-	-	-	-	-	-	-	336.0	-
	State and Private Forestry	432.0	-	-	-	-	-	-	-	-	-	-	-	86.4	345.6
	National Forest System	1,508.0	-	-	-	-	-	-	-	-	-	-	-	1,508.0	-
	Wildland Fire Management	1,848.0	-	-	-	-	-	-	-	-	-	-	-	17,746.0	73.9
	Payments to States	310.0	-	-	-	-	-	-	-	-	-	-	-	-	310.0
	Payments to States, Northern Spotted Owl Guarantee	-1.0	-	-	-	-	-	-	-	-	-	-	-	(1.0)	-
	Management of National Forest Lands for Subsistence Uses	6.0	-	-	-	-	-	-	-	-	-	-	-	6.0	-
	Working Capital Fund	188.0	-	-	-	-	-	-	-	-	-	-	-	188.0	-
	Land Acquisition	90.0	-	-	-	-	-	-	-	-	-	-	-	90.0	-

USDA FY 2005 Program Obligations
($ in Millions)

Agency	Account	Program Obligations	Objectives 1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
FS (cont'd)	Federal Payment, Payments to States, National Forests Fund	89.0	-	-	-	-	-	-	-	-	-	-	-	-	89.0
	Timber Roads, Purchaser Elections	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0	-
	Roads and Trails for States, National Forest Fund	14.0	-	-	-	-	-	-	-	-	-	-	-	14.0	-
	Timber Salvage Sales	69.0	-	-	-	-	-	-	-	-	-	-	-	69.0	-
	Expenses, Brush Disposal	12.0	-	-	-	-	-	-	-	-	-	-	-	12.0	-
	Range Betterment Fund	2.0	-	-	-	-	-	-	-	-	-	-	-	2.0	-
	Acq. Of Lands for NF, Special Acts	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0	-
	Payment to Minnesota from the National Forests Fund	2.0	-	-	-	-	-	-	-	-	-	-	-	-	2.0
	Restoration of Forest Lands	1.0	-	-	-	-	-	-	-	-	-	-	-	1.0	-
	Acq. of Lands to Complete Land Exchanges	2.0	-	-	-	-	-	-	-	-	-	-	-	2.0	-
	Operation and Maintenance Quarters	8.0	-	-	-	-	-	-	-	-	-	-	-	8.0	-
	Timber Sale Pipeline Restoration Fund	2.0	-	-	-	-	-	-	-	-	-	-	-	2.0	-
	Recreation Fee Demonstration Program	46.0	-	-	-	-	-	-	-	-	-	-	-	46.0	-
	Land Between the Lakes Management Fund	3.0	-	-	-	-	-	-	-	-	-	-	-	3.0	-
	Legacy Fund	61.0	-	-	-	-	-	-	-	-	-	-	-	-	61.0
	Payments to Counties, National Grasslands	7.0	-	-	-	-	-	-	-	-	-	-	-	-	7.0
	Cooperative Work Trust Fund	114.0	-	-	-	-	-	-	-	-	-	-	-	114.0	-
	Reforestation Trust Fund	31.0	-	-	-	-	-	-	-	-	-	-	-	31.0	-
Total		**134,373.0**	**1,870.3**	**3,140.0**	**5,075.1**	**44,714.5**	**7,186.0**	**9,069.6**	**1,230.9**	**2,204.2**	**49,396.9**	**561.1**	**290.4**	**5,313.5**	**4,319.8**
Total by Goals			**54,800**				**16,256**		**3,435**		**50,248**			**9,633**	

*Goal and objective totals have been rounded to the nearest whole number. Totals may not add due to rounding.

FISCAL YEAR 2005 STAFF YEARS

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

USDA FY 2005 Staff Years														
	Staff	USDA Objectives												
Agency	Years	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
OSEC	87	4.4	4.4	4.4	4.4	8.7	8.7	8.7	8.7	5.8	5.8	5.8	8.7	8.7
OCFO	1524	76.2	76.2	76.2	76.2	152.4	152.4	152.4	152.4	101.6	101.6	101.6	152.4	152.4
OCIO	1113	55.7	55.7	55.7	55.7	111.3	111.3	111.3	111.3	74.2	74.2	74.2	111.3	111.3
DA	599	30.0	30.0	30.0	30.0	59.9	59.9	59.9	59.9	39.9	39.9	39.9	59.9	59.9
OC	109	5.5	5.5	5.5	5.5	10.9	10.9	10.9	10.9	7.3	7.3	7.3	10.9	10.9
OIG	594	29.7	29.7	29.7	29.7	59.4	59.4	59.4	59.4	39.6	39.6	39.6	59.4	59.4
OBPA	67	3.4	3.4	3.4	3.4	6.7	6.7	6.7	6.7	4.5	4.5	4.5	6.7	6.7
OGC	322	16.1	16.1	16.1	16.1	32.2	32.2	32.2	32.2	21.5	21.5	21.5	32.2	32.2
OCE	71	3.6	3.6	3.6	3.6	7.1	7.1	7.1	7.1	4.7	4.7	4.7	7.1	7.1
HSS	7	0.4	0.4	0.4	0.4	0.7	0.7	0.7	0.7	0.5	0.5	0.5	0.7	0.7
OCR	191	9.6	9.6	9.6	9.6	19.1	19.1	19.1	19.1	12.7	12.7	12.7	19.1	19.1
NAD	106	5.3	5.3	5.3	5.3	10.6	10.6	10.6	10.6	7.1	7.1	7.1	10.6	10.6
ERS	439	124.8	11.8	17.2	58.0	24.8	24.8	8.9	13.6	16.0	44.4	30.8	-	63.9
NASS	1366	946.6	9.6	-	98.4	232.2	-	0.8	24.6	-	-	-	-	50.5
ARS	8919	-	-	3,302.0	-	-	-	859.0	2,158.0	-	304.0	-	1,069.0	1,069.0
CSREES	451	9.0	3.0	30.0	15.0	100.0	24.0	41.0	18.0	85.0	10.0	41.0	5.0	70.0
APHIS	6761	811.3	-	-	-	-	-	-	5,949.7	-	-	-	-	-
FSIS	9761	-	-	-	-	-	-	9,761.0	-	-	-	-	-	-
GIPSA	690	690.0	-	-	-	-	-	-	-	-	-	-	-	-
AMS	3029	3,029.0	-	-	-	-	-	-	-	-	-	-	-	-
RMA	512	-	-	-	256.0	-	-	256.0	-	-	-	-	-	-
FSA	5566	-	640.6	-	4,564.0	-	-	-	-	-	-	-	-	361.2
FSA Non-Federal	10220	-	270.9	-	8,256.0	-	-	-	-	-	-	-	-	1,693.0

USDA FY 2005 Staff Years														
	Staff	USDA Objectives												
Agency	Years	1.1	1.2	1.3	1.4	2.1	2.2	3.1	3.2	4.1	4.2	4.3	5.1	5.2
NRCS	12346	-	-	-	-	-	-	-	-	-	-	-	-	12,346.0
RD	6666	-	-	-	-	1,999.8	4,666.2	-	-	-	-	-	-	-
FAS	994	805.1	188.9	-	-	-	-	-	-	-	-	-	-	-
FNS/CNPP	1488	-	-	-	-	-	-	-	-	425.0	241.0	822.0	-	-
FS	35560	-	-	-	-	-	-	-	-	-	-	-	34,848.8	711.2
Total	109,558	6,655	1,364	3,589	13,487	2,836	5,194	11,406	8,643	845	919	1,213	36,402	16,844
Total by Goals*		25,095				8,030		20,049		2,977			53,246	

*Goal and objective totals have been rounded to the nearest whole number. Totals may not add due to rounding.

Data Assessment of Performance Measures

Strategic Goal 1: Enhance Economic Opportunities for Agricultural Producers

Objective 1.1: Expand International Marketing Opportunities

Key Outcome: Improve International Marketing Opportunities

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

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

  The primary sources of trade data are U.S. Customs, which was absorbed into the U.S. Department of Homeland Security, information compiled by the U.S. Census Bureau, the USDA publication "Foreign Agricultural Trade of the United States," and other databases. For some products, trade data are not recorded. Estimating the potential value of a sanitary and phytosanitary accomplishment may be a challenge, especially where new exports to a previously closed market are concerned. In arriving at these estimates, USDA considers such factors as similar exports by other countries, the importing countries' respective purchasing power and sales into comparable markets. In addition to trade data, other sources include market reports compiled by USDA and industry estimates.

- **Reliability of Data**—Data are highly reliable and used by agency and Department officials to highlight successes in the trade-policy arena.

- **Quality of Data**—USDA uses an automated performance tracking system to collect and analyze actual performance data. The data are collected from the Department's network of overseas offices and headquarters staff conducting trade compliance and enforcement activities, and providing trade negotiation support to the U.S. Trade Representative (USTR). An established procedure is maintained to review each reported success for verification and the prevention of double counting. There often is a lag time between reporting successful resolution of trade issues and reporting the estimated value to U.S. agriculture. This also can happen with independent verification through the U.S. Government's official trade statistics. There is no known remedy immediately available to address this problem.

Exhibit 68: Performance Threshold for 1.1.1

Threshold Documentation Table						
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
1.1.1	Dollar value of trade preserved through FAS staff interventions and trade agreement monitoring ($Mil)	FAS	2,000	> 2,500	2,500 to 1,500	<1,500

Threshold Documentation Table					
Performance Goal	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet

Rationale for Met Range:

Annual targets for this measure, based on five years of program history, have demonstrated that the performance levels are controlled by international parties. USDA annual targets reflect U.S. expectations for successfully addressing international compliance with trade agreements and resolving actual U.S. trade access issues that arise so that domestic exports can continue. Additionally, the level of international cooperation and agreement with U.S. proposed trade negotiations depends on international parties. A met or exceeded target reflects USDA successes in addressing barriers to U.S. trade. An unmet target can mean that USDA monitoring activities prevented noncompliance.

Objective 1.2: Support International Economic Development and Trade Capacity Building

Key Outcome: Support Foreign Food Assistance

1.2.1 Number of mothers, infants and school children receiving daily meals and take-home rations through McGovern-Dole International Food for Education and Child Nutrition Program

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

- **Completeness of Data**—All cooperating sponsors who participate as program delivery partners are required to follow an exact established survey methodology developed by the USDA. The survey covers data on food rations distributed and school enrollment and promotions to the next grade level. While the biannual survey results supplied cover the first and third quarters of the fiscal year, there is a 30-day lag time between the survey's completion, coordination and delivery to USDA. Projected estimates between these times are provided through ongoing correspondence with the program organizations. All estimates and results are based on the previous year's signed agreements since the signatures occur during the fourth quarter of the previous fiscal year.

  Annual performance targets take into account a one-year lag time for the food aid to arrive in the country. During the first quarter of FY 2004, the FY 2003 agreements for food were delivered to the countries. During the second quarter, approximately half of the agreements provided counties food for direct feeding. During the third quarter, all of the agreements provided food rations. For most of the fourth quarter, few food rations were distributed as schools are on summer break.

- **Reliability of Data**—Data are reliable, of good quality and used by Department officials to highlight successes in the trade policy arena.
- **Quality of Data**—Data collected following the USDA-developed and required survey tool depend on the program participant's ability to interview food recipients. Access to recipients during the survey period may depend upon social conditions, civil unrest and weather and transportation conditions.

Exhibit 69: Performance Threshold for 1.2.1

Threshold Documentation Table						
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
1.2.1	Number of mothers, infants and school children receiving daily meals and take-home rations through McGovern-Dole International Food for Education and Child Nutrition Program	FAS	2.2	> 1.50	1.50 to 1.10	< 1.10

Rationale for Met Range:

An initial annual threshold is set at 90 percent of the original pilot program target. A new threshold will be evaluated after three years of actual data are collected.

Objective 1.3 Expand Alternative Markets for Agricultural Products

Key Outcome: Increase the Purchases of Biobased Products by Federal Agencies, Resulting in Increased Demand for Farm Commodities and Increased Investment in Processing and Manufacturing Activity Based in Rural America

1.3.1 Number of groupings of biobased products designed for procurement

Data to support designation of biobased products for procurement by rulemaking are obtained from a number of sources. First, manufacturers and vendors of such products are identified and contacted. USDA asks for their cooperation in providing data and other product information necessary for the designation of an item by rulemaking. Second, product samples are requested from manufacturers and vendors for biobased content testing. Third, product-manufacturing information also is requested from manufacturers and vendors to support an analysis of several environmental factors associated with the use of the product and its life-cycle cost. Finally, the Department asks manufacturers and vendors for the results of industry-accepted performance tests against which their products have been tested.

- **Completeness of Data**—These data are used to develop the required information on generic groupings of biobased products for use in designation rulemaking. They are developed in cooperation with manufacturers and vendors of biobased products that fall under the umbrella of a designation. Data used meet the statutory requirements for designation rulemaking.
- **Reliability of Data**—Data are gathered from cooperating manufacturers and vendors. Then, these data are used in analyses to determine the biobased content of a range of products within a generic grouping and the environmental attributes and life-cycle costs of these products. The data are used in tests that determine American Society for Testing and Materials (ASTM) compliance. This compliance is named for ASTM International, a major standards-setting organization that develops consensus standards using participants from industry, academia and Government. Its standards are used widely around the world. The results from analyses of a range of products then are used to characterize the generic groupings considered consistent with statutory requirements.
- **Quality of Data**—The quality of the data used in analyses is high. Samples of products to be tested for biobased content are handled consistently with ASTM-specified processes. Information is gathered for analysis of environmental attributes and life-cycle costs, which is required to support an

ASTM-compliant analytic framework. Information is gathered from manufacturers and vendors for analysis of the environmental and health effects of using the products and the life-cycle costs associated with their use (life-cycle costs are measured over the life of the products, including disposal costs, and stated in current dollars), as opposed to simply the purchase price of the product.

Exhibit 70: Performance Threshold for 1.3.1

Threshold Documentation Table							
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
1.3.1	Number of groupings of biobased products designated for procurement	OEPNU	4	> 3	1 - 3	< 1

Rationale for Met Range:

Ranges will be re-evaluated each year for reasonableness and identification of a historical trend. The current ranges reflect the cooperation level of manufacturers and vendors in working with OEPNU to develop data required for designation of generic groupings by rulemaking.

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

Key Outcome: Improve Economic Viability of Farmers and Ranchers

1.4.1: Increase the percentage of beginning, racial and ethnic minority farmers and women farmers financed by USDA

1.4.2: Reduce average processing time for direct loans

1.4.3: Reduce average processing time for guaranteed loans

The Farm Loan Program (FLP) makes direct and guaranteed farm ownership and operating loans to family-size farmers and ranchers unable to obtain commercial credit. The data reside primarily in the Program Loan Accounting System (PLAS), Guaranteed Loan System (GLS) and FLP Databases. Web-based reports are the primary means of measuring Farm Loan Program performance. USDA reviews these reports quarterly to monitor progress toward achieving performance goals.

- **Completeness of Data**—Data reported are year-to-date actual as of September 30.
- **Reliability of Data**—Farm Loan Program data are considered reliable. To help ensure data reliability, internal controls are built into the systems. System enhancements and reviews also have contributed to the overall reliability. Additionally, USDA reviews system reports to monitor program performance. Comprehensive internal control reviews are conducted in State offices annually to ensure sound loan-making decisions and that program implementation complies with statutes and regulations. Finally, since most Farm Loan Program data originate from USDA's accounting system, it is subject to an OIG audit.
- **Quality of Data**—The data used in this report are collected for multiple purposes. They are gathered throughout the normal lending process without significant additional burden or analytical resources needed.

Exhibit 71: Performance Threshold for 1.4.1, 1.4.2 and 1.4.3

Threshold Documentation Table						
				Performance Thresholds		
Performance Goal		Owner	Target	Exceeded	Met	Unmet
1.4.1	Increase the percent of loans to beginning and socially disadvantaged farmer/ranchers	FFAS/FSA	35%	>35.5%	34.5 to 35.5%	<34.5%
Rationale for Met Range: Management determination based on previous year results.						
1.4.2	Reduce average processing time for direct loans	FFAS/FSA	40	>40.5	35.5 to 40.5	<35.5
Rationale for Met Range: Management determination based on previous year results.						
1.4.3	Reduce average processing time for guaranteed loans	FFAS/FSA	14	>15.0	14.0 to15.0	<14.0
Rationale for Met Range: Management determination based on previous year results.						

Key Outcome: Reduce the Economic Risk of American Agricultural Producers

1.4.4 Increase the value of risk protection provided to agricultural producers through FCIC-sponsored insurance

The value of risk protection denotes the amount of insurance in effect protecting and stabilizing the agricultural economy. USDA's value projection target is based on projections developed in November 2003, forecasted participation and conditions current at that time. The baseline model uses the latest information from the crop insurance program and combines it with USDA baseline projections for major crops. These crops include corn, wheat, soybeans, sorghum, barley, rice and cotton. In making the projections, the model holds various factors constant, such as premium rates and average coverage level. The model assumes that all non-major crops behave consistently with other USDA projections for major crops. The baseline model is a tool for developing budget projections contained in Presidential budget requests. The budget and performance projections for the crop insurance program mainly depend on the baseline projections from numerous USDA agencies.

- **Completeness of Data**—The data used in conjunction with performance information is based on actual data reported through the end of the third quarter. To provide the annual data, USDA projects the results for the fourth quarter of the fiscal year based on prior year performance. Analysis has shown that normally 99 percent of the final actual data will be reported to USDA during the first quarter of the next fiscal year. The Department receives the actual data from insurance companies. It then maintains data through two integrated processing systems that validate the information transmitted by insurance companies. The data then are sent through the system to generate all accounting functions. These processing systems provide a mechanism to ensure that data received are accurate, errors are corrected quickly and timely monthly accounting reports are provided.
- **Reliability of Data**—USDA deems this information to be reliable. The insurance companies receive data from the producers and transmit them to USDA. Once received, the Department takes

extensive steps to verify the data's accuracy and validity. The Standard Reinsurance Agreement (SRA) also provides reinsured companies with disincentives for not following prescribed guidelines and procedures. While the data are deemed reliable, a recent audit by OIG found that the RMA information technology environment might be vulnerable to errors, misuse, abuse, unauthorized access, disruption of service and willful destruction. RMA generally agreed with these findings and has made substantial progress in implementing the agreed to recommendations.

- **Quality of Data**—Data are projected based on historical performance and the target information uses data dependent upon the baseline projections from numerous USDA agencies. To the extent that any of the USDA projections are inaccurate, the projection of value also will be inaccurate.

Exhibit 72: Performance Threshold for 1.4.4

Threshold Documentation Table						
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
1.4.4	Increase the value of risk protection provided to agricultural producers through FCIC-sponsored insurance ($ Bil)	FFAS/RMA	40.0	>42.0	38.0 to 42.0	<38.0
Rationale for Met Range: Annual targets for this measure, based on five years of program history, have consistently seen a variability of plus or minus two for each fiscal year.						

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

Objective 2.1: Expand economic opportunities through USDA financing of businesses

Key Outcome: Improve Rural Quality of Life through Home Ownership Opportunities Provided

Business program data are collected in various systems and ways. The finance office records and reports total loan and grant obligations as of the date the obligation is executed. These data are collected as part of the obligation process. Additionally, RD uses one of its own systems, Guaranteed Loan System (GLS), to collect additional information to satisfy reporting requirements, and for management and evaluation purposes. This information includes the number of jobs created or saved. Data on delinquency status mostly are reported by lenders directly to GLS. In other cases, USDA staff reports delinquency information.

- **Completeness of Data**—Business program data are considered final and complete as of September 30 each year. Other than year-end closing adjustments, once a year is reported, it is not revisited.
- **Reliability of Data**—While borrower financial performance is reported by hundreds of lenders semi-annually to RBCS, all lenders are not submitting required borrower financial performance. Additionally, there is inconsistency in the time periods represented by lender reports. In lieu of a reliable, consistent and complete data set from lenders, the Finance Office's financial data have been found acceptable to OIG, as are State office-verified data on the financial performance of loans. Data

for jobs created or saved are obtained by State office staff from borrowers and lenders. They are entered into GLS at the same time that obligations are recorded. These data are reliable when they have been updated and verified by State staff. USDA reports the computed jobs saved or created based on underlying market and financial feasibility projections that support loan applications. The jobs are counted only in one fiscal year, the year the loan is obligated. The delinquency rate, which excludes loans in bankruptcy, is based on reports supplied by lenders on the performance of each loan.

- **Quality of Data**—While the percentage of States verifying third-party financial and jobs data have improved each year, further improvements are needed. They are designing and completing a model to compute and measure the impacts of business programs in rural communities better. These impacts include a fuller description of the economic impact and such "quality-of-life" issues as health and education.

Exhibit 73: Performance Threshold for 2.1.1

Threshold Documentation Table						
				Performance Thresholds		
Performance Goal		Owner	Target	Exceeded	Met	Unmet
2.1.1	Create or save additional jobs through USDA financing of businesses	RD/RBS (RCAP)	63,856	>67,049	60,663 to 67,049	<60,663

Rationale for Met Range:

USDA has initiated a comprehensive study to verify the methodologies available to accurately track the outcomes of these programs. Until that study is complete and implemented, the Department will continue to track jobs. The job data is gathered when projects are obligated in GLS and the jobs projected are computed based on a formula driven by appropriations, each FY the formula is adjusted based on the historic numbers. A met range of 5 percent is used.

Objective 2.2: Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities and Needed Community Facilities

Key Outcome:

2.2.1 Homeownership

- **Completeness of Data**—Homeownership data are actual, final and complete. The initial entry point for homeownership data is the web-based UniFi system. This centralized server application ensures viable data collection. It tracks performance and forecasts needs. Information entered into UniFi also uploads nightly into the MortageServ (a.k.a., Fasteller) system that is used to obligate funds, establish closed loans, administer escrow accounts, manage defaulted loans and perform other administrative functions. Brio, a query and reporting tool, serves as the interface between the data warehouse and RD staff.
- **Reliability of Data**—Homeownership data originate in systems used to obligate funding and are reliable. Data for initial placement of households into their own homes are reliable since they are linked directly to homeownership loans maintained in USDA's financial accounting systems. No adjustments are made for later defaults and the resulting loss of homeownership.

- **Quality of Data**—Homeownership data are based on loan obligations collected in the Dedicated Loan Origination and Servicing system and stored in USDA's Data Warehouse. As such, the data on the number of households are auditable. Data represent the population served based on available U.S. census information.

Exhibit 74: Performance Threshold for 2.2.1

Threshold Documentation Table

Performance Goal	Owner	Target	Performance Thresholds: Exceeded	Met	Unmet
2.2.1 Home ownership opportunities provided					
▪ Increase financial assistance to rural households to buy a home	RD/RHS (SFH)	38,300	>42,130	34,470 to 42,130	<34,470
▪ Increase the number of minority homeowners	RD/RHS (SFH)	7,660	>8,426	6,894 to 8,426	<6,894

Rationale for Met Range:

The range of 10 percent is based on the historical variance form the target during the past several years in the number of houses sold in the Guaranteed and Direct Single Family Housing loan programs.

2.2.2 Telecommunications

- **Completeness of Data**—Data are actual, final and complete. The county data are collected from each approved loan application. Applicants are required to detail their proposed service territories. This includes the number of subscribers to be served in the location by county. Loan funds are advanced only for approved purposes. Measuring the extent to which broadband service is deployed in rural America on a county-by-county basis will enable USDA to assess improved economic conditions because of the availability of high-speed telecommunications network access for residents and business.

  The data on the number of counties to be served for each loan are derived from applicants' loan applications. Data must be complete before loans can be approved.

- **Reliability of Data**—While applicants are required to perform market surveys of their proposed service areas, the actual counties served may vary from the plan if all funds are not used or the borrower later requests a change of purpose from the original loan application. Overall, the data on counties served are reliable.

- **Quality of Data**—All applications undergo an extensive review to determine eligibility. Additionally, all approved applications must show feasibility from a financial and technical standpoint. Applicants also are required to perform market surveys of their proposed service areas. Therefore, the data are reliable. As previously noted, the data on the number of counties to be served for each loan approved come from the applicant's loan application. The data depend on the borrower drawing down loan funds and constructing the system as portrayed in the applicant's loan design. Loan funds only may be used for the approved purposes for which the loan was made. Variance may result if a borrower does not draw down all loan funds or request approval for a change of purpose from the original loan. This could result in a different number of counties served from the number specified in the plan.

Exhibit 75: Performance Threshold for 2.2.2

Threshold Documentation Table					
			Performance Thresholds		
Performance Goal	Owner	Target	Exceeded	Met	Unmet
2.2.2 Customers served by new or improved telecommunications facilities (Thousands)	(RD/RUS)	325	>348	303 to 348	<303

Rationale for Met Range:

Target based on utilization of approximately $600 million in broadband funding and $687 million in infrastructure funding. The number of subscribers is based on historical costs. Thus, fluctuations occur when plan investment per subscriber is significantly different from historical costs. They also occur when plant investment per subscriber is significantly different from historical costs from year to year. The met range of 50,000 allows for a modest 7 percent deviation below the estimated target.

2.2.3 Water and the Environment

- **Completeness of Data**—The Water and Environmental Programs (WEP) collects data initially through the Community Programs Application Processing (CPAP) system. CPAP is a non-financial system in which the agency field staff input data about applicants, borrowers, funding and services provided. The data obligations flow through the Rural Utilities Loan Servicing System (RULSS) to the PLAS and through a data server to a data warehouse.
- **Reliability of Data**—USDA's data warehouse stores historical information on Department programs and such non-agency data as census information. Program data are downloaded to the warehouse every evening from several accounting databases. Data generally are current through the previous day. The warehouse provides data about obligations and can be used to measure the number of loans, loan amounts, number of borrowers and funds advanced. The warehouse is an easy, accessible online method of extracting information and data for reports and analyses.
- **Quality of Data**—Based on information in CPAP, the number of subscribers receiving new or improved water or wastewater service can be extrapolated from the data warehouse. The WEP National Office and USDA field offices use data from CPAP, the data warehouse and Department accounting systems to review or evaluate the financial, operational and managerial programs of the utilities serving rural customers.

Exhibit 76: Performance Threshold for 2.2.3

Threshold Documentation Table							
				Performance Thresholds		
Performance Goal		Owner	Target	Exceeded	Met	Unmet
2.2.3	Customers served by new or improved water and waste disposal service (Mil)	RD/RUS	.650 Mil	>.680	.680 to .610	<.610

Rationale for Met Range:

Annual targets for this measure are based on historical activity and are adjusted according to the program level received each fiscal year.

2.2.4 Electricity

- **Completeness of Data**—Electric Program data are collected from various Rural Utility Service (RVS) documents including RUS Forms 740c and 130, Borrower's Statistical Profile, Information Publication 201-1 and the borrower's loan application. The data are complete and accurate, and collected at the time of loan approval and reported annually.
- **Reliability of Data**—Applicants are required to report essential data to the Electric Program. These data are used to administer Department loan funds and to ensure the security of the loans. USDA is developing a new loan tracking and data collection system, Rural Utilities Loan Servicing System (RULSS). The Department will be able to capture and access this information in RULSS in FY 2006.
- **Quality of Data**—All applications undergo an extensive review to determine whether the borrower meets all eligibility requirements for the various loans, guarantees and grants offered by the Electric Program. All approved applications must show feasibility from a financial standpoint and ensure loan security. Loan funds may be used only for the approved purposes for which the loan was made.

Exhibit 77: Performance Threshold for 2.2.4

Threshold Documentation Table						
				Performance Thresholds		
Performance Goal		Owner	Target	Exceeded	Met	Unmet
2.2.4	Customers served by new or improved electric service (Mil)	RD/RUS	1.775	>1.864	1.686 to 1.864	<1.686

Rationale for Met Range:

Annual targets for this measure are based on historical activity and are adjusted according to the program level received each fiscal year.

2.2.5 Community Facilities

- **Completeness of Data**—Community Facilities Program data are complete and final. They are collected by means of two streams of input. The finance office records and reports total loan and grant obligations as of the date of obligations. These data are collected as part of the obligation process. Additionally, USDA collects information for management and evaluation purposes. Data on delinquency status are reported by the finance office for community facilities direct loans, and by lenders for the community Facilities guaranteed loans.

- **Reliability of Data**—Community Facilities data are entered into GLS by field staff as the program funds are obligated. Data are final, complete and reliable. They also represent the population served based on available U.S. census information. Population data served by community facilities are estimates. USDA screens data annually for irregularities. Given the variety of areas served by different types of community facilities (e.g., libraries, fire stations, health clinics), estimation is not a precise science. Population estimates served by community facilities are based on engineering studies used for the design of new or expanded public utilities systems. The Department is developing mapping technologies to improve the determination of service areas for community facilities.
- **Quality of Data**—As new programs are authorized, CPAP is used to create data systems that field staff can use to work directly and interactively with applicants. Planned system requirements can be developed quickly. CPAP contains a number of edit checks to enhance reliability. The data are stored on a server and moved nightly to the data warehouse for permanent storage and reporting. This manner of developing system plans greatly enhances data reliability since they are integral to program planning.

Exhibit 78: Performance Threshold for 2.2.5

Threshold Documentation Table						
				Performance Thresholds		
Performance Goal		Owner	Target	Exceeded	Met	Unmet
2.2.5	Customers served by new or improved community facilities (Mil)	RD./RHS (RCAP)	12	>14	10 to 14	<10

Rationale for Met Range:

Because the number of residents served by each grant may vary widely, it is difficult, if not impossible, to estimate with any precision a range of residents served. One grant for a fire engine could serve 22,000 people whereas the same grant amount for a hospital could server 22,000. Therefore, USDA would consider its 2004 goal unmet if CF serves fewer than 10 million people.

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

Objective 3.1: Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry and Egg Products

Key Outcomes: Basing Policies on Science

For the two Key Outcomes, USDA uses secure and accurate food safety data systems. The data are derived from sampling plans and analysis of product samples taken from meat and poultry plants by Department employees. The samples are analyzed by International Standards Organization (ISO) accredited laboratories to ensure accurate results. ISO is a network of the national standards institutes of 146 countries. These countries work with foreign organizations, Governments industry business and consumer representatives. Once the laboratories have the results, they enter them into the Laboratory Sample Flow System. The system then forwards the results to the Microbiological and Residue Computer Information System. The results then are sent to the Pathogen Reduction Enforcement System (PREP). PREP uses the results to schedule future sampling at USDA-inspected plants. The data are considered to be extremely reliable. Policy, program decisions and resource allocation are based on this data.

Improve Detection of Foodborne Hazards

Data for developing systems for detecting foodborne hazards represent actual accomplishments to date and are highly reliable. Each research unit submits annual progress reports via USDA's state-of-the-art electronic information and database system. Line and program managers review the information and report their findings to Congress, customers, stakeholders, partners and the general public. Progress reports are available at http://www.ars.usda.gov. Once there, click on the word "Research" located in the upper left-hand corner of the screen. The reports also are available at the Food Safety Research Information Office (FSRIO). This office is the source for all Federal food safety research information, including the role and duties of the Joint Institute for Food Safety Research. This group was created to coordinate Federal food safety research to ensure that valuable resources are directed to the most needed and most promising projects. Data from the USDA Food Safety Research Program must meet FSRIA's quality standards. Customers and stakeholders provide the Department with continual feedback on the data's quality, relevance, value and usefulness.

Completeness, Reliability and Quality of Data

- **Pathogen Measures**—All samples are logged in upon receipt, analyzed and then entered into the Laboratory Sample Flow System. A sample's milestones are posted on an intranet site accessible by the sample collector and other agency personnel to monitor the sample's progress. Reports are generated periodically to review sample status, cumulative results and other sampling data summaries. Any potential errors are brought immediately to the attention of the System Administrator for investigation and correction.
- **Viewing Measure**—Audience viewings reflect a combination of documented Hotline calls, electronic mailboxes, web viewings, newsletter subscriptions, publication distributions, and the Agency Rep, "AskKaren" web-based initiative. Included is a percentage (20 percent) of various media (TV, radio, print) outlet audience tracking data as compiled by independent media outreach tracking services.

Quality of Data

- **Pathogen measures**—The laboratories are accredited through ISO 17025, which requires extensive quality procedures, documentation and review.
- **Viewing measure**—Viewing data of food safety messages is based on a combination of actual documented records, reports and/or print-outs (daily, weekly and monthly) along with a percentage (20 percent) of the total various media circulation, listener and viewing audience figures provided through tracking services.

Reliability of Data

- **Pathogen measures**—The data are reviewed thoroughly prior to posting annual summaries on the FSIS web site http://www.fsis.usda.gov, publications and published reports.

- **Viewing measures**—USDA defines viewings as a best estimate of the number of people exposed to food safety messages through all the means used to deliver these messages: print, radio or television media, conventions, presentations, newsletters, USDA web site visits, Meat and Poultry Hotline calls, food safety publications, the USDA Mobile and State partnerships. Data are reviewed weekly and/or monthly prior to inclusion in other reports.

Exhibit 79: Performance Thresholds for 3.1.1, 3.1.2, 3.1.3 and 3.1.4

Threshold Documentation Table					
			Performance Thresholds		
Performance Goal/Measure	Owner	Target	Exceeded	Met	Unmet
3.1.1: Prevalence of *Salmonella* on broiler chickens	FSIS	11.7%	<10.0	10 to 12	>12
Rationale for Met Range: For *Salmonella* in young chickens where existing prevalence is more than 10 percent, a regulatory prevalence of 10 to 12 percent reflects a performance consistent with the target.					
3.1.2: Prevalence of *Listeria monocytogenes* on ready-to-eat meat and poultry products	FSIS	0.8%	<.7	.7 to .9	>.9
Rationale for Met Range: For *Listeria monocytogenes* on ready-to-eat meat and poultry products where regulatory prevalence is already below 1 percent, a regulatory prevalence of .7 to .9 percent reflects a performance consistent with the recommended target.					
3.1.3: Prevalence of *E. coli* 0157:H7 on ground beef	FSIS	0.37%	<.18%	.18 to .9	> .9
Rationale for Met Range: For *E. coli* 0157:H7 on ground beef products where regulatory prevalence is already below 1 percent, a regulatory prevalence of .18 to .9 percent reflects a performance consistent with the recommended target.					
3.1.4: Millions of viewings of food safety messages (Mil)	FSIS	94M	>100M	90M to 100M	<90M
Rationale for Met Range: Achieving 90-100 Million viewings is recognized as a sound marketing strategy to raise awareness of safe food handling behaviors.					

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

Key Outcome: Provide a Secure Agricultural Production System and Healthy Food Supply

3.2.1 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans

The process of determining this performance result involves several steps: (1) routine monitoring and surveillance of world animal health problems; (2) investigating specific reports to identify if a new introduction of a significant foreign animal disease has occurred and testing to determine the extent of infection; and (3) evaluation to determine the severity of the damage and summarize the results count.

(1) Routine Monitoring: Notice of the need to investigate a possible foreign animal disease may come from a wide variety of sources spread throughout the country. The National Animal Health Monitoring System

conducts planned surveys of diseases likely to have major impact on production and marketing. The National Animal Health Strategic Plan Objective 2 “Develop standards, quality control, and performance metrics for surveillance systems” states that key health indicator data will be collected annually starting in October 2005. Specific causes of loss by age group within each commodity will be gathered. In addition to conducting domestic surveys, USDA also maintains the presence of animal health professionals overseas to collect surveillance information on foreign animal diseases to prevent these diseases from entering the United States.

(2) Foreign Animal Disease Investigations and Testing: USDA set a target of 550 foreign animal disease investigations for FY 2004. When an infection is reported and confirmed, area-wide testing is conducted around the foci of infection using a comprehensive system of statistically significant diagnostic samples. The samples are tested in state-of-the-art laboratories. Testing data are recorded in the Emergency Management Response System (EMRS), National Animal Health Monitoring System (NAHMS) and the National Animal Health Reporting System (NAHRS.) All susceptible animals within an appropriate distance of the foci of infection are tested. The appropriate area for testing is determined using data regarding disease agents and how those agents are spread (through the air by biological or mechanical). The anticipated spread rate is based on weather conditions and movements or contacts on and off of the infected premises, as well as the anticipated expectations of trading partners regarding testing and surveillance. Animals that are positive or have known exposure within at least two disease agent incubation periods are destroyed or retested until the quarantine is removed. If there are limited numbers of animals around the foci of infection the testing area may be expanded to ensure that no animals are infected, and trace out investigations and testing on all animals from the foci herd may be performed.

Statistical sampling focuses on animals at slaughter and, concentration points if movement is being allowed, or in high risk areas. Door-to-door censuses are completed or requests are made that the public report any sick animals meeting a particular case description. Sampling data should be entered into the National Veterinary Services Laboratories (NVSL) databases, EMRS and National Animal Health Laboratory Network (NAHLN) databases. NVSL validates all samples found positive by other network laboratories.

(3) Reporting and Summarizing Results: As data about introduction arrive, veterinarians on USDA’s Emergency Programs Staff analyze them and apply criteria to determine if the introductions are significant and have spread. All introductions of agents listed by World Organization for Animal Health (Office International des Epizooties (OIE)) and considered to be foreign to the U.S. are reported are reported to that body.

- **Completeness of Data**—The end-of-year data are complete, actual and final when the scheduled testing is finished, the samples are analyzed and the quarantined animals are tested and released. A cutoff time for the data, which are used for the final summary count, has been set at approximately one month before the required reporting date. If no data indicating an outbreak has spread have been received in the month preceding the decision, the decision based on that time period will be made. If additional data are submitted indicating an outbreak has spread, they will be considered for the next time period.
- **Reliability of Data**—The summary data are considered reliable when USDA’s Deputy Administrator of Veterinary Services’ has reviewed and approved them.

- **Quality of Data**—The issues related to collection and reporting of performance information are described above.

Exhibit 80: Performance Threshold for 3.2.1

Threshold Documentation Table							
				Performance Thresholds		
Performance Goal/Measure		Owner	Target	Exceeded	Met	Unmet
3.2.1	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans.	APHIS	0	Not possible	0	1 or above
Rationale for Met Range: These foreign animal diseases are very serious. Veterinary Services seeks to prevent the spread of every single one.						

3.2.2 Percentage of facilities in complete compliance at the most recent inspection and

3.2.3 Number of animals affected by noncompliances documented on inspection reports.

The data source for these measures is the Licensing and Registration Information System (LARIS), which contains facility inspection results data on licensed and registered facilities.

Animal Care field inspectors enter reports into LARIS using laptop computers. Copies of inspection reports are provided to facility personnel and reviewed by supervisory animal-care specialists. There is ample opportunity for correcting any errors. In FY 1999, reports were found to be present in LARIS for 99 percent of active facilities. The validity of the measures was established in 1996 using a team of front-line inspectors and input from stakeholder organizations. Totals are computed by an automated program.

While the percentage of compliant facilities is an excellent, comprehensive, overall measure, it is not a perfect indicator of the welfare of animals. Minor problems that do not affect the welfare of animals directly count against the facilities. To compensate, a measure for animals affected by noncompliances was added. The number of inspections performed also is tracked and made available to managers.

- **Completeness of Data**—It takes animal welfare facility inspectors about a month to finalize their facility inspection data. If they fail to enter the data for a given facility, the computer program that counts the number of facilities in compliance will select the previous inspection report to see if the facility was in compliance on its previous inspection. If results data are required to be reported before the inspectors can enter their findings, the data on the percentage of compliant facilities, while still considered complete, will be based on a slightly earlier time period. This should not affect the results significantly. On the other hand, the computer program that counts the number of animals affected by violations will understate the results, and they will need to be adjusted to represent a full year of findings.
- **Reliability of Data**—While there will be some variation between inspectors in how strict they are, when all their tendencies are pooled, the differences offset each other. The inspectors must continue to use their best professional judgment in the same way each year for comparable results.

- **Quality of Data**—These data are of highest quality. They are taken very seriously by the inspectors and facility owners or managers, and documented with signatures. If there are mistakes or disagreements, an avenue for appeal to the inspector's supervisor exists.

Exhibit 81: Performance Thresholds for 3.2.2 and 3.2.3

Threshold Documentation Table						
Performance Goal/Measure		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
3.2.2	Percent of facilities in complete compliance at the most recent inspection	APHIS	340,000	>343,400	336,600 to 343, 400	<336,600
3.2.3	Number of animals affected by noncompliances documented on inspection reports Baseline: 2001 = 588,961	APHIS	70%	>72%	72 to 68	< 68%

Rationale for Met Range:

With so many animals affected by noncompliance, it is reasonable that the results could vary by 1 percent more than or less than the target and still be considered to have met it. Anything beyond 1 percent would mean the target has been exceeded or not met. Note that the goal is to lower this result.

A similar basis was used for the percent of facilities in compliance. There are more than 15,000 at any given time. A variation of 1 percent seems insignificant.

Key Outcome: Improve Animal and Plant Diagnostic Laboratory Capabilities

3.2.4 Expand the ability to detect plant diseases to protect the Nation from disease outbreaks

3.2.5 Expand the ability to detect animal diseases to protect the Nation from disease outbreaks

- **Completeness of Data**—This measure is direct and verifiable and representative of the ultimate purpose of the Diagnostic Networks, i.e., to detect and identify disease threats.
- **Reliability of Data**—USDA action, other internal and external customers and stakeholders, and regulatory agencies routinely accept the data.
- **Quality of Data**—Most of the data released is published in scientific journals where they undergo peer review before publication. All data released to the public are governed by the USDA Data Quality Guidelines.

Exhibit 82: Performance Thresholds for 3.2.4 and 3.2.5

Threshold Documentation Table						
Performance Goal/Measure		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
3.2.4	Expand the ability to detect plant diseases to protect the Nation from disease outbreaks					
	▪ Specific plant diseases labs are prepared to detect	CSREES	3	>4	2 to 4	<2
3.2.5	Expand the ability to detect animal diseases to protect the Nation from					

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
disease outbreaks					
■ Specific animal diseases labs are prepared to detect	CSREES	6	>7	5 to 7	<5

Rationale for Met Range:

The proposed range is reasonable, given the possibility of unanticipated barriers to research.

Key Outcome: Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks

3.2.6 Provide scientific information to protect animals from pests, infectious diseases and other disease-causing entities that impact animal and human health

- **Completeness of Data**—Research is a continuum of discovery so it is constantly being updated. ARS does everything it can to ensure the completeness of its data at the time it is released.
- **Reliability of Data**—ARS data is routinely accepted by the USDA action and regulatory agencies.
- **Quality of Data**—Most of the data released by ARS is published in scientific journals where it undergoes peer review before publication. ARS data released to the public is governed by the USDA Data Quality Guidelines.

Exhibit 83: Performance Thresholds for 3.2.6

Threshold Documentation Table					
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
3.2.6 Provide scientific information to protect animals from pests, infectious diseases and other disease-causing entities that impact animal and human health.					
■ Number of organisms or variants of the microorganisms sequenced each year.	ARS	7055	>57	53 to 57	<53
■ Number of resistance markers for a variety of diseases identified.	ARS	108	>9	7 to 9	<7
■ Number of tests that are transferred to universities, State laboratories, private industry or other countries for use.	ARS	3	>4	2 to 4	<2

Rationale for Met Range:

With the possibility of unanticipated research barriers mitigating against achieving the target, it qualifies as a reasonable proposed range.

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

Objective 4.1: Improve Access to Nutritious Food

Key Outcome: Improve Nutrition through Increased Access and Utilization of These Vital Programs by Those Eligible to Participate

4.1.1 Rates of eligible populations participating in the Food Stamp Program

This rate is calculated by comparing estimates of eligible individuals with the number of actual participants. The resulting participation rates estimate the percentage of individuals eligible for FSP who choose to participate.

Participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. Otherwise, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.

The estimate of individuals eligible for the program is developed using a computer model of eligibility requirements applied to data from the U.S. Census Bureau's annual Current Population Survey. This survey covers demographic characteristics of the U.S. population. It uses nationally representative sampling techniques. This data are supplemented with that on food stamp participant characteristics derived from the food stamp quality control (QC) process. Food stamp participant data are based upon statistically valid methodology (For more information on QC, see the assessment section for Objective 4.3.1).

- **Completeness of Data**—Because of the time required to collect and analyze the current population survey and the QC data, reporting on this measure is deferred to the following year's report. Once available, data for both participants and eligible people are complete. Participation data are collected and validated monthly before being declared annual data. The current population survey and QC data represent statistically valid national samples.
- **Reliability of the Data**—The data are highly reliable. Participation data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office (GAO), the Office of Inspector General (OIG) and the Office of Management and Budget.
- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.

4.1.2 Rates of eligible populations participating in the School Breakfast Program

This measure is calculated by comparing the average daily participation of children in SBP with estimates of total enrollment in U.S. public and private schools. The estimates originate from data collected and compiled by the U.S. Department of Education's National Center for Educational Statistics (NCES). NCES collects and analyzes data related to education in the U.S. and other nations.

Data on public school enrollment are drawn from the NCES Common Core of Data. This is a comprehensive, annual, survey-based national statistical database of information concerning all public elementary and secondary schools (approximately 100,000) and school districts (approximately 18,000). Data on private school enrollment is drawn from the private school universe survey. This survey represents a biennial data collection on the number of private schools, teachers and students in the U.S.

- **Completeness of Data**—Because of the time required to collect and report the NCES survey data, reporting on this measure is deferred to a subsequent year's report. Once available, data for both participants and eligible people are complete. Participation data are collected and validated monthly before being declared annual data. The NCES survey data represent statistically valid national samples of public and private school enrollment.
- **Reliability of the Data**—The data are highly reliable. Participation data reporting are used to support program financial operations. NCES surveys are recognized nationally as definitive sources of information on U.S. schools.
- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA.

4.1.3 Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children

Currently, the measure—specifically, a methodology to estimate the number of people eligible for WIC—is under development. Reporting on this measure will be deferred until data are available.

Exhibit 84: Performance Threshold for 4.1.1, 4.1.2 and 4.1.3

Threshold Documentation Table

Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
4.1.1	Rates of eligible populations participating in the Food Stamp Program	FNS	59.1%	≥59.4	58.6 to 59.3	≤58.5
4.1.2	Rates of eligible populations participating in the School Breakfast Program	FNS	18.0	≥18.1	17.9 to 18	≤17.8
4.1.3	Rates of eligible populations participating in the Special Supplemental Nutrition Program for Women, Infants and Children	FNS	Measure under development	Measure under development	N/A	N/A

Rationale for Met Range:

The participation rate threshold range of ±.5 percent from the target reflects a level of performance consistent with the target.

Objective 4.2: Promote Healthier Eating Habits and Lifestyles

Key Outcome: Promote More Healthful Eating and Physical Activity across the Nation

4.2.1: Improve the Healthy Eating Index (HEI) scores for the U.S. population

USDA's Healthy Eating Index (HEI) is an analysis of data from the U.S. Department of Health and Human Service's National Health and Nutrition Examination Survey (NHANES). HEI determines the extent to which the diets of survey respondents are consistent with the recommendations of the *Dietary Guidelines for Americans* and the food guidance system. NHANES is a nationally representative survey that provides information on people's consumption of foods and nutrients, health-related data and Americans' demographic and socioeconomic characteristics.

- **Completeness of Data**—Because of the time required to collect, analyze and publish NHANES data, reporting on this measure is deferred to a subsequent year's report. Once available, the HEI data are complete, reflecting a nationally representative sample of the population.
- **Reliability of the Data**—The data are highly reliable. NHANES uses a well-documented, consistent survey protocol. It is used as a basis for a wide range of peer-reviewed research reports. The HEI methodology is used consistently by USDA in analyses of data quality Nationwide and interactive tools designed to assess the diet quality of individuals.
- **Quality of the Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The HEI measure itself is published in publicly available reports and used as a national indicator of diet quality.

Exhibit 85: Performance Threshold for 4.2.1

Threshold Documentation Table						
Performance Goal		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
4.2.1	Improve the Healthy Eating Index (HEI) scores for the U.S. Population:					
	▪ HEI for People with Incomes under 130% of Poverty	FNS	66	>67.3	64.7 to 67.3	<64.7
	▪ HEI for the U.S. Population	CNPP	65	>65.5	65.5 to 63.7	<63.7

Rationale for Met Range:

HEI for People with Incomes under 130 percent of Poverty threshold is based on the 95 percent confidence interval centered on the HEI measure (mean). Though no FY 2004 target was set, the Exceed and Unmet thresholds would be derived from the confidence interval of ± 1.33 points above or below the annual target. Performance that falls within the range between the thresholds is considered to have met the target.

HEI for the U.S. Population threshold is based on the 95 percent confidence interval centered on HEI measure (mean). The Exceed and Unmet thresholds are derived from the confidence interval of ± .95 points above or below the FY 2004 target. Performance that falls within the range between the thresholds is considered to have met the target.

Key Outcome: Increase Nutrition Information Available to the Public

4.2.2 Determine food consumption patterns of Americans, including those of different ages, ethnicity, regions, and income levels. Provide sound scientific analyses of U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance programs

Each research project submits an annual project report. The report, which is reviewed by the appropriate area office and national program leaders, provides such performance information as achieving project milestones.

- **Completeness of Data**—Research is a continuum of discovery so it is being updated constantly. USDA does everything it can to ensure the completeness of its data at the time it is released.
- **Reliability of Data**—USDA action, other internal and external customers and stakeholders, and regulatory agencies routinely accept the data.
- **Quality of Data**—Most of the data released is published in scientific journals where they undergo peer review before publication. All data released to the public are governed by the USDA Data Quality Guidelines.

Exhibit 86: Performance Threshold for 4.2.2

Threshold Documentation Table						
Performance Goal/Measure	Owner	Target	Performance Thresholds		
			Exceeded	Met	Unmet
4.2.2 Determine food consumption patterns of Americans, including those of different ages, ethnicity, regions, and income levels. Provide sound scientific analyses of U.S. food consumption information to enhance the effectiveness and management of the Nation's domestic food and nutrition assistance programs.					
▪ Number of reports from the USDA Food and Nutrient Database.	ARS	4	>5	4 to 5	≤3

Rationale for Met Range:

Data sets determined as the most valuable information from the survey.

Objective 4.3: Improve Food Program Management and Customer Service

4.3.1: Increase Food Stamp payment accuracy

Food stamp payment accuracy data drawn from the Quality Control (QC) system are used annually to support performance incentives to promote payment accuracy. They are based upon statistically valid methodology. The QC process uses a systematic random sampling of Food Stamp Program (FSP) participants. The results of these activities are used to determine individual States' combined payment error rate. This rate is composed of over-issuances and under-issuances of FSP benefits. A regression formula is applied to the results of the reviews to calculate official error rates.

State agencies select cases monthly that are reviewed to determine the accuracy of the eligibility and benefit-level determination. They include a client interview and verification of all elements of eligibility, and the basis of issuance of food stamp benefits. Federal reviewers validate a sample of the State's reviews by conducting a second review. State agencies can verify and validate data through an informal review process. This process and current protections designed to ensure the data's accuracy are based on an agreement between the States and Federal reviewers. The process has proven to be a sound method of calculating reliable data.

- **Completeness of Data**—The most current data available for this measure are for FY 2003. Analysis of FY 2004 performance will be deferred until next year's report. Once available, the data are complete and reliable.
- **Reliability of Data**—QC data are valid and accepted by State FSP agencies as a basis for performance-incentive payments and penalties. GAO and OIG also use it regularly.
- **Quality of the Data**—The data used to develop this measure, which are considered the most valid food nutrition intake information available, are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.

Exhibit 87: Performance Threshold for 4.3.1

Threshold Documentation Table						
	Performance Goal/Measure	Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
4.3.1	Food Stamp Payment Accuracy (%)	FNS	93.5	>93.8	93.2 to 93.8	<93.2

Rationale for Met Range:

The 95 percent confidence interval around the estimate of payment accuracy is ±.33 percent.

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

Objective 5.1: Implement the President's Healthy Forests Initiative and Other Actions to Improve Management of Public Lands

Key Outcome: Reduce the Risk from Catastrophic Wildland Fire

5.1.1 Number of acres of hazardous fuel treated that are in the wildland-urban interface and percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan

5.1.2 Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1,2, or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan

5.1.3 Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class

The data for hazardous fuels treatments are reliable, of good quality and certified by the respective line officer. USDA wildfire and other program managers collected, compiled and analyzed the data.

- **Completeness of Data**—Data are based on actual data.

- **Reliability of Data**—All data for hazardous fuels were reported through the National Fire Plan Operations and Reporting System. This system was co-developed by USDA and U.S. Department of Interior land-management agencies. Validation and oversight are accomplished through monthly conference calls between USDA and regional foresters.
- **Quality of Data**—Data quality has been assessed at greater than 90 percent for project data in all regions. The quality of these data is monitored continuously and being improved with focused training and policy direction on reporting requirements.

Exhibit 88: Performance Threshold for 5.1.1, 5.1.2 and 5.1.3

Threshold Documentation Table							
				Performance Thresholds		
Performance Goal/Measure		Owner	Target	Exceeded	Met	Unmet
5.1.1	Number of acres of hazardous fuel treated that are in the wildland-urban interface and percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan (thousand acres)	NRE/FS	1,250	>1,300	1,225 to 1,275	<1,250
Rationale for Met Range Annual targets for this measure, based on history, have seen a consistent variability of 100,000 acres.						
5.1.2	Number of acres of hazardous fuel treated that are in Condition Classes 2 or 3 in Fire Regimes 1,2, or 3 outside the wildland-urban interface and the percentage identified as high priority through collaboration consistent with the 10-year Comprehensive Strategy Implementation Plan	NRE/FS	259	>285	233 to 285	<233
5.1.3	Number of acres treated outside the wildland-urban interface as a secondary benefit of other vegetation management that contribute to an improvement in Condition Class	NRE/FS	927	>1,020	834 to 1,020	<834
Rationale for Met Range This is a new performance measure for FY 2004. There is no historical information related to the target to establish thresholds. Based on the historical variability within the entire hazardous fuel program, plus or minus 10 percent of target is reasonable.						

OBJECTIVE 5.2: IMPROVE MANAGEMENT OF PRIVATE LANDS

Key Outcome: Maintain the Productive Capacity of the Resource Base and Quality of the Environment

5.2.1 Conservation plans written for cropland and grazing lands (Mil acres)

5.2.2 Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)

5.2.3 Reduction in the acreage of cropland soils damaged by erosion (Mil acres)

5.2.4 Number of comprehensive nutrient management plans applied (Mil acres)

5.2.5 Increase Conservation Reserve Program (CRP acres of riparian and grass buffers) (Mil acres)

The chief sources of data for these performance measures are the Customer Service Toolkit, USDA's primary conservation planning tool, and the Performance Results System (PRS).

- **Completeness of Data**—Numerous data quality mechanisms are in place within PRS to ensure the completeness of the performance information. This web-based application includes such integrated quality controls as data type, required fields defined pull-down menus and choice lists. Additionally, the system recognizes records that do not include data identified as critical and requires the user to complete the required data fields before the record can be uploaded to the national database.
- **Reliability of Data**—For FY 2004, more than 80 percent of the data reported for this performance measure was uploaded from the Customer Service Toolkit. All natural resource information in Toolkit is drawn from USDA databases. All data on conservation practices are developed in consultation with the client. This process ensures that the data accurately reflect the client's operation, goals and status of the conservation plan. Data are date-stamped, geo-referenced and linked to an employee ID, enabling detailed quality-assurance reviews. Periodic reviews are conducted to assess the accuracy of reported data. Data entered directly through PRS rather than Toolkit also are linked to a specific land unit, enabling on-site reviews to determine the accuracy of data. Because this is the first year of implementation of the new system, not all quality checks that will be part of the fully implemented system were in place for FY 2004.
- **Quality of Data**—Overall quality of the performance data is good. The data are based on conservation plans, systems and practices planned and applied to land. The information is entered by field staff located onsite where the conservation is occurring. The staffs entering the data are trained and skilled in conservation planning and application suited to the local resource conditions.

  Within PRS, the conservation program responsible for each conservation practice is reported. Because these performance measures refer to conservation plans that include multiple measures, the linkage to specific programs is more complex. For FY 2004, methods were under development to estimate the contribution of each conservation program to planning and application. Overall quality of data is good.

Exhibit 89: Performance Threshold for 5.2.1, 5.2.2, 5.2.3, 5.2.4 and 5.2.5

Threshold Documentation Table						
			Performance Thresholds			
Performance Goal	Owner	Target	Exceeded	Met	Unmet
5.2.1 Conservation plans written for cropland and grazing lands (Mil acres)	NRCS	31.7	>33	30.1 to 33	< 30
Rationale for Met Range: Variation of plus or minus 5 percent is considered reasonable at the national level. The range of variation is much greater at the state and local levels.					
5.2.2 Cropland and grazing lands with conservation applied to protect the resource base and environment (Mil acres)	NRCS	8.5	>8.9	8.1 to 8.9	< 8

Threshold Documentation Table					
			Performance Thresholds		
Performance Goal	Owner	Target	Exceeded	Met	Unmet
Rationale for Met Range: Variation of plus or minus 5 percent is considered reasonable at the national level. The range of variation is much greater at the state and local levels.					
5.2.3 Reduction in the acreage of cropland soils damaged by erosion (Mil acres)	NRCS	3	> 3.15	2.85 to 3.15	< 2.85
Rationale for Met Range: Management determination based on previous year results.					
5.2.4 Number of comprehensive nutrient management plans applied (Mil acres)	NRCS	1,500	> 1,650	1,350 to 1,650	< 1,350
Rationale for Met Range: Management determination based on previous year results.					
5.2.5 Increase Conservation Reserve Program (CRP acres of riparian and grass buffers) (Mil acres)	FFAS/FSA	1.75	>1.80	1.70 to 1.80	<1.70
Rationale for Met Range: Management determination based on previous year results.					

Key Outcome: Ensure Diverse Wildlife Habitats

5.2.6 Agricultural wetlands created or restored through the Wetlands Reserve Program (Mil acres)

Data for acreage enrolled in WRP are reported through a national database.

- **Completeness of Data**—Data are complete for all transactions related to WRP.
- **Reliability of Data**—Data are reported by USDA field and State office personnel. The national program manager reviews the data for accuracy.
- **Quality of Data**—Data are considered of good quality for making management decisions.

Exhibit 90: Performance Threshold for 5.2.6

Threshold Documentation Table					
			Performance Thresholds		
Performance Goal/Measure	Owner	Target	Exceeded	Met	Unmet
5.2.6 Agricultural wetlands created or restored through the WRP (Mil acres)	NRCS	1.7	*N/A	1.6 to 1.7	<1.6
Rationale for Met Range: *Target cannot be exceeded because Congress sets it.					

5.2.7 Increase CRP restored wetlands acres (Mil acres)

The data source for this measure is Farm Service Agency (FSA) national CRP contract and offer data files.

- **Completeness of Data—**Data is based on estimated results through September 30, 2005. The measure reports national acres under contract with the following types of conservation buffers: filter strips, riparian buffers, and wildlife habitat buffers on marginal pasture land.
- **Reliability of Data—**FSA maintains the national CRP contract and offer data files at its Kansas City Computer Center. Active contract data are uploaded from county office files each week. FSA monitor's the data on a monthly basis to evaluate progress.
- **Quality of Data—**FSA considers the overall quality of the performance data to be good. The data is used for making management decisions.

Threshold Documentation Table

Performance Goal/Measure		Owner	Target	Performance Thresholds		
				Exceeded	Met	Unmet
5.2.7	Increase CRP restored wetlands acres (Mil acres)	FFAS/FSA	1.99	>2.04	1.94 to 2.04	<1.94

Rationale for Met Range:

Management determination based on previous year results.

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.

USDA has assessed 56 programs for fiscal years 2004 through 2006. In February 2004, when the Fiscal year 2005 Budget was published, OMB listed 31 USDA programs that were PARTed. These were listed in the *2004 Performance and Accountability Report*. The PART summaries below are cumulative, including the initial 31 PARTed programs and programs PARTed in fiscal year 2005. This includes programs that were reassessed because the programs' ratings were likely to change. The programs are summarized below by goal and Objective, in alphabetical order. Further detail on each of the programs can be found at http://www.whitehouse.gov/omb/budget/fy2006/part.html.

Strategic Goal 1

Strategic Goal 1	Enhance Economic Opportunities for Agriculture Producers
Program Name	**Enhance Economic Opportunities for Agriculture Producers**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Agricultural Research Service
Major Findings/ Recommendations	• Ensure that funding is targeted to highest priority initiatives and projects, complete the development of the annual measures, and work with the Department of Energy to develop similar measures related to the overall goal of lowering the cost of producing biofuels.
Actions Taken/Planned	• Submitted agency estimates to OBPA, resubmitted the document on revised annual measures based on OMB's responses on the Goal 3 PART Analysis and the discussions, and continue to meet with DOE to resolve remaining issues.

Objective 1.1

Strategic Objective 1.1	Expand International Market Opportunities
Program Name	**CCC Export Credit Guarantees**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Foreign Agricultural Service
Major Findings/ Recommendations	• Programs are generally well managed and have demonstrated efficiencies and cost effectiveness in program administration. However, there are weaknesses in strategic planning and no independent evaluations of the programs are conducted on a regular basis.
Actions Taken/Planned	• FAS has taken measures to improve claims recoveries under the programs. Efforts continue to develop meaningful targets for efficiency measures and to establish an independent evaluation process.

Strategic Objective 1.1	Expand International Market Opportunities
Program Name	**Commodity Grading and Certification Programs**
Ratings	• FY 2006 : Adequate
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• Adjust the fee structure to recover the costs associated with reviewing, modifying and developing standards beginning in FY 2006. This change is the result of the recognition that the grade standards are integral to the agency's fee-for-service grading program. Develop improved annual and long-term performance measures. Develop improved baselines and targets that demonstrate progress towards achieving the programs stated performance goals.
Actions Taken/Planned	• Completed. Fees proposed.

Strategic Goal 1	Enhance Economic Opportunities for Agriculture Producers
Program Name	**Enhance Economic Opportunities for Agriculture Producers**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Cooperative State Research, Education, and Extension Service
Major Findings/ Recommendations	• None
Actions Taken/Planned	• NA

Strategic Objective 1.1	Expand International Market Opportunities
Program Name	**Perishable Agricultural Commodities Act**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• Identify and correct strategic planning deficiencies. Conduct an independent audit of program operations in 2004. Obtain a more independent review of the program that focuses on both annual and long-term performance goals and how progress in working towards these goals is measured. Reevaluate the cost of services provided by the program (in advance of the appropriated dollars being depleted) and determine how best to adjust future fees. Develop an outcome based long-term performance measure.
Actions Taken/Planned	• PACA performance measurement has been reviewed and incorporated into program strategic planning and operations. Program conducts regular periodic assessments. Fee increase expected in FY 2008 or later. Program identified and began implementing efficiency improvements to reduce program costs. The program will develop an additional outcome-based method of measuring its performance once efficiency improvements have been implemented.

Strategic Objective 1.1	Expand International Market Opportunities
Program Name	**Pesticide Data Program/Microbiological Data Program**
Ratings	• FY 2005 : Adequate
Lead Agency	• Agricultural Marketing Service
Major Findings/ Recommendations	• Study the feasibility of charging a fee to industry beneficiaries to cover partial/full cost of the pesticide data program. Develop improved annual and long-term performance measures. Conduct an independent audit of program operations in 2004. Development of additional, outcome-based performance measures.
Actions Taken/Planned	• Completed.

Objective 1.2

Strategic Objective 1.2	Support International Economic Development and Trade Capacity Building
Program Name	**USDA Foreign Food Aid Programs**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Foreign Agricultural Service
Major Findings/ Recommendations	• The programs have strategic planning deficiencies, including the need for a performance measure that links to government-wide long-term food aid performance goals.
Actions Taken/Planned	• FAS has worked with ERS and AID to develop a new food security annual performance measure and baselines. FAS has contracted for a review of food aid information and reporting systems that will identify areas for needed improvements in IT systems.

Objective 1.3

Strategic Objective 1.3	Expand Alternative Markets for Agricultural Products
Program Name	**Bioenergy**
Ratings	• FY 2005 : Adequate
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Ensure a sufficient level of support to growing biodiesel industry.
Actions Taken/Planned	• FSA cannot address this recommendation due to the following: 1. Ethanol and biodiesel industries are experiencing record growth, while at the same time Program funding was cut to $100 million for Fiscal Year 2005. Combined, these factors are resulting in program payments being significantly reduced, approximately 60 percent for the first quarter, to hold them to available funding. 2. Program Agreements for the life of the program were executed with participants before this recommendation was made. The Agreement provisions limit our ability to address this recommendation.

Objective 1.4

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Agriculture Credit Insurance Fund - Direct**
Ratings	• FY 2006 : Adequate
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Implement FSA's new Farm Business Plan in the fall of 2004 which will improve the agency's ability to collect detailed performance information.
Actions Taken/Planned	• FSA implemented the web based Farm Business Plan (FBP) management information system in FY 2004. FBP will enable FSA to better manage its loan portfolio, collect more detailed performance information, and provides the Agency with enhanced analytical tools to perform more in-depth portfolio analysis.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Agriculture Credit Insurance Fund 0151—Guaranteed**
Ratings	• FY 2005 : Moderately Effective
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Conduct a performance-focused review that will include, but is not limited to: analysis of program participants; length of time borrowers remain in program; number of borrowers who "graduate" and return to the program; effectiveness of targeted assistance; and the potential to reduce subsidy rates.
Actions Taken/Planned	• FSA has set a target date of 3/31/06 to publish a Request for Proposals in the Federal Register for an independent review of the guaranteed loan programs.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**CCC Marketing Loan Payments**
Ratings	• FY 2005 : Effective
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Discrepancies between county offices in the delivery of services to producers should be addressed.
Actions Taken/Planned	• Program policy handbooks and notices clarify CCC Marketing Assistance Loan Repayment Policies. FSA addresses problematic issues in delivery of services on an on-going basis and as problems arise. This is an ongoing process.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Counter Cyclical Payments**
Ratings	• FY 2006 : Adequate
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Develop an independent evaluation process to be conducted once every three years.
Actions Taken/Planned	• The current legislation ends in FY 2007. The Office of Inspector General is currently conducting a review of the Direct and Counter-cyclical Program. This review is scheduled to be completed by October 2005.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Crop Insurance**
Ratings	• FY 2004 : Results Not Demonstrated (Adequate)
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	• Agency reviewing existing product portfolio and continuing existing pilot projects. Sales of the Livestock Risk Protection (LRP) pilot for Fed and Feeder Cattle and Livestock Gross Margin (LGM) pilots were suspended in 2004 due to potential program vulnerabilities. Sales resumed 9/30/04 after program modifications were made.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Dairy MILC Program**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Conduct an audit evaluation that includes sampling the field application of dairy operation with samples from all states and counties to be completed in 2005.
Actions Taken/Planned	• The Office of the Inspector General completed an audit of MILC on August 13, 2004, and documented inconsistency in field determinations of "dairy operations." FSA developed proposed language, which would permit the Agency to establish a clear, consistent, Nationwide definition of a "dairy operation." The language is currently undergoing internal review. In addition, proposed legislation to add a payment limitation of $65,000, was included in budget (Budget Year 2006) submitted to Congress on February 7, 2005. The proposed limitation should eliminate some of the problems caused by the inconsistencies; i.e., the problem of large payments to Western producers who collect MILC payments from more than one operation.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Dairy Price Support Program**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• Identify program improvements and alternatives that could more directly address current problems facing dairy producers.
Actions Taken/Planned	• ERS is currently evaluating the impact of dairy programs on dairy farmers around the world. FSA plans to meet with ERS concerning findings and any implications for the Agency's programs. Target is 12/30/2005.

Strategic Objective 1.4	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Direct Crop Payments**
Ratings	• FY 2004 : Adequate
Lead Agency	• USDA Farm Service Agency
Major Findings/ Recommendations	• The limitations of the direct payment program will have to be dealt with legislatively. The Administration will reduce trade barriers through trade negotiations, to create new markets for U.S. agricultural exports, so that farmers will be less reliant on government income support.
Actions Taken/Planned	• The Secretary of Agriculture is conducting listening sessions to obtain input on the provisions of the next Farm Bill. The input from the listening sessions will be analyzed by the Agency, to identify any changes that can be proposed to address the limitations of this program.

Strategic Goal 2

Objective 2.1

Strategic Objective 2.1	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Business and Industry Guaranteed Loans**
Ratings	• FY 2005 : Adequate
Lead Agency	• Rural Business Cooperative Service
Major Findings/ Recommendations	• Tie program performance to budget requests.
Actions Taken/Planned	• Budget request have been linked to existing performance measures, and the agency contracted for the development of a new model for developing more comprehensive measures.

Strategic Objective 2.1	Expand Economic Opportunities through USDA Financing of Businesses
Program Name	**Intermediary Relending Program**
Ratings	• FY 2006 : Adequate
Lead Agency	• Rural Business Cooperative Service
Major Findings/ Recommendations	• Establish more ambitious targets and finalize new methodology for measuring job creation.
Actions Taken/Planned	• Targets have been revised and the new methodology for measuring job creation has been implemented.

Strategic Objective 2.1	Expand Economic Opportunities through USDA Financing of Businesses
Program Name	**Rural Business Enterprise Grants**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• Rural Business Cooperative Service
Major Findings/ Recommendations	• Establish new performance measures.
Actions Taken/Planned	• The agency has contacted for the development of a new model for developing more comprehensive measures.

Strategic Objective 2.1	Expand Economic Opportunities through USDA Financing of Businesses
Program Name	**Value Added Producer Grants**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• Rural Business Cooperative Service
Major Findings/ Recommendations	• Establish new performance measures.
Actions Taken/Planned	• The agency revised the agreements it uses to make grants to provide for the collection of performance measure data.

Objective 2.2

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Community Facilities**
Ratings	• FY 2005 : Results Not Demonstrated
Lead Agency	• Rural Housing Service
Major Findings/ Recommendations	• Conduct a program evaluation to assess the needs served by the program.
Actions Taken/Planned	• Because the program serves a diversity of needs, the agency plans to focus on the two highest program priorities – health care and public safety – and develop goals and performance measures specific to these priorities.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Distance Learning and Medical Link**
Ratings	• FY 2006 : Adequate
Lead Agency	• Rural Utilities Service
Major Findings/ Recommendations	• Improve performance measures through independent reviews and additional data collection and periodic review of measurement models.
Actions Taken/Planned	• Milestones for implementing recommendations were established

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Multifamily Housing Direct Loans and Rental Assistance**
Ratings	• FY 2004 : Results Not Demonstrated (Has been upgraded)
Lead Agency	• Rural Housing Service
Major Findings/ Recommendations	• Adequate long-term and annual goals and performance measures need to be developed.
Actions Taken/Planned	• New and improved goals and measures have been developed in concurrence with the Office of Management and Budget.

Strategic Objective 2.2	Improve The Quality of Life in Rural America
Program Name	**Mutual Self-Help Housing Grants**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Rural Housing Service
Major Findings/ Recommendations	• Establish more ambitious targets.
Actions Taken/Planned	• The agency revised its annual performance goals and measures to reflect more ambitious targets.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Rural Electric Utility Loans and Guarantees**
Ratings	• FY 2004 : Adequate
Lead Agency	• Rural Utilities Service
Major Findings/ Recommendations	• Target programs to areas with high poverty and require borrowers to recertify that they serve rural areas,
Actions Taken/Planned	• Milestones for implementing the recommendations were established.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Rural Water and Wastewater Grants and Loans**
Ratings	• FY 2004 :Results Not Demonstrated (Effective)
Lead Agency	• Rural Utilities Service
Major Findings/ Recommendations	• Create long-term goals that measure outcome.
Actions Taken/Planned	• The agency progressed toward establishing new and improved goals and measures, but did not fully complete this task.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Sec. 502 Single Family Housing (Direct)**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Rural Housing Service
Major Findings/ Recommendations	• Establish more ambitious performance targets.
Actions Taken/Planned	• The agency revised its annual performance goals and measures to reflect more ambitious targets.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Sec. 502 Single Family Housing (Guaranteed)**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• Rural Housing Service
Major Findings/ Recommendations	• Establish more ambitious performance targets.
Actions Taken/Planned	• The agency revised its annual performance goals and measures to reflect more ambitious targets.

Strategic Objective 2.2	Improve the Quality of Life in Rural America
Program Name	**Telecommunications**
Ratings	• FY 2005 : Adequate
Lead Agency	• Rural Utilities Service
Major Findings/ Recommendations	• Determine whether “first come, first served” processing of applications is adequate to support highest priority needs and conduct periodic reviews on how well program is accomplishing long-term needs.
Actions Taken/Planned	• Milestones for implementing recommendations were established.

Strategic Goal 3

Strategic Goal 3	Protection and Safety of Agriculture Food Supply/Food Safety Research
Program Name	**Enhance Economic Opportunities for Agriculture Producers**
Ratings	• FY 2005 : Moderately Effective
Lead Agency	• Agricultural Research Service
Major Findings/ Recommendations	• None
Actions Taken/Planned	• NA

Objective 3.1

Strategic Objective 3.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry and Egg Products
Program Name	**Food Safety Inspection Service**
Ratings	• FY 2004 : Adequate
Lead Agency	• Food Safety Inspection Service
Major Findings/ Recommendations	• FSIS will evaluate the impact of implementing a risk-based inspection system beyond the current pilot program.
Actions Taken/Planned	• FSIS submitted to OMB a qualitative analysis of the economic implications of implementing the poultry slaughter component of a risk-based food safety and food security verification system. The Agency submits a progress report to OMB on a quarterly basis on steps being taken to move toward a more risk-based inspection system.

Objective 3.2

Strategic Objective 3.2	Reduce the Number/Severity of Agricultural Pest and Disease Outbreaks
Program Name	**Animal Welfare**
Ratings	• FY 2004: Results Not Demonstrated. FY 2005: Adequate
Lead Agency	• APHIS
Major Findings/ Recommendations	• Include at least one additional annual measure, to more closely link annual performance and long-term performance.
Actions Taken/Planned	• Complete.

Strategic Objective 3.2	Reduce the Number/Severity of Agricultural Pest and Disease Outbreaks
Program Name	**Monitoring and Surveillance Programs**
Ratings	• FY 2005: Effective
Lead Agency	• APHIS
Major Findings/ Recommendations	• Add an additional efficiency measure, such as the average cost of an investigation.
Actions Taken/Planned	• Complete.

Strategic Objective 3.2	Reduce the Number/Severity of Agricultural Pest and Disease Outbreaks
Program Name	**Pest and Disease Exclusion Programs**
Ratings	• FY 2006: Effective
Lead Agency	• APHIS
Major Findings/ Recommendations	• Continue to establish baselines for performance measures for pest and disease exclusions.
Actions Taken/Planned	• APHIS is continuing to do so.

Strategic Goal 4

Strategic Goal 4.0	Improve the Nation's Nutrition and Health
Program Name	**Commodity Supplemental Food Program (CSFP)**
Ratings	• FY 2006: Results Not Demonstrated
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• CSFP lacks performance measures, the food package could better address the nutritional needs of elderly persons, and oversight practices are insufficient to manage and improve program performance.
Actions Taken/Planned	• Measures are under development, the food package has been revised, process of developing a new CSFP-specific Management Evaluation Module which contains guidance for conducting management evaluations.

Strategic Goal 4.0	Improve the Nation's Nutrition and Health
Program Name	**Food Stamp Program (FSP)**
Ratings	• FY 2005: Moderately Effective
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• Overall the program is well run, with recommendations to develop a plan for the use of Federal and state program funds to improve nutrition among program participants, and demonstrate the impact of program participation on hunger and dietary status.
Actions Taken/Planned	• The nutrition education plan was completed and studies are underway to provide more current data demonstrating that program participation reduces the proportion of persons who are hungry and improves dietary status.

Strategic Goal 4.0	Improve the Nation's Nutrition and Health
Program Name	**National School Lunch Program (NSLP)**
Ratings	• FY 2005: Results Not Demonstrated
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• NSLP needs to develop performance measures, needs performance-based reimbursement providing incentives for meals meeting the dietary guidelines, and needs improved accuracy of income information in household applications.
Actions Taken/Planned	• NSLP launched the HealthierUS Schools Challenge showcasing schools that promote healthy behaviors, all enacted provisions to improve certification accuracy while preserving program access for eligible people are being implemented (mandatory direct certification, household applications, annual applications, focused verification and verification follow-up), and projects have been initiated to estimate erroneous payments and assess the nutrient content of meals.

Strategic Goal 4.0	Improve the Nation's Nutrition and Health
Program Name	**School Breakfast Program (SBP)**
Ratings	• FY 2006: Moderately Effective
Lead Agency	• Food and Nutrition Service
Major Findings/ Recommendations	• SBP is well targeted to low-income children, participation is positively associated with improved nutrient intakes and the program has made progress improving the nutritional content of meals. SBP needs to continue work on improving the nutritional content of meals, and implement an improved certification process for determining free meal eligibility.
Actions Taken/Planned	• SBP continues work to improve nutritional content of meals and rules are under development to improve certification (eliminating cost accounting for severe need schools, district-wide Provision 2 and 3 option). Also SBP is working with cooperators on innovative delivery for low-income children and working on allocation to States of $4 million for review of error-prone School Food Authorities and related training.

Strategic Goal 5

Objective 5.1

Strategic Objective 5.1	Implement the President's Healthy Forest Initiative and Other Actions to Improve Management of Public Lands
Program Name	**Capital Improvement and Maintenance**
Ratings	• FY 2004 : Adequate
Lead Agency	• Forest Service
Major Findings/ Recommendations	• Continue to improve the maintenance prioritization process and increase incentives aimed at decommissioning obsolete and underutilized infrastructure.
Actions Taken/Planned	• In April 2005, the agency submitted a legislative proposal to Congress for adoption of permanent conveyance authority and use of receipts for capital improvement and maintenance backlog needs. It also included authority to establish a working capital fund (WCF) for facility maintenance. The agency believes that, through assessment to other programs, agency managers will have added incentive to optimize space and eliminate poorly utilized facilities. Congress partially adopted the proposal by authorizing conveyance authority for projects initiated by FY 2008 (not permanent) and by authorizing a facility maintenance collection account in FY 2006 (in lieu of WCF).

Strategic Objective 5.1	Implement the President's Healthy Forest Initiative and Other Actions to Improve Management of Public Lands
Program Name	**Forest Legacy**
Ratings	• FY 2005 : Moderately Effective
Lead Agency	• Forest Service
Major Findings/ Recommendations	• To continue improvements to performance, the program will target the maintenance of working forests and use of appraisals, signed options, and monitoring protocols in making project selections.
Actions Taken/Planned	• The Forest Service is developing a field handbook to assist new FLP managers in initiating and maintaining FLP in their States. This document is intended to provide clear reference and guidance on aspects of program management. The handbook will include practical guidance on monitoring protocols and baseline documentation development as well as information on appraisals and standard option contracts and their execution.

Strategic Objective 5.1	Implement the President's Healthy Forest Initiative and Other Actions to Improve Management of Public Lands
Program Name	**Invasive Species**
Ratings	• FY 2004 : Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• Refine outcome-based performance measures for selected species; develop appropriate efficiency measures; and articulate the scientific or policy basis to demonstrate how those selected species measured represent a valid method to measure the total invasive species population and their impacts.
Actions Taken/Planned	• Data is being collected on the number of acres prioritized for treatment using various scientific assessments, protocols, and criteria to address a potential or existing invasive species infestation. Monitoring of the priority acres treated will provide an assessment of the number (and percentage) of the priority treated acres that were successfully protected (according to the project plan - where the target species was actually prevented, controlled, or eradicated).

Strategic Objective 5.1	Implement the President's Healthy Forest Initiative and Other Actions to Improve Management of Public Lands
Program Name	**Land Acquisition**
Ratings	• FY 2005 : Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• Establish processes that provide analyses of integrated spatial data sets on land management units, eco-regions, conservation lands, land cover, and species to identify gaps or needs that in turn highlight priority areas in need of habitat, ecosystem and biodiversity protection. These analyses will provide information on public benefits provided by acquisitions of private lands for Federal ownership and identify what lands the Federal agency could optimally target for land acquisition.
Actions Taken/Planned	• The agency has jointly published its DOI/FS National Land Acquisition Plan that provides a planning framework for land acquisition decisions in considering the priority and future needs of the program.

Strategic Objective 5.1	Implement the President's Healthy Forest Initiative and Other Actions to Improve Management of Public Lands
Program Name	**Wildland Fire Management**
Ratings	• FY 2004 : Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• Develop a new fire preparedness model that focuses on efficient allocation of available resources.
Actions Taken/Planned	• The Initial Response preparedness model was deployed. Refinements are continuing with major refinements scheduled for completion Fall 2005. All Fire Planning Units are scheduled to complete a Phase I analysis by late winter 2006. Another phase of the Fire Program Analysis is being explored that goes beyond initial preparedness. This will analyze extended response, large fire, prevention, rehabilitation and fuels. The scope document is complete; charter development and architecture design are ongoing. It will be developed in two stages concurrently. Stage 1 will analyze and develop extended response, large fire, and prevention; it is scheduled for release June 2007. Stage 2 will analyze and develop rehabilitation and fuels requirements; it is scheduled for release June 2008.

Objective 5.2

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Conservation Technical Assistance**
Ratings	• FY 2005 : Results Not Demonstrated
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop long-term performance measures that are outcome-based. Improve annual measures to better reflect CTA activities.
Actions Taken/Planned	• Performance measures established and annual measures improved.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Farm and Ranch Lands Protection Program**
Ratings	• FY 2004 : Results Not Demonstrated (Adequate)
Lead Agency	• NRCS
Major Findings/ Recommendations	• Design and implement an evaluation system that will provide outcome performance indicators.
Actions Taken/Planned	• Annual and long term performance measures developed.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Emergency Watershed Protection**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop long-term, outcome-based performance measures that asses the program's disaster recovery activities. Refine program's efficiency measures and conduct an in-depth program evaluation.
Actions Taken/Planned	• Final rule for EWP issued on 4/5/05 which will improve effectiveness of agency response to natural disasters.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Environmental Quality Incentives Program**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop baselines and performance targets for the new long-term performance measures and improve/refine efficiency measures.
Actions Taken/Planned	• Activities were redefined in reporting system in order to improve the accuracy of cost information.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**National Resources Inventory**
Ratings	• FY 2005 : Results Not Demonstrated
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop long-term performance measures and set ambitious targets for the measures. Develop efficiency measures.
Actions Taken/Planned	• Long-term performance and efficiency measures developed based on NRI Logic Model.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Resource Conservation and Development**
Ratings	• FY 2006 : Results Not Demonstrated
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop and implement improved outcome-based long term performance measures. Implement the recommendations developed by the NRCS oversight and evaluation review of the RC&D program.
Actions Taken/Planned	• National RC&D Program Evaluation required by the 2002 Farm Bill has been completed and is pending OMB approval.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Plant Materials Center**
Ratings	• FY 2005 : Results Not Demonstrated (Moderately Effective)
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop long-term performance measures and set ambitious targets for the measures. Develop efficiency measures
Actions Taken/Planned	• Long-term performance and efficiency measures completed. Re-PART completed on 4/15/05.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Soil Surveys**
Ratings	• FY 2005 : Moderately Effective
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop program efficiency measures and improve long-term performance reporting.
Actions Taken/Planned	• Efficiency measures developed and targets updated.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Snow Surveys**
Ratings	• FY 2005 : Moderately Effective
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop program efficiency measures and improve long-term performance reporting.
Actions Taken/Planned	• Program efficiency measure completed and targets updated.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Watershed Programs**
Ratings	• FY 2006 : Adequate
Lead Agency	• NRCS
Major Findings/ Recommendations	• Continue to refine the new annual performance measures and establish baselines for the new efficiency measures.
Actions Taken/Planned	• Refinement of annual performance measures completed. Use of Direct Charge for time worked results in more accurate information for reporting program efficiencies.

Strategic Objective 5.2	Improve Management of Private Lands
Program Name	**Wildlife Habitat Incentives Program**
Ratings	• FY 2004 : Results Not Demonstrated
Lead Agency	• NRCS
Major Findings/ Recommendations	• Develop efficiency measures and outcome-based performance measures and targets. Also, develop baselines for annual and long term measures.
Actions Taken/Planned	• Baseline completed and measures have been identified.

Strategic Goals 1, 2, 3 and 5

Strategic Goals 1, 2, 3 and 5	1. Enhance Economic Opportunities for Agriculture Producers 2. Support Increased Economic Opportunities and Improved Quality of Life in Rural America 3. Enhance Protection and Safety of the Nation's Agriculture and Food Supply 5. Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**National Agricultural Statistics Service – All Activities**
Ratings	• FY 2006 : Moderately Effective
Lead Agency	• National Agricultural Statistics Service (NASS)
Major Findings/ Recommendations	• None
Actions Taken/Planned	• NA.

PROGRAM EVALUATIONS

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.1.1	GAO Report, March 2000, GAO/NSIAD-00-76 - International Trade: Strategy Needed to Better Monitor and Enforce Trade Agreements.	**Findings:** GAO recommended that the Office of the U.S. Trade Representative (USTR) and the U.S. Departments of Commerce and Agriculture jointly develop a strategy to manage the U.S. Government's growing trade agreement monitoring and enforcement workload better. **Actions:** GAO and FAS Deputy Administrator for International Trade Policy activities are working to implement the GAO report recommendations.	Report is available at http://www.gao.gov/new.items/ns00076.pdf
	GAO Report, October 6, 2004, GAO/05-53 - U.S. China Trade: Opportunities to Improve U.S. Government Efforts to Ensure China's Compliance with WTO Commitments	**Findings:** GAO recommended that the four key agencies (USTR, State, Commerce and Agriculture) undertake a range of actions, including steps to improve timeliness and participation in WTO's annual review of China's compliance, developing unit-level plans and measures that reflect agency plans and measures, and training staff effectively. **Actions:** USDA forwarded its formal Statement of Action to GAO and Congress on November 29, 2004. USDA continues to work on implementing the recommendations.	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-53
	GAO Report, January 25, 2005, GAO-05-209R - U.S. China Trade - Summary of 2003 WTO Transitional Review Mechanism for China	**Findings:** Related to GAO-05-53, this report is GAO's response to Congress' request for detailed information about the Transitional Review Mechanism process in 2003. The response is designed to allow Congress to gauge the level of activity and efficacy of the U.S. and other WTO members' efforts better to utilize it. **Actions:** No action required.	Report is available at www.gao.gov/docdblite/summary.php?rptno=GAO-05-290R&accno=A16256
	GAO Report, February 4, 2005, GAO-05-295T - U.S. China Trade - Observations on Ensuring China's Compliance with WTO Commitments	**Findings:** This report contains GAO's testimony before the U.S.-China Economic and Security Review Commission. GAO discussed the key findings, conclusions and recommendations from its recently issued work on China-WTO issues. It also updated the commission on a number of ongoing GAO reviews on China trade and economic issues. **Actions:** No action required.	Report is available at www.gao.gov/docdblite/summary.php?rptno=GAO-05-295T&accno=A16859
	GAO Report, March 25, 2005, GAO-05-272 - International Trade - U.S. Agencies Need Greater Focus to Support Mexico's Successful Transition to Liberalized Agricultural Trade under NAFTA	**Findings:** GAO recommends that the U.S. Department of State, in collaboration with USDA and other relevant agencies to (1) develop an action plan under the Partnership for Prosperity Initiative laying out specific collaborative efforts on rural development that would support NAFTA's implementation, and (2) use the initiative to expand collaborative efforts with the Mexican Government to facilitate credit availability in rural Mexico. **Actions:** The U.S. Department of State has the lead on resolution and, as such, was the only agency required to submit a Statement of Action.	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-272

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.1.1 (cont'd)	GAO Report, March 18, 2005, GAO-05-166 - Free Trade Area of the Americas - Missed Deadline Prompts Efforts to Restart Stalled Hemispheric Trade Negotiations	**Findings:** The report is informational in nature. GAO was asked to analyze the progress made in Free Trade Area of the Americas (FTAA) negotiations since GAO's last report (April 2003), the factors that have been influencing its progress and future FTAA prospects. GAO found that three key factors have been impeding progress in the FTAA negotiations: (1) the U.S. and Brazil have made little progress in resolving their basic differences on key negotiation issues; (2) member Governments have shifted energy and engagement from the FTAA to bilateral and multilateral trade agreements; and (3) mechanisms intended to facilitate a U.S.-Brazil compromise have failed. **Actions:** No action required	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-166
	GAO Report, May 31, 2005, GAO-05-538 - World Trade Organization - Global Trade Talks back on Track, But Considerable Work Needed to Fulfill Ambitious Objectives	**Findings:** This informational report was a multi-agency review involving USDA and other agencies. FAS was the only agency contacted or visited for this review. **Actions:** No action required.	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-538
	GAO Report, June 20, 2005, GAO-05-537 - International Trade - Further Improvements Needed to Handle Growing Workload for Monitoring and Enforcing Trade Agreements	**Findings:** GAO's report does include recommendations for the Secretary of Agriculture. Specifically, GAO recommends that USDA, USTR, Commerce and State: (1) develop a strategy for improving trade compliance training; and (2) develop a resource strategy for monitoring and enforcing trade agreements. **Actions:** USDA's formal Statement of Action is pending signature by the Secretary.	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-537
	OIG-01001-02-Hy: Agricultural Marketing Service's National Organic Program	**Findings:** AMS needs to improve management controls for administering the National Organic Program (NOP). OIG made 10 separate recommendations for strengthening policy/procedures to improve management control. **Actions:** AMS has agreed to strengthen controls over the NOP and, accordingly, is developing/clarifying policies and procedures to address OIG's concerns.	Report is available at: http://www.oig.usda.gov
	OIG-01099-31-Hy: Purchase Specification Requirements for Ground Beef	**Findings:** AMS has opportunities to improve management controls to ensure that ground beef is purchased from qualified suppliers and meets quality standards. **Actions:** AMS already had implemented many of the proposed corrective actions and is resolving the other outstanding issues with OIG.	Report is available at: http://www.oig.usda.gov

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.1.1 (cont'd)	OIG-01099-4-Te: Livestock Mandatory Price Reporting System – Application Controls	**Findings:** AMS has opportunities to improve the application controls with respect to the Livestock Mandatory Price Reporting System (LMPRS). Twelve specific/technical recommendations were made to improve control in this area. **Actions:** AMS reached management decision on all 12 recommendations and has implemented the necessary corrective actions.	Report is available at: http://www.oig.usda.gov
1.2.1	GAO Report, February 11, 2005, GAO-05-150	**Findings:** GAO recommends that the Administrator of the U.S. Agency for International Development (USAID) and USTR act as co-chairs of the trade capacity building working group. In consultation with other agencies that fund and implement trade capacity building assistance, the two should develop a strategy to monitor and measure results systematically and evaluate the assistance's effectiveness. GAO also recommends that USAID set milestones for completing its efforts to develop indicators for results measurement and periodic evaluations. There were no recommendations for USDA. **Actions:** No USDA action required.	Report is available at www.gao.gov/cgi-bin/getrpt?GAO-05-150
1.3.1	GAO-040437, Improved USDA Management Would Help Agencies Comply with Farm Bill Purchasing Requirements	**Findings:** Execute a management plan for completing the work. Identify and allocate the staff and financial resources needed. State the priority for the work's completion clearly. **Actions:** USDA has executed a management plan for completing the implementation of the Federal Biobased Products Preferred Procurement Program and for the management of the program, once fully operational. This management plan has been provided to GAO. USDA has identified and allocated staff and financial resources needed to fully implement and operate the program. The model procurement program, for which USDA's Office of Administration has responsibility, is not included in the OCE analysis and staff and financial resources determinations. USDA has placed a high priority on full implementation of the Preferred Procurement Program and on coordination between OCE and OA in facilitating successful development and operation of OA's Model Procurement Program.	Report is available on www.gao.gov/cgi-bin/getrpt?GAO-04-437

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
1.4.1	OIG-05401-13-FM, Financial Statements for Fiscal Years 2003 and 2004	**Findings:** RMA needs to improve information technology security controls, application program and database change controls, the preparation of the Statement of Budgetary Resources and Statement of Financing, and loss reserve estimates. **Actions:** RMA has implemented actions necessary to address the above items.	Report is available at http://www.usda.gov/oig/rptsauditsrma.htm
	OIG-05099-109-KC, Renegotiation of the Standard Reinsurance Agreement	**Findings:** RMA needs to develop a detained strategy for implementing key provisions contained in the 2005 SRA. **Actions:** RMA has implemented actions necessary to address this finding.	Report is available at http://www.usda.gov/oig/rptsauditsrma.htm
	OIG-05601-7-At, Survey of Cotton Crop Insurance Premium Rates	**Findings:** RMA should improve its quality control of the ratemaking process. **Actions:** RMA generally agreed with this finding, and has initiated actions to address this matter.	Report is available at http://www.usda.gov/oig/rptsauditsrma.htm
	OIG-05601-12-Te, Survey of Pilot Programs	**Findings:** RMA needs to strengthen its monitoring of pilot programs. **Recommendations/Actions:** RMA has completed the actions recommended by OIG to address this matter.	Report is available at http://www.usda.gov/oig/rptsauditsrma.htm
	GAO-04-517, DATA MINING: Agencies Have Taken Key Steps to Protect Privacy in Selected Efforts, but Significant Compliance Issues Remain	**Findings:** For the five agencies reviewed, efforts are needed to ensure adequate privacy and security protections are in place. **Actions:** While the agencies generally agreed with the majority of GAO's recommendations, they disagreed with others. RMA continues taking action to address the recommendations.	Report is available at http://www.gao.gov
1.4.2	Farm Service Agency Direct Farm Loan Effectiveness Study	**Findings:** An independent evaluation of the Direct Farm Loan program was completed in FY 2005 by the University of Arkansas. The study found that current lending patterns, in terms of servicing targeted borrowers, are consistent with the program's goals. In addition, consistent with the program's intended design, the majority of borrowers uses the program on a temporary basis and does not become permanent clients. **Actions:** Action plan is currently under development.	Report is available on http://www.fsa.usda.gov/DAFL/whatsnew.htm
2.1.1	Business Programs Assessment Reviews (BPAR)	**Findings:** National Office evaluations of the performance of individual State offices. **Actions:** Findings and recommendations vary widely by State.	Summary of findings to be available on RD Intranet web site 2nd quarter of FY 2005.
2.2.3 and 2.2.4	Telecommunications and Electric Data validation process	**Findings:** Subscriber growth is tracked quarterly on an aggregate basis for performance measurement reporting. **Actions:** Individual project data are examined periodically by the program line offices, and are verified by General Field Representatives when loans are in process.	Performance data available in a variety of reporting documents and from the RUS BPI coordinator. Project data are available from the individual program line offices. Contact Electric Program at 202-720-9545 Contact Telecommunications Program at 202-720-9554

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
3.1.2	Evaluation of the Implementation of Directive 10,240.4 Regarding *Listeria Monocytogenes*	**Findings:** FSIS evaluated the implementation of its Directive 10,240.4, which focused on verification of RTE establishments' compliance with *the Listeria Monocytogenes* Interim Final Rule (68 FR 34207). The evaluation report presented findings and recommendations that addressed whether inspection program personal had implemented the directive properly, and whether they received sufficient training to execute their verification responsibilities. **Actions:** Completed December 20, 2004.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review. Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
	GAO-05-51: USDA and FDA Need to Better Ensure Prompt and Complete Recalls of Potentially Unsafe Food	**Findings:** Even in the context of their limited recall authority, USDA and FDA can do a better job in executing their food-recall programs. The final report was released to the public, November 5, 2004. **Actions:** FSIS generally agreed with these findings and continues to take action to address them.	Report available at www.gao.gov/new.items/d0551.pdf Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
	OIG 24601-5 At: Hazard Analysis and Critical Control Point Implementation at Very Small Plants	**Findings:** HACCP systems at very small plants need improvement to ensure the wholesomeness of the meat and poultry produced for consumers. The final report was issued, June 24, 2005. **Actions:** FSIS generally agreed with these findings and continues to take action to address them.	Report available at www.usda.gov/webdocs/24t01-05-AT.pdf Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
3.1.3	FSIS Reviews of Foreign Meat and Poultry Establishments (2004)	**Findings:** To export product to the U.S., foreign establishments must demonstrate equivalent inspection programs, including acceptable pathogen testing programs. FSIS reviews these programs to ensure equivalency standards are met. **Actions:** Reviews conducted at least once per year per exporting country, depending on compliance history. Countries and/or establishments may be listed or de-listed as approved exporters depending on these and other evaluations.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review. Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
	Evaluation of the Implementation of Directive 10,010.1 (2004)	**Findings:** Program Evaluation and Improvement Staff (PEIS will conduct an evaluation of the implementation of FSIS Directive 10,010.1, concerning sampling for *E. coli* 0157:H7, approximately 6 months after its effective date. Although Office of Field Operations (OFO) implementation will be examined directly, the evaluation's goal will be to determine if changes to inspection policy or the Directive itself are necessary to protect public health better. **Actions:** Completed December 20, 2004.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review. Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
3.1.3 (cont'd).	Evaluation of Alternative Site Sampling of Condemned Cattle	**Findings:** FSIS is evaluating the implementation of FSIS Notice 33-04, under which FSIS ensures that condemned cattle moved from Federal establishments to off-site locations for BSE testing by APHIS are tested and not diverted into the food supply. OPEER is conducted the evaluation specifically in response to an OIG audit. **Actions:** Completed August 2005.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review, Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
3.1.4	FSIS Communications and Outreach to Small Businesses	**Findings:** FSIS held a series of food-security workshops from May through July 2005. The workshops addressed various food-security issues relevant to small business owners and operators. Following these workshops, questionnaires were distributed to determine which modes of communication and FSIS activities workshop attendees found most useful. FSIS evaluated responses to these questionnaires to determine the most effective communication strategies. **Actions:** Completed August 2005.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review. Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
	GAO 05-213: Oversight of Food Safety Activities: Federal Agencies Should Pursue Opportunities to Reduce Overlap and Better Leverage Resources	**Findings:** Federal agencies are spending some resources on overlapping food-safety activities designed to ensure the safety and quality of domestic and imported food. The final report was issued to the public, May 17, 2005. **Actions:** FSIS generally agreed with these findings and continues to take action to address them.	The report is available at www.gao.gov/new.items/d05213.pdf Program Evaluation and Improvement Staff USDA-FSIS 202-720-6735
3.2.1	"Animal Health Safeguarding Report"	**Findings:** The National Association of State Departments of Agriculture (NASDA) conducted a review of the USDA's Animal Health Safeguarding system, assessing the performance and efficacy of the infrastructure, activities, procedures, policies, partnerships and authorities that comprise the existing safeguarding system. **Actions:** The review found performance adequate in handling most assigned roles, and even heroic in some historical efforts to eradicate diseases that have infected U.S. livestock—but resources were fast becoming overwhelmed. The review called for: Improving areas that include, but are not limited to, staffing, equipment, surveillance, detection, applied research, communications and border security. Improving interagency and interdepartmental cooperation, and the resources to facilitate it. APHIS formed seven issue groups to develop action plans to address the issues raised in the NASDA review.	NASDA's final report was delivered to USDA officials in November 2001 and is available at www.aphis.usda.gov/vs/pdf_files/safeguarding.pdf Progress achieved in implementing the Review is reported by these Issue Groups

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
	"Exotic Newcastle Disease (END) After Action Review" (2004)	**Findings:** An evaluation of APHIS' response to ***Exotic Newcastle Disease*** led to general recommendations about USDA's animal health emergency response systems. It was finalized on May 21, 2004. **Actions:** Four major areas were covered in the report: Preparedness; The Incident Command System; Human resources; and External engagement (Action: Pending)	A copy of the report may be obtained from Dr. John Clifford, Deputy Administrator, USDA APHIS Veterinary Services, 202-720-5193
	"Report of the Secretary's Advisory committee on Foreign Animal and Poultry Diseases: Measures Relating to ***Bovine Spongiform Encephalopathy*** in the United States "Animal Health Safeguarding Report"	**Findings:** At the request of the Secretary of Agriculture, an international expert ***Bovine Spongiform Encephalopathy (BSE***) panel was convened to review actions taken by the United States in response to a single finding of ***BSE***. The panel, which was organized as a subcommittee of the Secretary's Foreign Animal and Poultry Disease Advisory Committee, provided its report on February 4, 2004. **Actions:** Among the actions taken after this report was received were: Increased sampling for ***BSE*** Animal Identification System – Listening Session; and web site development.	The report is available at: http://www.animalagriculture.org/BSE/Report_Sec_BSE_2_13_04.htm For information about actions taken see: http://www.aphis.usda.gov/lpa/issues/bse_testing/index.htm lhttp://www.aphis.usda.gov/vs/pdf_files/safeguarding.pdf
4.1.1	Food Stamp Participation Rates 2003	**Findings:** This report presents the latest in a series on participation rates based on Current Population Survey and national participation rates for fiscal year 2003. The findings of this report indicate that 56 percent of the individuals eligible for food stamp benefits choose to participate. Thus, it appears that the Food Stamp Program (FSP) is reaching the neediest eligible individuals. Nationally, the participation rate among individuals rose almost 2 percent between 2002 and 2003. **Actions:** The report contained no recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm
	State Food Stamp Participation Rates For The working Poor in 2002	**Findings:** In general, the pattern of participation rates based on these estimates show that overall participation among the working poor vary widely across States. Some are higher than 60 percent while others are lower than 40 percent. In most States, participation among the working poor is significantly less among all eligible. **Actions:** The report contained no recommendations for further action by USDA.	Available on the FNS website at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
	Food Stamp Benefits and Participation Rates within Demographic Groups	**Findings:** The analysis confirms that food stamp participation rates generally increase as benefit levels rise. Among several eligible non-participant groups and individuals in households with earnings are likely to qualify for substantial monthly benefit. **Actions:** The report contained no recommendation for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm
	Reaching Those In Need: State Food Stamp Participation Rates in 2002	**Findings:** The report shows that FSP participation rates continue to vary among States. Additionally, some States consistently have high participation rates relative to others. **Actions:** The report contained no recommendation for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm
	State Food Stamp Participation Rates for the Working Poor in 2001	**Findings:** This report shows how rates for the working poor vary across States and how the rates differ between the working poor and all eligible people. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm
	Assessing Implementation of the 2002 Farm Bill's Legal Immigrant Food Stamp Restorations	**Findings:** This study examines the implementation of Legal Immigrant Food Stamp provisions given the different State and local approaches to restore eligibility of immigrant households into the program. Approximately 150,000 legal immigrants were added to food stamp case loads across 8 States. The majority of those added were former State-funded food assistance participants. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/participation.htm
4.1.2	Evaluation of the School Breakfast Program (SBP) Pilot	**Findings:** The study indicates that, on average, the current SBP improves academic or behavior outcomes. It also provides a program offering free school breakfast to all elementary school students. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/CNP/cnp.htm
4.2.2	Obesity, Poverty and Participation in Nutrition assistance Programs	**Findings:** The report presents the conclusions of an expert panel to determine if there is scientific evidence of a relationship between program participants and excess weight. The panel concluded that it is necessary to separate the effects of poverty to determine, as measured by household, income associated with obesity. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/NutritionEducation/NutEd.htm

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
4.2.2	Fit Special Supplemental Nutritional Program for Women, Infants and Children (WIC): Programs to Prevent Childhood Overweight in Your Community.	**Findings:** This project focused on how WIC could better address the problem of childhood obesity. Many parents of overweight preschool children did not see their children as overweight, nor were they particularly concerned about their child's weight. Parents were eager to receive information on ways to promote healthy eating patterns in their families. **Actions:** Potential strategies include development of participant-centered assessment and education procedures, and expanding training for WIC staff.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/WIC/WIC.htm
4.2.2	Team Nutrition Demonstration Project	**Findings:** This report documents the process (steps, time and resources) for fully implementing Team Nutrition (TN) using the classroom and cafeteria as delivery channels. The results indicate that it is possible to implement TN throughout schools and involve parents, community and the media. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/NutritionEducation/Files/TNDP99-03.htm
4.2.2	Evaluation of the USDA Elderly Nutrition Demonstrations Volume II	**Findings:** This report describes the results of a project to improve service to older people through the FSP. The projects succeeded in reaching some portion of their target population. Additionally, most projects showed that their effort generated new applications for food stamp assistance. **Actions:** This report did not contain recommendations for further action by USDA.	Available on the ERS web site at http://www.ers.usda.gov/Publications/CCR9-2/
4.2.2	WIC Food Packages: Time for a Change	**Findings:** USDA contracted with the Institute of Medicine to evaluate WIC food packages and recommend cost-neutral changes to improve the package to meet the nutrition needs of WIC participants better. **Actions:** The report recommended a range of WIC food package changes, now being considered by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/WIC/WIC.htm
4.3.1	Impact of Food Stamp Payment Errors on Households Purchasing Power	**Findings:** This analysis revisits a previous study that addressed the impact of payment errors on participating households. While the number of ineligible households was small, overpayments to these households had a large impact on their purchasing power. **Actions:** This report does not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/FSP/ProgramIntegrity.htm
	Preliminary Report on the Feasibility of Computer Matching in the National School Lunch Program (NSLP)	**Findings:** The study explores the feasibility of using computer technology in reducing NSLP over-certification. The preliminary findings indicate that computer matching for direct certification and verification is feasible. **Actions:** The study remains in progress. This report does not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/CNP/cnp.htm

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
	American Samoa: Accounting for Key Federal Grants Needs Improvement	**Findings:** American Samoa faced special challenges in using Federal grants and did not provide adequate accountability for grant funding. Problems identified included WIC vendor fraud. FNS was aware of the problem and had actions in place to address it. **Actions:** This report does not contain recommendations for further action by USDA.	Available on the GAO web site at http://www.gao.gov/new.items/d0541.pdf
	FSP States Have Reduced Payment Errors. Further Challenges Remain	**Findings:** The FSP error rate has dropped nearly one-third over the past five years. Caseworkers cause about two-thirds and participants cause about one-third of errors. **Actions:** This report does not contain recommendations for further action by USDA.	Available on the GAO web site at http://www.gao.gov/htext/d05245.html
	Means Tested Programs: Information On Program Access Can be an Important Management Tool	**Findings:** The report reviews factors that influence program participation and the balance between program integrity and access in 12 key Federal means-tested programs. **Actions:** The report recommends that FNS ensure that its methodology and estimates of WIC participation rates will be comparable over time.	Available on the GAO web site at http://www.gao.gov/htext/d05221.html
	An Evaluation of the Prime Vendor Pilot of the Food Distribution Program on Indian Reservations	**Findings:** Evaluated the effectiveness of a USDA pilot project to use a single prime vendor responsible for accepting food orders directly from 23 Indian Tribal Organizations with the traditional Food Distribution Program on Indian Reservations Commodity Distribution System. **Actions:** This report does not contain recommendations for further action by USDA.	Available on the FNS web site at http://www.fns.usda.gov/oane/MENU/Published/CNP/FILES/FDPIRPrimeVendor.pdf
5.1.1, 5.1.2 and 5.1.3	GAO-04-705 Environmental Effects of Wildland Fire	**Findings:** Develop and issue guidance, with CEO and taking into account any lessons learned from the CEQ demonstration program, to clarify the assessment and documentation of the risks of environmental effects associated both with conducting and not conduction fuel reduction activities. **Actions:** USDA reviewed the lessons learned from the CEQ demonstration program and determined that existing direction is generally adequate for implementing these lessons. Risks associated with not taking action to reduce fuels (the no action to reduce fuels (the no action alternative) are assessed with	Available on the GAO web site: http://www.gao.gov/new.items/d04705.pdf
5.1.1	GAO Report, January 2005/GAO-05-147 Wildland Fire Management: Important Progress Has Been Made, But Challenges Remain to Completing a Cohesive Strategy	Recommendation: Provide the Congress with a joint (FS and DOI) tactical plan outlining the critical steps the agencies will take, together with related timeframes, to complete a cohesive strategy that identifies long-term options and needed funding for reducing and maintaining fuels at acceptable levels and responding to the nation's wildland fire problems.	www.gao.gov

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
5.1.1 (cont'd)		**Actions:** The Forest Service is continuing to develop LANDFIRE and Fire Program Analysis (FPA)—both of which must be operational to accurately and effectively develop the type of plan GAO suggests.	
	OIG-10601-6-Te: Controls over Funds Congressionally Earmarked for Conservation Projects	**Findings:** A management accounting system is needed in NRCS to effectively track expenses associated with Congressionally earmarked funding. **Actions:** NRCS implemented a process through the Foundation Financial Information System to record and identify all obligations and expenses for Congressionally earmarked funds.	Report is available on OIG website: www.oig.usda.gov www.usda.gov/oig/webdocs/10601-6-Te.pdf
	OIG-106019-68-KCTe: Compliance with Highly Erodible Land Provisions Controls over Funds Congressionally Earmarked for Conservation ProjectsGAO-04-705 Environmental Effects of Wildland Fire	**Findings:** Improvements in prescribed controls are needed to strengthen the agency's ability to provide accurate and reliable assessments of producer compliance with the HELC provision A management accounting system is needed in NRCS to effectively track expenses associated with Congressionally earmarked funding.	Report is available on OIG website: www.oig.usda.gov www.usda.gov/oig/webdocs/100601-6-Te.pdf99-8KC.pdf Available on the GAO web site: http://www.gao.gov/new.items/d04705.pdf
		Actions: Web-based tracking system implemented. Policy revised and clarified NRCS implemented a process through the Foundation Financial Information System to record and identify all obligations and expenses for Congressionally earmarked funds. **Findings:** Develop and issue guidance, with CEO and taking into account any lessons learned from the CEQ demonstration program, to clarify the assessment and documentation of the risks of environmental effects associated both with conducting and not conduction fuel reduction activities. **Actions:** USDA reviewed the lessons learned from the CEQ demonstration program and determined that existing direction is generally adequate for implementing these lessons. Risks associated with not taking action to reduce fuels (the no action alternative) are assessed with The study examined outcomes of the verification process. It also made an independent assessment of income eligibility with specific verification outcomes. To do this, the study used data from in-person interviews with families.	

Perform. Measure	Title	Findings and Recommendations/Actions	Availability
5.1.1, 5.1.2 and 5.1.3 (cont'd)	GAO-053-52418: Environmental Indicators	**Findings:** NRCS and FSA should improve processes for reviewing compliance and enforcing requirements GAO found that federal and nonfederal organizations develop environmental indicator sets for several purposes. **Actions:** GAO recommends the Chair of the Council on Environmental Quality develop institutional arrangements needed to ensure a concerted, systematic, and stable approach to the development, coordination, and integration of environmental indicator sets. web-based tracking system implemented. Policy revised and clarified.	Report is available on GAO website: www.gao.gov www.gao.gov/new.items/d03418d0552.pdf
	Conservation Technical Assistance Program Evaluation	**Findings:** Evaluation started FY 2005, to be completed early FY2006. Evaluating the efficiency and effectiveness of the program, including an assessment of program performance relative to unit costs and benefits, review the progress in addressing recommended actions resulting from PART, and analyze the linkages between inputs, activities, outputs, outcomes, and impacts in achieving the program's intended purposes. **Actions:** N/A; program evaluation ongoing.	Report currently unavailable.

Section III

Systems, Controls and Legal Compliance

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 MANAGEMENT'S REPORT ON AUDIT FOLLOW-UP

BACKGROUND

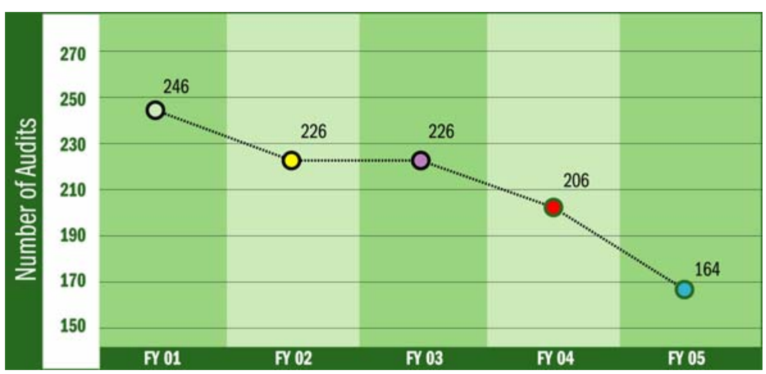
During the fiscal year, Office of the Inspector General (OIG) audits USDA's programs, systems and operations. OIG then recommends improvements to management based on its findings. USDA management may or may not agree with the audit's findings and/or recommendations. An agreement is reached during the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

Audit follow-up ensures that prompt and responsive action is taken. 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 2005 Results

USDA agencies closed 102 audits in FY 2005. The Department's current inventory of audits that have reached management decision and require final action to close includes 60 new audits in FY 2005 and 104 existing audits for a total of 164. Three of these audits are in appeal status. As shown in Exhibit 91, this is a 20 percent decrease from the 206 audits that were open at the end of FY 2004. During the past 5 years, USDA's total audit inventory decreased 33 percent.

Exhibit 91: Decrease in Total Open Audit Inventory



Note: The FY 2004 ending balance was revised from 185 to include 20 audits that reached management decision in September 2004. One additional audit was issued in FY 2004, but was not transmitted to OCFO until FY 2005. 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 93 and Exhibit 95.

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 bullets below. Resolved audits that remain open one year or more past the management decision date require an additional reporting element, as described in the last bullet below:

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

Exhibit 92: 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.

The Office of Management and Budget revised Circular A-123, "Management's Responsibility for Internal Control," December 21, 2004. The revision is designed to further strengthen internal control in the Federal Government. As USDA implements the revised circular, greater emphasis is placed on documenting, monitoring, correcting and reporting on internal controls. These controls include audit follow-up. Special attention is given to correcting those audit recommendations that relate directly to potential material weaknesses identified in a component agency's program or operations. Agencies now are required to crosswalk all audit recommendations OIG identifies as material to the corresponding potential material weakness. Agencies must document completion of final action on those recommendations before the material weakness can be considered corrected.

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

Of the 102 audits that achieved final action during the fiscal year, 34 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 66 with a monetary value of $68,040,269.

For audits with disallowed costs that achieved final action in FY 2005, OIG and management agreed to collect $24,459,052. Adjustments were made totaling $12,908,545 (53 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 $11,550,507.

Exhibit 93: Inventory of Audits with Disallowed Costs

Audits with Disallowed Costs	# of Audits	Amount ($)
Beginning of the Period	84	85,705,402
Plus: New Management Decisions	16	6,793,919
Total Audits Pending Collection of Disallowed Costs	100	92,499,321
Adjustments		(12,908,545)
Revised Subtotal		79,590,776
Less: Final Actions (Recoveries)	34	(11,550,507)[2]
Audits with DC Requiring Final Action at the End of the Period	66	68,040,269

[1] Exhibit 93 and Exhibit 95 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 93 and Exhibit 95 will not equal the total resolved audit inventory balance in Exhibit 91.

[2] This amount does not include $829,153 interest collected.

Exhibit 94: Distribution of Adjustments to Disallowed Costs

Category	Amount ($)
Changes in Management Decision	368,019
Legal Decisions	1,842,566
Write-Offs	2,309,382
Agency Documentation	7,012,909
Agency Discovery	1,130,510
Appeals	245,159
Total	**12,908,545**

Final action occurred on 15 audits that involved FTBU amounts. USDA projects more efficient use for 99 percent of the amount identified based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 29 with a monetary value of $953,560,533.

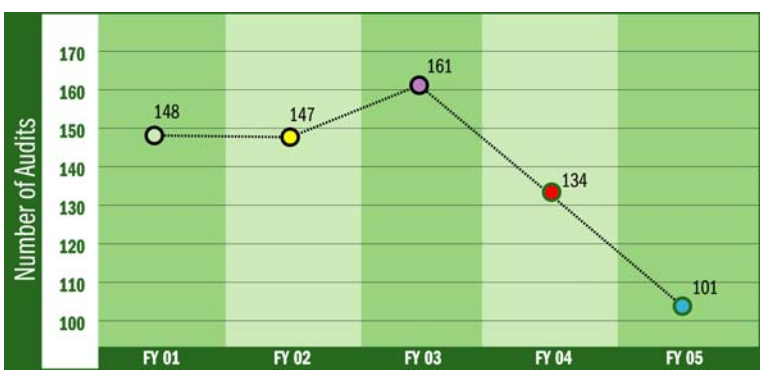
Exhibit 95: Inventory of Audits with Funds to be Put to Better Use

Audits with Funds to be Put to Better Use	# of Audits	Amount ($)
Beginning of the Period	39	1,308,483,017
Plus: New Management Decisions	5	$9,067,436
Total Audits Pending	44	1,317,550,453
Less: Final Actions	15	363,989,920
Audits with FTBU Requiring Final Action at the End of the Period	29	953,560,533
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		359,075,460
FTBU Not Implemented		4,914,460
Total FTBU Amounts for Final Action Audits		**363,989,920**

Audits Open One or More Years Past the Management Decision Date

The number of audits open one or more years without final action continues to decline. These audits decreased 25 percent in FY 2005 from 134 to 101 and 32 percent during the past 5 years.

Exhibit 96: Decrease In Audits Open One or More Years Past Management Decision Date



Five audits are proceeding as scheduled, 65 are behind schedule and agencies have completed corrective actions on 31 audits that are pending collection of associated disallowed costs. While an additional three audits were scheduled for completion by September 30, 2005, final action documentation will not be evaluated this reporting period.

Exhibit 97: 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	5	0	672,105,344	65	10,922,697	261,439,296	31	46,281,403	18,256,767

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 General Counsel or OIG advice;
- Conclusion of external action; and
- Administrative action.

MANAGEMENT'S REPORT ON AUDIT FOLLOW-UP

Exhibit 98: Audits Open One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
(24) Pending issuance of policy/guidance					
03006-1-AT	09/19/95	10/01/05	FSA Management of the Dade County, Florida, ASCS Office	684,642	-
05099-1-TE	09/30/97	12/30/05	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05099-8-KC	03/31/00	12/30/05	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
05600-1-TE	09/28/89	12/30/05	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
04601-1-KC	12/16/96	10/31/05	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
04601-2-AT	03/25/99	12/31/05	RHS Guaranteed Rural Housing Loan Program	5,928	139,146,407
04801-4-CH	02/12/99	11/30/05	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
08001-2-HQ	03/29/02	12/30/05	FS Aviation Security Over Aircraft Facilities	-	-
08601-18-SF	03/01/97	03/31/06	FS Research Cooperative and Cost Reimbursable Agreements	121,195	40,328
08601-30-SF	03/31/03	03/31/06	FS Review of FS Security Over Explosives/Munitions/Magazines Located Within National Forest System	-	-
10099-1-TE	02/01/02	09/30/06	NRCS Security Over IT Resources	-	-
10099-10-KC	09/30/03	03/31/06	NRCS Homeland Security Protection of Federal Assets	-	-
24099-4-HY	02/25/03	TBD	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24601-1-CH	06/21/00	TBD	FSIS Laboratory Testing of Meat and Poultry Products	-	-
27002-14-CH	01/14/02	12/31/05	FNS State Agencies Oversight of the Child and Adult Care Food Program	-	-
27601-3-CH	03/22/96	03/31/07	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-27-CH	04/30/02	03/31/06	FNS Food Service Management Companies	-	-
34099-2-AT	09/14/01	06/30/06	RBS Business and Industry Loan Program, Omnivest Resources, Inc.	4,052,351	-
34601-1-HY	07/22/98	06/30/06	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	12/31/05	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	06/30/06	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	14,000,000
50401-28-FM	02/01/99	12/31/05	RHS FY 1998 Rural Development Financial Statements	-	-
50601-3-CH	07/23/01	TBD	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
89099-1-HQ	10/21/02	6/30/06	OPPM Audit of Compliance with the National Energy Conservation Policy Act of 1978, Energy Act of 1992 and Executive Order Number 13123	-	-
(3) Pending conclusion of investigation, negotiation or administrative appeal					
04801-3-KC	03/31/99	12/30/05	RHS Bosley Management, Inc. – Sheridan, Wyoming	146,690	85,516
04801-6-HY	03/17/99	12/30/05	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, New York	-	-
34004-5-HY	02/18/00	TBD	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
(23) Pending receipt and/or processing of final action documentation					
02007-1-AT	3/13/03	12/30/05	ARS Florida Agricultural and Mechanical University – Specific Cooperative Agreements for Establishment of a Science Center	421,764	-
03099-32-KC	12/22/99	09/30/05	FSA Controls Over Administrative Payment Operations	-	-
04004-04-AT	7/15/04	11/30/05	RHS Local Government's Management of Multi-Family Housing Projects in North Carolina	-	-
04601-2-HY	07/22/03	10/31/05	RHS Review of Project Funds for Progressive Property Management Inc.	84,011	-
04601-5-KC	08/08/02	11/30/05	RHS Rural Rental Housing Program Insurance Expenses, Phase III	418,321	15,500,000
04801-6-KC	12/18/00	12/30/05	RHS Rural Rental Housing Program Insurance Expenses, Phase I	1,029,999	9,000
08001-1-HQ	06/28/00	11/30/05	FS Implementation of the Government Performance and Results Act	-	-
08003-2-SF	08/05/98	12/31/05	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-5-SF	12/15/00	12/31/05	FS Land Acquisitions and Urban Lot Management Program	-	10,329,300
08016-1-SF	09/30/03	12/30/05	FS Follow-Up Review of FS Security Over Aircraft & Aircraft Facilities	-	-
08401-1-FM	01/09/03	09/30/05	FS Audit of FY 2002 Financial Statements	-	-
08601-25-SF	06/22/01	12/30/05	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-2-TE	09/24/98	03/31/06	FS Assistance Agreements with Nonprofit Organizations	140,497	1,173,925
23099-2-FM	05/22/02	12/30/05	DA Security of Information Technology Resources at USDA Departmental Administration	-	-
33099-4-CH	03/03/04	TBD	APHIS Management and Security of Information Technology Resources	-	-
34601-14-TE	09/27/02	10/30/05	RBS Business and Industry Direct Loan Program – Arkansas	-	-
34601-15-TE	09/30/03	6/30/06	RBS National Report on the Business and Industry Loan Program		
50099-13-AT	03/29/02	12/30/05	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50099-14-AT	9/29/03	12/30/05	Homeland Security Controls Over Biological, Chemical and Radioactive Materials at Institutions Funded by USDA	-	-
50601-9-KC	08/18/04	TBD	APHIS Phase I Review of BSE Surveillance	-	-
50801-2-HQ	2/27/97	12/30/05	Civil Rights Evaluation Report for the Secretary on Civil Rights Issues, Phase I	-	-
50801-12-AT	9/9/02	12/30/05	HMMP Management of Hazardous Materials Management Funds	-	1,813,809
85401-9-FM	11/7/03	03/31/06	RD Financial Statements for FY 2003 and 2002	-	-

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	FTBU (U.S. dollars)
(10) Pending systems development, implementation, or enhancement					
03008-2-KC	9/25/03	09/30/06	FSA Review of FSA and CCC Bidding Procedures and Awards for Commodities	-	-
03099-27-TE	5/24/01	10/01/06	FSA Payment Limitations – Majority Stockholders of Corporations	-	-
05401-8-FM	03/30/00	12/30/05	RMA FY 1999 FCIC Financial Statements Report on Management Issues	-	-
06401-16-FM	11/7/03	09/30/06	CCC Financial Statements for FY 2003	-	-
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	-	-
24099-1-FM	08/11/03	09/30/05	FSIS Security Over Information Technology Resources at FSIS	-	-
27004-3-AT	11/09/01	12/31/05	FNS Florida Food Stamp Program, Tallahassee, Florida	-	15,443,610
50099-27-FM	03/30/01	3/31/06	OCIO Security Over USDA Information Technology Resources Needs Improvement	-	-
50099-50-FM	9/10/02	12/31/05	OCIO Government Information Security Reform Act – FY 2002	-	-
(1) Pending results of internal monitoring or program review					
27401-8-HY	06/27/97	12/31/05	FNS FY 1996 Financial Statements	-	-
(1) Pending results of request for change in management decision					
33004-1-AT	03/07/00	TBD	APHIS Plant Protection and Quarantine Activities in Florida	-	-
(1) External Action Required					
27004-3-CH	08/14/98	12/31/05	FNS Administration of the Food Stamp Employment and Training Program – Columbus, Ohio	2,921,556	-
(1) Pending Administrative Action					
23801-1-HQ	08/20/98	TBD	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
(1) Pending Office of General Counsel (OGC) or OIG advice					
27010-11-SF	02/05/99	10/30/05	FNS Child and Adult Care Food Program – Culver City, California	829,833	0
Total Number Audits (65)			**Total $**	**10,922,697**	**261,439,296**

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

BACKGROUND

While USDA made progress in correcting certain milestones for its existing material deficiencies, two of them remain outstanding at fiscal year-end. Additionally, one new material deficiency was added this year. USDA is committed to operating its programs efficiently and effectively in compliance with the Federal Managers' Financial Integrity Act (FMFIA). FMFIA requires agencies to provide reasonable assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste and mismanagement; and
- Transactions are accounted for and properly recorded.

The Federal Information Security Management Act (FISMA) 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.

FMFIA also requires a separate statement as to whether financial management systems conform to standards, principles and other requirements. This statement ensures that Federal managers have timely, relevant and consistent financial information for decision-making purposes. USDA's goal was to eliminate material internal control weaknesses and financial system nonconformances by the end of FY 2005. While this result was not achieved fully, the Department made significant progress through:

- The continuous evaluation of its programs, operations and financial systems;
- Financial statement and other Office of Inspector General (OIG) and Government Accountability Office audits;
- Management and system reviews;
- Establishing an Information Technology Security Task Force to monitor corrective actions by USDA component agencies; and
- Prompt attention to correcting the causes of identified weaknesses.

USDA's management control program ensures compliance with the requirements of FMFIA and Office of Management and Budget (OMB) Circulars A–123, "Management's Responsibility for Internal Control," and A–127, "Financial Management Systems."

USDA's agency managers, at all levels, are responsible for ensuring that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles and related requirements. In conjunction with OIG, USDA management works aggressively to determine the root causes of its material deficiencies and corrects them promptly and efficiently. The term "material deficiency" describes both material weaknesses and financial system non-conformances, collectively.

FY 2005 Results

The "Message from the Secretary" provides qualified assurance that USDA's systems of internal control comply with FMFIA's objectives. The Department's internal control systems comply substantially with the objectives of FMFIA, with the exception of the material deficiencies described in this section.

USDA agencies continue to report quarterly on progress in correcting existing material deficiencies. The agencies also provided annual assurance statements. Throughout the year, determinations are made as to whether newly identified weaknesses should be declared as agency-level material deficiencies. If an agency-level material deficiency is declared, OCFO staff reviews the supporting documentation to determine whether it meets the criteria to be considered a Departmental material deficiency. The criteria for reportable condition, corrected and downgraded material deficiencies are outlined below.

During the fiscal year, USDA implemented a number of corrective actions on the three material deficiencies declared in FY 2004. The scheduled completion dates for the two remaining material weaknesses have been delayed until FY 2006. Significant accomplishments are as follows:

- The Department gained approval for 14 security policies this fiscal year. These include policy guidance on: Certification and Accreditation, Capital Planning and Investment Controls, Privacy, Telework/Remote Access, Firewall, Encryption, Access Control, Risk Management Methodology, Personnel Security, Sensitive-but-Unclassified, IT Contingency Plans, Annual Security Plans and System Development Life Cycle;
- USDA's component agencies continue to develop contingency plans for their IT major applications and general support systems with the support of USDA's enterprise-wide system, Living Disaster Recovery Planning System;
- Approximately 70 percent of the disaster recovery and business resumption plans currently are tested;
- The Forest Service (FS) established policy and procedures on information security program management and implemented access controls. It also implemented monitoring to detect vulnerabilities and eliminate unauthorized applications, implemented a Memorandum of Understanding with the OCFO regarding the management, operations and security of connections between FS and NFC information systems, and tested continuity of operations plans;
- FS' financial management internal control weakness was related to compliance with accounting standards for revenue recognition and reporting accruals. All corrective actions were implemented during the year; and
- FSA completed application-level contingency plans for its major applications, finalized security policies, and regularly scans its networks; it documented standard processes for recording obligation for programs with common business events, added or restructured transaction codes for obligations in the general ledger system to reduce manual postings, and completed a review of posting models for transactions that have a material impact on the financial statement.

USDA's FY 2006 goal is to eliminate the existing material deficiencies and correct any new material deficiencies within one year.

Also, during the fiscal year, USDA's Rural Utilities Service (RUS) reported a violation of the Anti-Deficiency Act. The act bars U.S. Government employees from making or authorizing an expenditure or obligation exceeding the amount available in an appropriation or fund for the expenditure or obligation. As required by section 1517(b) of Title 31, U.S. Code, the Department reported the violation of section 1517(a)(1) of Title 31 of the Anti-Deficiency Act to OMB. The violation occurred in the Rural Electrification and

Telecommunications Direct Loan Financing Account in the amount of $1 billion. RUS officials unintentionally executed a bond guarantee agreement and the related guarantee of payment prior to the approval of the official notification that funds were available for obligation. Financial management system controls prevented any attempts to disburse the funds and the violation was discovered.

While no funds were disbursed, an Anti-Deficiency Act violation occurred because the obligation was made without an apportionment of the guaranteed loan level. To prevent future violations, the Office of the Assistant Administrator for Electric Programs will hold the unsigned note pending written verification that OMB has processed the apportionment of funds.

In September 2005, the Department entered into a contract for assistance in the implementation of the new reporting requirements in Appendix A of OMB Circular A-123. USDA has established an Assessment Implementation Team to plan and execute the Department-wide assessment approach. This top-down approach will assess the key processes of those component agencies that contribute materially to the balances of selected significant accounts/line items in the key financial reports. An implementation plan has been developed that addresses the major tasks identified by OMB to implement the Department-wide assessment approach.

USDA Guidelines for Reporting Material Deficiencies

The criteria for Departmental material weaknesses and financial system noncomformances are described below.

- A Departmental material weakness is a deficiency in internal controls (Section 2 of FMFIA) that satisfies at least one of the following criteria:
    - Merits the attention of the Executive Office of the President and the relevant congressional oversight committees;
    - Violates statutory or regulatory requirements;
    - Deprives the public of needed services;
    - Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets;
    - Significantly impairs fulfillment of the Department's mission;
    - Results in a conflict of interest; or
    - Is of a nature that omission from the annual *Report on Management Controls* could reflect adversely on USDA's actual or perceived management integrity.
- A Departmental material financial system nonconformance (Section 4 of FMFIA) is a deficiency that satisfies one or more of the following criteria:
    - Merits the attention of the Executive Office of the President and relevant congressional oversight committees;
    - Prevents USDA's primary financial management system from achieving central control over agency financial transactions and resource balances; or

- Prevents compliance of the primary financial management system with standards published by OMB Circular A–127, which includes the availability of timely, consistent and relevant financial information for decision-making purposes.

Material Weakness Reported Under FMFIA

Information Technology (IT) security continues to be an issue for USDA. The Department depends on IT to deliver its programs efficiently and effectively, as well as to provide meaningful and reliable financial reporting. While further efforts are needed to address weaknesses within USDA's information security program, the Department and its agencies have made significant progress toward improving security of IT resources. USDA, under the direction of the Office of the Chief Information Officer (OCIO), has worked diligently to assist agencies in complying with security mandates. OCIO plans to conduct an independent verification and validation of all information systems certified in FY 2005. The majority of the systems (86 percent) have been certified and accredited. Other systems are being reviewed. Additionally, OCIO has become actively involved in the budget process to ensure that cyber security and FISMA requirements are addressed in IT acquisitions.

USDA's component agencies need to aggressively implement IT security requirements to reduce the level of vulnerability. The following exhibit describes areas of continued concern for the Department and summarizes corrective actions planned to eliminate this material deficiency. Additional corrective actions to address specific areas of concern will be identified by the end of the first quarter of FY 2006.

Historical Data on Material Deficiencies

Although USDA did not complete corrective actions on two of the existing material deficiencies, there was only one newly identified material deficiency for FY 2005. USDA has reduced the number of existing material deficiencies from a high of 19 in FY 2002 to 3 in FY 2005. This is an 84 percent decrease in the number of outstanding material deficiencies reported 3 years ago.

SUMMARY OF MATERIAL DEFICIENCIES

Exhibit 99: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Section 2 Material Weakness					
Multiple	Multi 00-01: USDA Information Security Weakness: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	Policy, oversight and monitoring[1]	• OCIO will: Improve the quality and process for managing USDA information security vulnerabilities and actions; • Complete vulnerability assessments of all mission critical systems;	FY 2000	FY 2006

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Multiple (cont'd)			• Continue to manage the USDA information survivability program to guide agencies in the development and testing of disaster recovery and business resumption plans for USDA's highest priority mission critical systems; • Implement and maintain a robust Internet Protocol (IP) database that includes accurate, up-to-date contacts for each IP address; • Refine policy and issue new policy; and • Ensure that security management personnel have the authority and cooperation of agency management to implement and manage security programs effectively.		
		General Control Environment	• FS will: Improve controls over the PRCH system data access, input, and integrity and segregation of duties.	FY 2005	FY 2006
			• NRCS will: Document change control processes, software changes, and testing processes for the ProTracts System. Improve controls and documentation of change control for payment specifications. Reconcile Protracts appropriations, obligations and payments to FFIS.	FY 2005	FY 2006
			• FSA/CCC will: Collaborate with OCIO to identify and implement additional improvements needed to improve the agency's general control environment.	FY 2004	FY 2006
Multiple	Multiple 05-01: Improvement needed in financial accounting and reporting policies, practices and procedures[2]	Inadequate Accountability for Undelivered Orders	FS will determine specific actions to be taken.	FY 2004	FY 2006

Responsible Agency(ies)	Material Deficiency Description	Areas of Concern	Corrective Actions Remaining To Be Taken	Year Identified	Current Estimated Completion Date
Multiple (cont'd)		Inadequate Accounting for Accrued Liabilities	• FSA/CCC will: Re-examine existing accrual policies and analytical procedures with regard to Federal accounting standards and CCC business practices, determine where improvements need to be made, and implement improvements	FY 2004	FY 2006
Section 4 Financial Management System Nonconformance					
FSA/CCC	MW 04-01: Improvement Needed in Funds Control Mechanisms	N/A	FSA/CCC will: • Document and evaluate current system of budgetary accounting controls, identify deficiencies and develop improved control processes. • Obtain training for staff, and implement organizational changes. • Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems. • Enhance usage of existing web services for funds control.	FY 2004	FY 2009

[1]Additional corrective actions have been provided by the agency.

[2]While deficiencies in this area were reported in FY 2004 financial statement audits, they did not give rise to a Departmental material weakness.

Exhibit 100: Material Deficiencies Remain the Same

Fiscal Year	Corrected Deficiencies	New Deficiencies	Remaining Deficiencies
2002	15	2	19
2003	12	1	8
2004	7	2	3
2005	1	1	3

Summary of Corrected or Downgraded Material Deficiencies

Material deficiencies, for which corrective actions were completed or deemed no longer material as of September 30, 2005, are summarized below.

Criteria to Downgrade FMFIA Material Deficiencies

A material deficiency may be reassessed and downgraded for one of two reasons. The control vulnerability either is no longer considered to be material or no longer exists. Although downgraded from a material deficiency, it remains possible for these issues to be reported in other sections of this report (such as Improper Payments or Management Challenges). USDA component agencies will continue to monitor and assess downgraded deficiencies through completion of corrective actions.

Guidelines for Reporting a Corrected or Downgraded Material Deficiency

To report a material deficiency as corrected or downgraded, USDA agencies must:

- Demonstrate commitment of senior-level managers to resolve the material deficiency as evidenced by resource deployment and regular monitoring of corrective action progress;
- Provide substantial, timely and documented progress in completing corrective actions for the material deficiency;
- Complete the most significant corrective actions with the remaining ones being minor in scope and not having a material effect on the program or operation; and
- Implement corrective actions that eliminate or minimize the cause(s) of the material deficiency.

Exhibit 101: Material Deficiencies Corrected or Downgraded

Responsible Agency	Number and Title of Material Deficiencies	Year Identified	Status Corrected/ Downgraded
FS	04-01: Financial Management Internal Control Weaknesses: Controls inadequate to assure improvements in data quality.	2004	Corrected
RMA/RD/APHIS	00-01: Agency Specific Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption.	2004	Corrected

Material Weaknesses Corrected

FS-04-01: Financial Management Internal Control Weaknesses

Controls inadequate to assure data-quality improvements.

During the fiscal year, FS completed the following corrective actions to close the weakness:

- Developed roles, responsibilities, staffing plans, migration plans, IT requirements and performance metrics for staff and processes migrating to the Albuquerque Service Center (ASC);
- Transitioned people and processes from the field and Washington, D.C., office to the ASC;
- Built training materials for transitioning staff; and
- Developed and implemented policy, procedures and reports for transitioning business processes.

Multi 00-01: Agency Specific Information Security Weaknesses

Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse and disruption. Although the information security weakness remains open for the Department, several agencies completed agency-specific actions to eliminate component-level material weaknesses. They are as follows:

RMA

- Implemented new security policies, formalized draft policies and developed additional policies as required.

RD

- Entered into an Incidental Transfer Agreement and Memorandum of Understanding with OCIO delineating roles and responsibilities for infrastructure resources; initiated scanning and patching for the National Office and certain field offices, established and implemented hardening guides on Windows and Linux servers, completed a detailed review of all servers managed by RD, and mitigated vulnerabilities; and
- Completed certification and accreditation of the RUS legacy system.

APHIS

- Completed the certification and accreditation of the User Fee Financial System.

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 deficiencies in information security policies, procedures or practices to be substantially compliant with FFMIA (referred to as Section 4 in the table below).

FY 2005 RESULTS

During FY 2005, 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. During the fiscal year, the Office of the Chief Financial Officer (OCFO) and the Office of the Chief Information Officer (OCIO) formed a joint task force to address information technology (IT) security weaknesses in USDA's financial systems. As a result, corrective actions were taken to eliminate/mitigate several significant deficiencies known as of July 31, 2005. In assessing FFMIA conformance, USDA considered all the information available. This information included the auditor's opinions of component agencies' financial statements, the work of independent contractors and progress made in addressing the material weaknesses identified in the *FY 2004 Performance and Accountability Report* - Report on Management Controls section.

While USDA's FY 2004 and FY 2003 Consolidated Financial Statements received an unqualified audit opinion from the Office of the 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. OIG found material weaknesses for USDA's financial and accounting systems and information security program. The Department has completed many of the FY 2005 initiatives to substantially comply with the act's requirements. Additionally, USDA has added new initiatives with several milestones to improve the controls over the Commodity Credit Corporation's financial management systems, and the Natural Resource Conservation Service's application controls for the Program Contracts System (ProTracts) as reported below. The Department will continue monitoring progress on plans to improve its financial management systems. It will also work to comply fully with FFMIA and FISMA requirements. Significant accomplishments in FY 2005 are listed in the exhibit below.

Exhibit 102: Initiatives Completed

Initiatives Completed to Achieve FFMIA Compliance			
Agency	**Initiatives Completed**	**Completion Date**	**Remediation Plan Reference**
Section 1—Federal Financial Management System Requirements			
RMA	• Financial Management Planning and Assurance Process.	05/31/2005	1.1
	• Information Technology Security Controls.	08/31/2005	1.2
	• Application Program and System Software Change Controls.	12/31/2004	1.3
APHIS	• Certification & Accreditation for the User Fee System.	09/9/2005	1.5
RD	• Certification & Accreditation for of the RUS Legacy System.	05/23/2005	1.5
	• Strengthen Network Security and Logical Access Controls.	06/30/2005	1.6
Section 4—Information Security Policies, Procedures or Practices[1]			

[1]Completed corrective actions for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (information security policies, procedures or practices) noncompliances and therefore are not repeated in Section 4.

Exhibit 103: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance				
Initiative	**Section of Noncompliance**	**Agency**	**Target Completion Date**	**Remediation Plan Reference**
Information Technology Security Controls.	Section 1 and 4, OMB A-123, A-127, A-130 and FISMA	FSA/CCC	09/30/2006	1.4
Improve General Control Environment	Section 1 – OMB Circular A-130	FS	03/31/2006	1.7
Application Controls – ProTracts (New)	Section 1 – OMB Circular A-130	NRCS	12/31/2005	1.8
Federal Accounting Standards	Section 2 – SFFAS	FS	10/30/2005	2.1
Federal Accounting Standards	Section 2 – SFFAS, OMB A-123	FSA/CCC	09/30/2009	2.1
Funds Control Mechanisms	Section 3 – Treasury Financial Manual and OMB Circulars A-123 and A-127	FSA/CCC	09/30/2009	3.1

Sections:
FFMIA:
1 – Federal financial management system requirements.
2 – Applicable Federal accounting standards.
3 – Standard General Ledger at the transaction level.
FISMA:
4 – Information security policies, procedures or practices.

OMB Circulars:
A-123, Management Accountability and Control.
A-127, Financial Management Systems.
A-130, Management of Federal Information Resources (*Appendix 3*).

Remediation Plans to Achieve Substantial Compliance

As required by law, USDA, in consultation with OMB, develops remediation plans that will result in substantial compliance with FFMIA and improved financial management systems. These plans provide details of completed and planned actions as discussed in the table that follows.

	Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
	Section 1 – Federal Financial Management System Requirements			
1.1	**Financial Management Planning and Assurance Process**			
	Agency Point of Contact: RMA – Chief Financial Officer			
	• Reviewed RMA/FCIC's Financial Management Systems for compliance with financial management systems requirements. (OMB A-123, A –127)	4/30/2005		4/30/2005
	• Provided documentation to the OCFO of RMA's continuous monitoring effort to ensure compliance with the financial management systems requirements including a remediation plan for any areas of substantial noncompliance with the FFMIA (OMB A-123, A –127).	5/31/2005		5/31/2005
1.2	**Information Technology (IT) Security Controls**			
	Agency Point of Contact: RMA—Chief Financial Officer			
	• Enforced newly implemented security policies, formalized draft policies and developed additional required policies.	12/31/2004	5/31/2005	5/31/2005
	• Performed an agency-wide review of user IDs and access levels to monitor the effectiveness of existing controls.	9/30/2005		9/23/2004
	• Performed regular and periodic comprehensive reviews of file, directory and user permissions in the UNIX environment.	11/30/2004		11/30/2004
	• Delegated sufficient authorities and provided adequate staff and other resources to the chief information officer to develop and oversee an effective IT system, organization and operation, and manage and administer RMA IT security activities properly.	9/30/2004	5/31/2005	6/30/2005
	• Prescribed and applied a periodic review process to ensure that approved policies and procedures for RMA IT operations, processes, functions and activities are applied properly and enforced consistently agency-wide.	12/31/2004	5/31/2005	6/30/2005
	• Identify and include RMA IT organizational and security weaknesses in the annual FMFIA report and subsequent reports until all material weaknesses have been corrected and IT operations substantially comply with applicable laws and regulations.	5/31/2005		5/31/2005
	• Developed, documented and implemented an action plan with milestone dates for an overall strategy to address the weaknesses not cited in RMA's FMFIA report.	9/30/2004	5/31/2005	5/31/2005
	• Prepared and submitted quarterly status reports to OCIO until the FMFIA weaknesses were corrected.	9/30/2005		8/31/2005
	• Developed internal written policies and procedures that established effective access controls for RMA-controlled users to follow in using RMA, NITC and NFC systems in accordance with applicable Federal guidance and Departmental regulation requirements.	12/31/2004	5/31/2005	5/31/2005
	• Implemented stronger physical security.	9/30/2004	5/31/2005	5/31/2005

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
• Prescribed and implemented in RMA's formal directive system a System Development Lifecycle (SDLC) methodology in accordance with Departmental regulations, and provided senior management oversight to ensure that application managers properly implement the prescribed SDLC methodology and management controls.	12/31/2004	5/31/2005	5/31/2005
• Strengthened senior management oversight and periodically monitored and documented the effectiveness of agency-wide policies, procedures and management controls to ensure that IT services contract provisions conform to all applicable laws and regulations, and contract provisions are enforced.	9/30/2004		5/31/2005
• Added a contract provision requiring background investigations for all IT contractor employees and associated subcontractor employees, where applicable, and ensured they were completed satisfactorily before access to RMA systems, hardware and facilities was authorized.	11/30/2004		11/30/2004
• Amended the appropriate contract to describe the specific security services expected from contractor employees and record the details of the services or deliverables to be provided by them.	9/30/2004	5/31/2005	5/31/2005
• Prepared individual task orders and other needed supporting documentation to describe the specific security services expected from contractor employees and record the details of the services or deliverables provided by them.	11/30/2004		11/30/2004
• Developed and applied a policy to conduct routine and timely reviews of RMA's firewall configuration and verify the effectiveness of FSA firewall protection.	12/31/2004		12/30/2004
• Improved network operating system policy and procedures.	12/31/2004	6/17/2005	6/17/2005
• Secured funding for the Business Impact Assessment completed by a third party.	12/31/2004	1/31/2005	1/31/2005
1.3 Application Program and System Software Change Controls			
Agency Point of Contact: RMA—Chief Financial Officer • Implemented enterprise-wide change management procedures.	12/31/2004		12/31/2004
1.4 Information Security			
Agency Point of Contact: FSA/CCC—Director, Financial Management Division • Estimated Resources Needed: FY 2006 FTE: 40, Dollars \$3,200,000 and Contractors \$2,600,000 • Updated AS400 log files to show trail of when user profiles were used or modified last. Granted access on a need-to-know basis using standard security request forms.	9/30/2004	1/31/2005	1/31/2005
• Developed and tested contingency plans for FSA/CCC financial applications.	12/31/2004		12/31/2004
• Worked with the new Information Technology Service to strengthen the physical security in field office computer rooms housing FSA/CCC applications.	9/30/2004	1/31/2005	1/31/2005
• Developed plan to perform security clearance and background checks on all personnel accessing FSA/CCC applications.	10/31/2004		10/31/2004
• FSA will collaborate with the Office of the Chief Information Officer to identify and implement additional improvements needed to improve USDA's general control environment	9/30/2006		

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
1.5 Certification & Accreditation			
Agency Point of Contact: APHIS—Deputy Administrator, MRP Business Services • Completed Phases I & II of Certification & Accreditation for the User Fee System.	12/30/2004	9/13/2005	9/9/2005
Agency Point of Contact: RD—Deputy Chief Financial Officer • Completed certification & accreditation of the RUS Legacy System.	6/30/2005		5/23/2005
1.6 Strengthen Network Security and Logical Access Controls			
Agency Point of Contact: RD—Deputy Chief Financial Officer • Completed network security enhancements: – Summarized the corrected vulnerabilities and rescanned to verify the corrections.	6/30/2005		6/30/2005
• Strengthened logical access controls – Established an Information Security-Point of Contact to serve as liaison with the Information Systems Security Staff (ISSS) on security matters and ensured the ISSS is staffed adequately.	6/30/2005		6/30/2005
– Developed a logbook system to track and monitor access requests. Worked with the local access network (LAN) support personnel to differentiate between privileged users, and implemented procedures to restrict authority.			
– Worked with the LAN support personnel to implement policies and procedures for limiting privileged user's accounts. Expanded the monthly user access verification and certification process to include reports for all user types.			
– Established a database for all current contractors and standardized logbook forms to track and monitor authorized access by contractors.			
– Implemented procedures to verify user identification and access reports. Attested the accuracy of the user IDs for their organizations.			
– Completed major project to strengthen controls over logical access to major applications and general support systems.			
– Conducted a review of the change control process for all major applications and general support systems to ensure the process complies with Departmental guidance.			
1.7 Improve General Control Environment			
Agency Point of Contact: FS—Financial Management Systems Director • Implemented Information Security Program Management and Access Controls	9/30/2004		8/3/2005
• Software Management Controls – Replaced ISS with a suite of commercial scanning tools and a comprehensive monitoring infrastructure to detect enterprise-level vulnerabilities, and eliminate unused or unauthorized applications.	8/31/2005		8/24/2005[1]

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 1 – Federal Financial Management System Requirements			
– Develop and implement entity-wide software management policy and procedures.	3/31/2006		
• Service Continuity – Tested the continuity of operations plan entity-wide.	9/30/2005		9/30/2005[1]
1.8 Application Controls – ProTracts			
Agency Point of Contact: NRCS—Chief Information Officer Estimated Resources Needed: FY 2006 FTE: 1, Dollars $150,000 • Document the ProTracts change control process.	11/15/2005		
• Document changes to the ProTracts software.	11/15/2005		
• Establish a ProTracts testing process.	12/31/2005		
• Changed the per-unit cost of the current program payment specifications.	6/30/2005		6/30/2005
• Establish a formally approved document for the ProTracts payment specifications.	11/15/2005		
• Establish a schedule for the systematic reconciliation of ProTracts appropriations, obligations and payments with amounts recorded in FFIS.	11/15/2005		
Section 2 – Applicable Federal Accounting Standards			
2.1 Federal Accounting Standards			
Agency Point of Contact: FS—Financial Management Systems Director • SFFAC 2 (OMB Bulletin No. 01-09) Improve financial statement note disclosures – Conducted training on OMB Bulletin No. 01-09 to ensure proper note disclosures to the financial statements.	5/31/2005		5/25/2005
• SFFAS 5 Accounting for Liabilities of the Federal Government – Changed cookbook certification reviews to a November, February, May, August quarterly cycle.	5/31/2005		5/31/2005
– Monitored compliance with the review and certification requirements for obligations and accruals.	5/31/2005		5/31/2005[1]
• SFFAS 6, 8 Proper accounting for leases, internal use software and non-monetary business processes – Established policy and procedures for the proper accounting treatment of leases, internal-use software and non-monetary business processes.	5/31/2005	6/30/2005	9/30/2005
– Conduct training and implement monitoring process for compliance with established policy and procedures.	5/31/2005	10/30/2005[2]	
• SFFAS 7, 21 Accounting for Revenue and Other Financing Sources and Reporting Correction of Errors and Changes in Accounting Principles – Issued memo and conducted training to re-emphasize the proper recording of revenue transactions.	5/31/2005		5/31/2005
– Implemented Department policy for the review and recording of prior period adjustments.	5/31/2005		6/1/2005[1]
– Conducted monthly Cumulative Results of Operations review and analysis.	5/31/2005		6/15/2005

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 2 – Applicable Federal Accounting Standards			
Agency Point of Contact: FSA/CCC—Director, Financial Management Division			
Estimated Resources Needed for Sections 2 and 3: FY 2006 FTE: 10, Dollars $800,000 and Contractors $2,000,000			
• SFFAS No. 5 — Accounting for Liabilities of the Federal Government			
– Developed and approved accrual policies and procedures.	6/30/2005		6/30/2005
• Improvement needed in controls to ensure funds control and budgetary transactions are properly supported, recorded timely and accurately	9/30/2009		
– Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting.	9/30/2006		
– Obtain contractor training for financial management staff in budgetary accounting and analysis.	9/30/2006		
– Implement organizational structure changes to leverage expertise and improve performance in financial and budgetary accounting policy documentation, reconciliations, analysis, and review.	9/30/2006		
– Analyze current feeder systems to determine compliance with financial data requirements (and if required financial data are being transmitted to the Core financial system.) Identify feeder system gaps and costs to correct.	9/30/2009		
– Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems.	9/30/2006		
– Enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems.	9/30/2007		
– Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business.	TBD		

[1] Based on the results of the recent audit, additional corrective actions are needed to address the weakness.

[2] This corrective action has been revised to align with the establishment of guidance on the accounting treatment of leases and on internal use software, which were completed on 9/30/2005.

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
3.1 Funds Control Mechanisms			
Agency Point of /Contact: FSA/CCC – Director, Financial Management Division			
For Estimated Resources Needed see Sections 2.			
• Corrected posting models to be compliant with the SGL.			
– Completed financial posting logic review of transactions and implemented all required changes to financial posting logic that may have a material impact on CCC's Financial Statements.	8/31/2004	6/30/2005	6/30/2005

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
– Implemented improved interface controls between feeder systems and the CORE accounting system.	9/30/2004		11/30/2004
• Developed standard operating procedures for feeder systems.	11/30/2004		11/30/2004
• Expanded the obligation review and certification process to include all open obligations and programs having disbursements during the fiscal year. Identified and grouped programs with specific obligation and disbursement events.			
– Developed, distributed and provided necessary training on the new Funds Status Report to program managers and staff. The training consisted of providing an understanding of the report design, how the report can be used, Governmental finance/budgetary concepts and an overview of how information is recorded in CCC's general ledger.	6/30/2005		6/30/2005
– Expanded the review and certification of obligations to include all programs with open obligation balances. The obligations team developed a process to implement the certification quarterly.	6/30/2005		4/30/2005
• Developed an approach for estimating obligations by business event.	5/31/2005		5/31/2005
• Identified and implemented changes to current financial management processes and systems to improve the accuracy and timeliness of obligation amounts in the core financial system.			
– Performed more timely and accurate identification and quantification of program obligations, and published updated policies and procedures for recording budgetary entries related to obligations.	6/30/2005		6/30/2005
– Reviewed and enhanced monthly general ledger budgetary account reconciliation to evaluate all program obligation and disbursement activity.	6/30/2005		6/30/2005
– Developed and implemented changes in the program and financial software to record obligations at the transaction level.	TBD [1]		Discontinued
• Improvement needed in controls to ensure funds control and budgetary transactions are properly supported, recorded timely and accurately.	9/30/2009		
– Document and evaluate current system of budgetary accounting controls, identify deficiencies, develop and implement improved, well-defined control processes, as part of OMB A-123 Appendix A assessment of CCC's internal controls over financial reporting.	9/30/2006		
– Obtain contractor training for financial management staff in budgetary accounting and analysis.	9/30/2006		
– Implement organizational structure changes to leverage expertise and improve performance in financial and budgetary accounting policy documentation, reconciliations, analysis, and review.	9/30/2006		
– Analyze current feeder systems to determine compliance with financial data requirements and if required financial data are being transmitted to the Core financial system. Identify feeder system gaps and costs to correct.	9/30/2009		

Area of Noncompliance/Proposed Corrective Actions	Target Completion Date	Revised Completion Date	Actual Completion Date
Section 3 – Standard General Ledger at the Transaction Level			
– Identify compensating controls to address material weakness and ensure requirements are incorporated into the next generation of program feeder systems.	9/30/2006		
– Enhance existing financial web services, such as the National Payment Service and e-Funds control systems, and increase CCC programs using these systems.	9/30/2007		
– Implement a new integrated financial management system that includes funds control functionality, under OMB Financial Management-Line of Business.	TBD		
[1] Additional transaction codes are being added to automate the liquidation of obligation balances. Reports have been developed to improve oversight of obligation balances and ensure activity is being recorded in a timely fashion. The actual posting process at the transaction level remains manual for most programs. USDA has determined that some changes cannot be made due to system or business process limitations. In those cases, USDA has implemented such compensating controls as program analysis, reviews of account balances and confirmations of balances with program managers. Obligation balances are being posted monthly and automated sources for data are being utilized.			
Section 4 – Information Security Policies, Procedures or Practices[1]			
[1] Completed corrective actions for this initiative apply to both Section 1 (OMB Circular A-130) and Section 4 (information security policies, procedures or practices) noncompliance and therefore are not repeated in Section 4.			

Section IV

Financial Statements, Notes, Supplemental and Other Accompanying Information

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

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

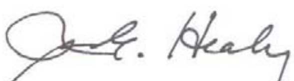
I hope that you have received a clear snapshot of the significant role that USDA played in 2005 in enhancing so many aspects of American life. USDA is deeply committed to the performance and accountability process, and the ample opportunities it provides to have real visibility into our diverse operations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

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

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

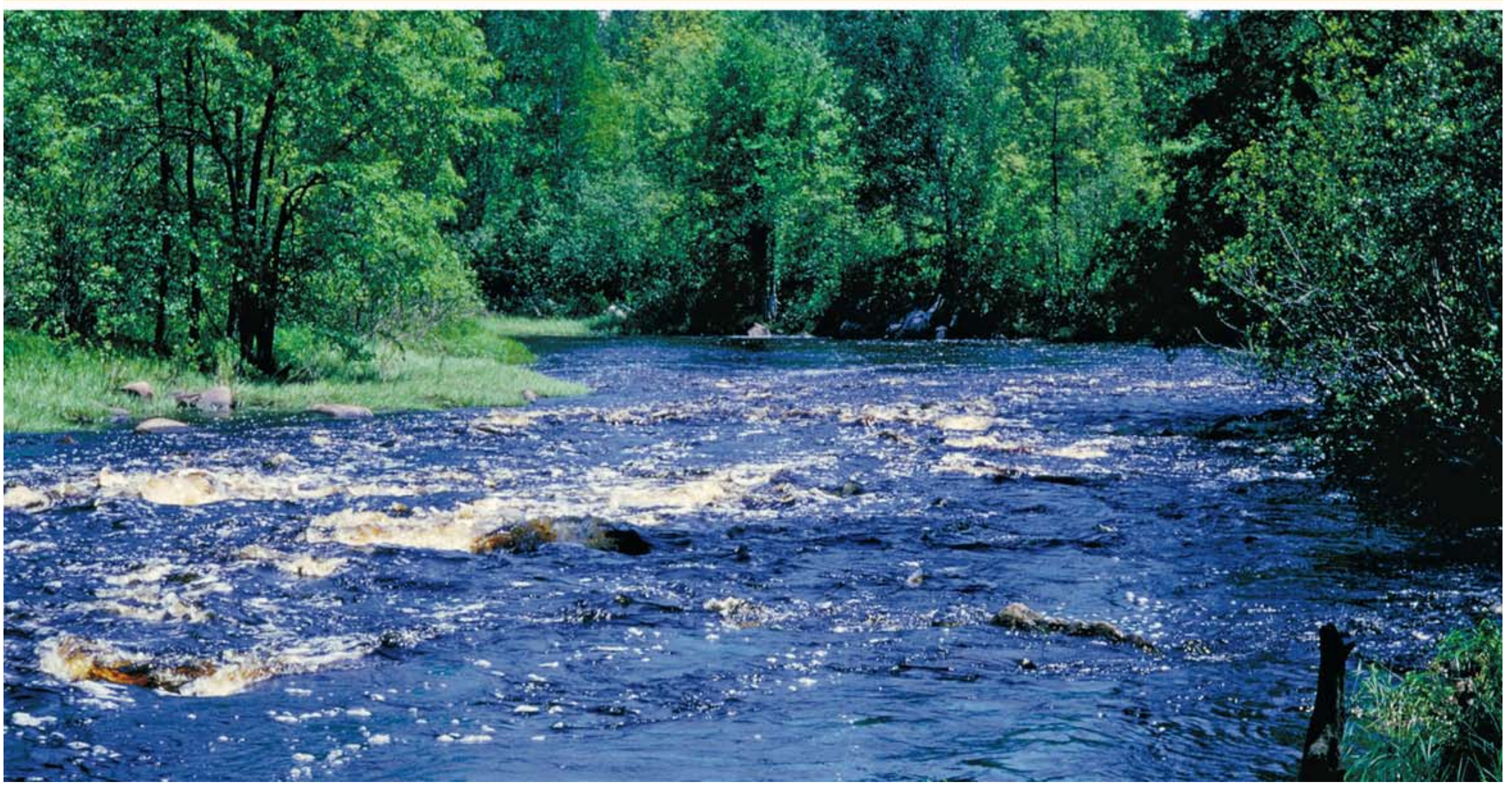
USDA is committed to providing sound management of the resources under our stewardship and to communicating the effectiveness of our efforts to all Americans through the performance and accountability reporting process. Our results are due to the hard work and innovative leadership of skilled career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

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



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

Consolidated Financial Statements



CONSOLIDATED BALANCE SHEET
As of September 30, 2005 and 2004
(in millions)

	2005	2004
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 42,327	$ 39,488
Investments (Note 5)	69	56
Accounts Receivable, Net (Note 6)	712	625
Other (Note 10)	1	1
Total Intragovernmental	43,109	40,170
Cash and Other Monetary Assets (Note 4)	242	165
Investments (Note 5)	15	15
Accounts Receivable, Net (Note 6)	9,442	2,478
Loans Receivable and Related Foreclosed Property, Net (Note 7)	75,176	73,841
Inventory and Related Property, Net (Note 8)	29	142
General Property, Plant, and Equipment, Net (Note 9)	4,885	4,914
Other (Note 10)	86	89
Total Assets (Note 2)	132,984	121,814
Liabilities:		
Intragovernmental:		
Accounts Payable	821	809
Debt (Note 12)	83,515	69,053
Other (Note 14)	18,591	18,861
Total Intragovernmental	102,927	88,723
Accounts Payable	4,292	3,430
Loan Guarantee Liability (Note 7)	1,214	1,188
Debt Held by the Public (Note 12)	1	1
Federal Employee and Veterans Benefits	834	836
Environmental and Disposal Liabilities (Note 13)	28	23
Other (Notes 14 & 15)	21,710	12,629
Total Liabilities (Note 11)	131,006	106,830
Commitments and Contingencies (Note 16)		
Net Position:		
Unexpended Appropriations	21,490	22,158
Cumulative Results of Operations	(19,512)	(7,174)
Total Net Position	1,978	14,984
Total Liabilities and Net Position	$ 132,984	$ 121,814

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2005 and 2004

(in millions)

	2005	2004
Strategic Goals:		
Enhance Economic Opportunities for Agricultural Producers:		
Gross Cost	$ 44,015	$ 19,942
Less: Earned Revenue	15,137	3,338
Net Cost of Goal 1	28,878	16,604
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	5,358	6,102
Less: Earned Revenue	4,344	3,989
Net Cost of Goal 2	1,014	2,113
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Cost	3,071	2,935
Less: Earned Revenue	630	520
Net Cost of Goal 3	2,441	2,415
Improve the Nation's Nutrition and Health:		
Gross Cost	51,033	45,452
Less: Earned Revenue	46	41
Net Cost of Goal 4	50,987	45,411
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	8,580	8,234
Less: Earned Revenue	887	755
Net Cost of Goal 5	7,693	7,479
Total Gross Costs of Strategic Goals	112,057	82,665
Less: Total Earned Revenues	21,044	8,643
Net Cost of Operations (Note 17)	$ 91,013	$ 74,022

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Years Ended September 30, 2005 and 2004

(in millions)

	2005		2004	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (7,174)	$ 22,158	$ (19,750)	$ 22,192
Budgetary Financing Sources:				
Appropriations Received		80,697		87,089
Appropriations Transfer In (Out)		(507)		127
Other Adjustments(recissions, etc.)		(2,937)		(2,665)
Appropriations Used	77,921	(77,921)	84,588	(84,585)
Nonexchange Revenue	8		29	
Donations and Forfeitures of Cash	2		2	
Transfers In (Out) without Reimbursement	686		2,219	
Other Budgetary Financing Sources	(1)		-	
Other Financing Sources:				
Donations and Forfeitures of Property	31		4	
Transfers In (Out) without Reimbursement	(1,001)		(1,074)	
Imputed Financing from Costs Absorbed by Others	833		629	
Other	196		201	
Total Financing Sources	78,675	(668)	86,598	(34)
Net Cost of Operations	(91,013)		(74,022)	
Net Change	(12,338)	(668)	12,576	(34)
Ending Balances	$ (19,512)	$ 21,490	$ (7,174)	$ 22,158

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2005 and 2004

(in millions)

	2005 Budgetary	2005 Non-Budgetary Financing Accounts	2004 Budgetary	2004 Non-Budgetary Financing Accounts
Budgetary Resources:				
Budget Authority:				
Appropriations Received	$ 88,940		$ 94,316	
Borrowing Authority (Notes 19 & 20)	45,357	$ 10,886	29,006	$ 11,356
Net Transfers	(35)		-	
Unobligated Balances:				
Beginning of Period (Note 21)	18,756	6,325	16,762	5,802
Net Transfers, Actual	(872)		(193)	
Spending Authority From Offsetting Collections:				
Earned				
Collected	27,460	8,576	23,462	7,519
Change in Receivables from Federal Sources	-	(113)	(672)	146
Change in Unfilled Customer Orders				
Advances Received	(1,383)		935	
Without Advances from Federal Sources	15	2	99	(97)
Transfers from Trust Funds - Collected	899			
Recoveries of Prior Year Obligations	6,243	559	5,256	634
Permanently not Available	(39,871)	(4,911)	(47,065)	(4,376)
Total Budgetary Resources	145,509	21,324	121,906	20,984
Status of Budgetary Resources:				
Obligations Incurred (Note 18):				
Direct	82,879	14,496	75,508	14,659
Reimbursable	43,460		27,642	
Unobligated Balance:				
Apportioned	5,919	5,672	6,396	5,921
Exempt from Apportionment	1,262	5	551	6
Unobligated Balance not Available	11,989	1,151	11,809	398
Total Status of Budgetary Resources	145,509	21,324	121,906	20,984
Relationship of Obligations to Outlays:				
Obligated Balance, Net, Beginning of Period (Note 21)	21,010	17,136	21,194	14,871
Obligations Incurred	126,339	14,496	103,150	14,659
Less:				
Recoveries of Prior Year Obligations	6,243	559	5,256	634
Change from Federal Sources	15	(111)	(573)	49
Obligated Balance, Net, End of Period:				
Accounts Receivable	(1,978)	(205)	(1,978)	(316)
Unfilled Customer Orders from Federal Sources	(428)	(635)	(412)	(635)
Undelivered Orders	15,982	18,716	14,353	17,735
Accounts Payable	12,979	326	9,047	352
Total Obligated Balance, Net, End of Period	26,555	18,202	21,010	17,136
Disbursements	114,536	12,982	98,651	11,711
Collected and Advances Received	(26,976)	(8,576)	(24,397)	(7,519)
Outlays	87,560	4,406	74,254	4,192
Less: Distributed Offsetting Receipts	1,445	722	1,928	600
Net Outlays	$ 86,115	$ 3,684	$ 72,326	$ 3,592

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF FINANCING
For the Years Ended September 30, 2005 and 2004
(in millions)

	2005	2004
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	$ 140,835	$ 117,809
Less: Spending authority from offsetting collections and recoveries	42,258	37,282
Obligations net of offsetting collections and recoveries	98,577	80,527
Less: Distributed Offsetting receipts	2,167	2,528
Net Obligations	96,410	77,999
Other Resources		
Donations and forfeitures of property	31	4
Transfers in(out) without reimbursement	(1,001)	(1,074)
Imputed financing from costs absorbed by others	833	629
Other	196	201
Net other resources used to finance activities	59	(240)
Total resources used to finance activities	96,469	77,759
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in resources obligated for goods, services and benefits ordered, but not yet provided	2,192	2,532
Resources that fund expenses recognized in prior periods	2,127	2,529
Budgetary offsetting collections and receipts that do not affect net cost of operations		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	(14,921)	(14,136)
Other	(12,825)	(10,259)
Resources that finance the acquisition of assets	31,208	23,151
Other resources or adjustments to net obligated resources that do not affect net cost of operations	2,789	1,509
Total resources used to finance items not part of the net cost of operations	10,570	5,326
Total resources used to finance the net cost of operations	85,899	72,433
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods:		
Increase in annual leave liability	-	49
Upward/Downward reestimates of credit subsidy expense	(1,853)	(341)
Increase in exchange revenue receivable from the public	(7,791)	534
Other	9,151	1,587
Total components of Net Cost of Operations that will require or generate resources in future periods (Note 25)	(493)	1,829
Components not Requiring or Generating Resources:		
Depreciation and amortization	524	598
Revaluation of assets or liabilities	(525)	(633)
Other	5,608	(205)
Total components of Net Cost of Operations that will not require or generate resources	5,607	(240)
Total components of Net Cost of Operations that will not require or generate resources in the current period	5,114	1,589
Net Cost of Operations	$ 91,013	$ 74,022

The accompanying notes are an integral part of these statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

As of September 30, 2005 and 2004
(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)

The President's Fiscal Year 2006 Budget proposes to establish the process and terms to implement dissolution of the RTB due to insufficient demand for the bank's loans and the availability of adequate financing from other sources. Stockholders of the RTB will receive a cash payout for their stock at par value. In August 2005, the RTB Board unanimously approved resolutions describing the process and terms to implement the liquidation and dissolution of the RTB, subject to there being no legal restrictions on redeeming Government-owned Class A Stock.

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.

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Limitations of the Financial Statements

The financial statements report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the Office of Management and Budget (OMB), they also are used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.

NOTE 2. NON-ENTITY ASSETS

Non-entity assets include proceeds from the sale of timber payable to Treasury, and employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center.

	FY 2005	FY 2004
Intragovernmental:		
Fund balance with Treasury	$ 140	$ 243
Accounts Receivable	1	1
Subtotal Intragovernmental	141	244
With the Public:		
Cash and other monetary assets	91	81
Accounts receivable	81	80
Subtotal With the Public	172	161
Total non-entity assets	313	405
Total entity assets	132,671	121,409
Total assets	$ 132,984	$ 121,814

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 2005	FY 2004
Fund Balances:		
Trust Funds	$ 759	$ 648
Revolving Funds	11,011	10,552
Appropriated Funds	30,009	27,584
Other Fund Types	548	704
Total	42,327	39,488
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	12,630	12,190
Unavailable	11,870	11,669
Obligated Balance not yet Disbursed	26,357	20,579
Clearing Account Balances	170	299
Borrowing Authority not yet Converted to Fund Balance	(8,700)	(5,249)
Total	$ 42,327	$ 39,488

NOTE 4. CASH AND OTHER MONETARY ASSETS

In fiscal 2005 and 2004, cash includes Federal crop insurance escrow amounts of $65 million and $83 million, funds held in escrow for single family housing borrowers of $90 million and $81 million, and other receipts of $87 million and $1 million, respectively. The other receipts of $87 million in fiscal 2005 include $26 million of interest-bearing deposits.

	FY 2005	FY 2004
Cash	$ 242	$ 165

NOTE 5. INVESTMENTS

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

FY 2004	Amortization Method	Cost	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental:					
Non-marketable					
Par value		$ 52	$ -	$ 52	$ -
Market-based	Straight Line	4	-	4	4
Total		$ 56	$ -	$ 56	$ 4
With the Public:					
AARC		$ 15	-	$ 15	$ 15
Total		$ 15	$ -	$ 15	$ 15

NOTE 6. ACCOUNTS RECEIVABLE, NET

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

FY 2004

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 625	$ -	$ 625
With the Public	2,696	218	2,478
Total	$ 3,321	$ 218	$ 3,103

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 2005 was $75,176 million compared to $73,841 million at the end of FY 2004. Loans exempt from the Federal Credit Reform Act of 1990 represent $1,057 million of the total compared to $2,092 million in FY 2004. Table 1 illustrates the overall composition of the Department’s credit program balance sheet portfolio by credit program for FY 2005 and 2004.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance through the year. The subsidy cost allowance moved from $6,256 million to $4,674 million during FY 2005, a decrease of $1,582 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2004 to FY 2005.

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 2005 was negative $783 million compared to negative $131 million in FY 2004. Table 3 illustrates the breakdown of total subsidy expense for FY 2005 and 2004 by program.

Direct loan volume increased from $6,430 million in FY 2004 to $7,740million in FY 2005. 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 2005 were $34,072 million in outstanding principal and $30,269 million in outstanding principal guaranteed, compared to $34,161 and $30,368 million, respectively at the end of FY 2004. 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 $1,188 million to $1,214 million during FY 2005, an increase of $26 million. The post-1991 liability moved from $1,183 million to $1,210 million, an increase of $27 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 2005 was negative $222 million compared to negative $312 million in FY 2004. Table 8 illustrates the breakdown of total subsidy expense for FY 2005 and 2004 by program.

Guaranteed loan volume decreased from $10,721 million in FY 2004 to $8,987 million in FY 2005. 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 2005 and 2004 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 cashflow 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 2004 and FY 2003 actual budgetary reestimates were recorded as of September 30, 2005 and 2004, 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 2005 reestimate process resulted in a $1,162 million reduction in the post 1991 direct loan portfolio and a $519 million reduction in the post 1991 guaranteed loan portfolio.

Table 3 discloses the direct loan subsidy expense including the $1.2 billion reduction due to reestimates. The reduction was most affected by a $751 million reduction in the housing program and $343 million reduction in the export program. The housing FY 2005 downward reestimates was largely due to model and data assumption changes that were implemented during the current fiscal year. 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 food aid program

Table 8 discloses the loan guarantee subsidy expenses including the $518 million reduction due to reestimate. The reduction was most impacted by the $475 million reduction in the export programs and $161 million reduction in the farm loan 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. The reduction in the farm loan program has not been fully analyzed at this time. A detailed analysis will be performed during FY 2006.

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 2005 and 2004 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 2005 and 2004, 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, 2005 and 2004, foreclosed property consisted of 587 and 783 rural single-family housing dwellings, with an average holding period of 26 and 24 months, respectively. As of September 30, 2005 and 2004, FSA-Farm Loan Program properties consist primarily of 100 and 133 farms, respectively. The average holding period for these properties in inventory for FY 2005 and 2004 was 57 and 60 months, respectively. Certain properties can be leased to eligible individuals.

Non-performing Loans

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Loan Modifications

The Debt Reduction Fund is used to account for CCC's "modified debt." Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by the Federal Credit Reform Act of 1990 as amended.

Interest Credit

Approximately $18,200 and $18,300 million of RHS unpaid loan principal as of September 30, 2005, and 2004 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $1,100 million higher for FY 2005 and 2004.

Restructured Loans

At the end of FY 2005 and 2004, the RD portfolio contained approximately 80,000 and 88,000 restructured loans with an outstanding unpaid principal balance of $2,600 and $2,500 million, respectively. At the end of FY 2005 and 2004, the farm loan portfolio contained approximately 25,008 and 27,259 restructured loans with an outstanding unpaid principal balance of $1,351 and $1,484 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2005 and 2004, were $5.5 and $7.4 billion, respectively.

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

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	5,909	69	-	(2,624)	3,354
Food Aid	-	-	-	-	-
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	2,794	37	-	(1,391)	1,440
Food Aid	-	-	-	-	-
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 1. Total Loans Receivable and Related Foreclosed Property, Net (cont'd)

FY 2004 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Farm	$ 2,799	$ 171	$ 28	$ (327)	$ 2,671
Export	6,244	71	-	(2,930)	3,385
Food Aid	-	-	-	-	-
Housing	12,949	123	17	(5,558)	7,531
Electric	13,283	28	-	(1,780)	11,531
Telecommunications	2,092	9	-	(159)	1,942
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	2,176	21	-	(347)	1,850
Pre-1992 Total	39,543	423	45	(11,101)	28,910
Obligated Post-1991					
Farm	4,646	120	5	(598)	4,173
Export	3,007	34	-	(1,821)	1,220
Food Aid	-	-	-	-	-
Housing	13,874	87	25	(2,066)	11,920
Electric	14,675	4	-	(748)	13,931
Telecommunications	2,339	2	-	(5)	2,336
Water and Environmental	6,009	64	-	(760)	5,313
Business and Industry	89	-	-	(78)	11
Economic Development	435	2	-	(158)	279
Post-1991 Total	45,074	313	30	(6,234)	39,183
Total Direct Loan Program Receivables	84,617	736	75	(17,335)	68,093
Defaulted Guarantee Loans					
Pre-1992					
Farm	10	1	-	(8)	3
Export	4,709	21	-	(2,204)	2,526
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	4	1	-	-	5
Pre-1992 Total	4,723	23	-	(2,212)	2,534
Post-1991					
Farm	15	-	-	(11)	4
Export	1,794	27	-	(873)	948
Food Aid	-	-	-	-	-
Housing	4	-	-	-	4
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	176	-	-	(10)	166
Economic Development	-	-	-	-	-
Post-1991 Total	1,989	27	-	(894)	1,122
Total Defaulted Guarantee Loans	6,712	50	-	(3,106)	3,656
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,798	-	-	-	1,798
Other Foreign Receivables	294	-	-	-	294
Total Loans Exempt	2,092	-	-	-	2,092
Total Loans Receivable and Related Foreclosed Property, Net					$ 73,841

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

	FY 2005	FY 2004
Beginning balance of the subsidy cost allowance	$ 6,256	$ 6,654
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(89)	(83)
Default costs (net of recoveries)	141	211
Fees and other collections	(7)	(12)
Other subsidy costs	326	339
Total subsidy expense prior to adjustments and reestimates	371	455
Adjustments		
Loan modifications	6	142
Fees received	20	17
Loans written off	(191)	(405)
Subsidy allowance amortization	(527)	(317)
Other	(99)	437
Total subsidy cost allowance before reestimates	5,836	6,983
Add or subtract subsidy reestimates by component		
Interest rate reestimate	108	275
Technical/default reestimate	(1,270)	(1,002)
Total reestimates	(1,162)	(727)
Ending balance of the subsidy cost allowance	$ 4,674	$ 6,256

Table 3. Direct Loan Subsidy Expense by Program and Component

FY 2005

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (4)	$ 97	$ -	$ (18)	$ 75	$ -	$ (8)	$ 42	$ 34	$ 109
Export	21	5	-	1	27	6	-	(343)	(343)	(310)
Food Aid	-	-	-	-	-	-	-	-	-	-
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)

FY 2004

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (29)	$ 163	$ -	$ (10)	$ 124	$ -	$ (12)	$ (194)	$ (206)	$ (82)
Export	21	10	-	3	34	141	(2)	(319)	(321)	(146)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	(148)	33	(12)	355	228	-	(10)	(23)	(33)	195
Electric	(19)	3	-	(6)	(22)	-	352	(456)	(104)	(126)
Telecommunications	2	1	-	(1)	2	-	9	(46)	(37)	(35)
Water and Environmental	73	1	-	(3)	71	-	(67)	5	(62)	9
Business and Industry	-	-	-	-	-	-	5	37	42	42
Economic Development	17	-	-	-	17	-	(2)	(3)	(5)	12
Total Direct Loan Subsidy Expense	$ (83)	$ 211	$ (12)	$ 338	$ 454	$ 141	$ 273	$ (999)	$ (726)	$ (131)

Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2005	FY 2004
Direct Loan Programs		
Farm	$ 906	$ 956
Export	-	60
Food Aid	20	-
Housing	1,744	1,626
Electric	3,600	2,600
Telecommunications	567	445
Water and Environmental	855	700
Business and Industry	2	-
Economic Development	46	43
Total Direct Loans Disbursed	$ 7,740	$ 6,430

Table 5. Loan Guarantees Outstanding

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

FY 2004	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	$ 152	$ 10,224	$ 10,376	$ 134	$ 9,182	$ 9,316
Export	0	5,042	5,042	0	4,833	4,833
Food Aid	0	0	0	0	0	0
Housing	9	13,986	13,995	8	12,569	12,577
Electric	255	221	476	255	221	476
Telecommunications	4	0	4	3	0	3
Water and Environmental	0	33	33	0	27	27
Business and Industry	41	4,194	4,235	31	3,105	3,136
Economic Development	0	0	0	0	0	0
Total Guarantees Disbursed	$ 461	$ 33,700	$ 34,161	$ 431	$ 29,937	$ 30,368

Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

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

FY 2004	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 2	$ 162	$ 164
Export	-	240	240
Food Aid	-	-	-
Housing	-	447	447
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	3	334	337
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 5	$ 1,183	$ 1,188

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2005	FY 2004
Beginning balance of the loan guarantee liability	$ 1,183	$ 876
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	35	35
Default costs (net of recoveries)	369	481
Fees and other collections	(106)	(105)
Other subsidy costs	-	0
Total of the above subsidy expense components	298	411
Adjustments		
Loan modifications	-	-
Fees received	103	116
Interest supplements paid	(10)	(4)
Claim payments to lenders	(360)	(372)
Interest accumulation on the liability balance	16	31
Other	498	847
Ending balance of the subsidy cost allowance before reestimates	1,728	1,905
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	(284)	(202)
Technical/default reestimate	(235)	(520)
Total of the above reestimate components	(519)	(722)
Ending balance of the loan guarantee liability	$ 1,209	$ 1,183

Table 8. Guarantee Loan Subsidy Expense by Program and Component

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)

FY 2004

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	$ 27	$ 64	$ (20)	$ -	$ 71	$ -	$ 9	$ (32)	$ (23)	$ 48
Export	-	271	(25)	-	246	-	(259)	(549)	(808)	(562)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	8	90	(47)	-	51	-	40	12	52	103
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	54	(12)	-	42	-	8	49	57	99
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 35	$ 479	$ (104)	$ -	$ 410	$ -	$ (202)	$ (520)	$ (722)	$ (312)

Table 9. Guaranteed Loans Disbursed

	FY 2005		FY 2004	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,191	$ 1,968	$ 2,347	$ 2,108
Export	2,956	2,678	3,873	3,373
Food Aid	-	-	-	-
Housing	3,130	2,813	3,555	3,193
Electric	2	2	18	18
Telecommunications	-	-	-	-
Water and Environmental	5	4	4	3
Business and Industry	703	550	924	725
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 8,987	$ 8,015	$ 10,721	$ 9,420

Table 10. Administrative Expenses

	FY 2005	FY 2004
Direct Loan Programs	$ 516	$ 567
Guaranteed Loan Programs	253	163
Total Administrative Expenses	$ 769	$ 730

Table 11. Subsidy Rates for Direct Loans (percentage)

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
P. L. 480 Direct Credits	45.85	10.13	-	-	55.98

FY 2004	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	(3.05)	16.48	-	0.99	14.42
Indian Land Acquisition	(1.02)	0.76	-	(0.52)	(0.78)
Emergency Disaster	2.15	18.10	-	(6.42)	13.83
Boll Weevil Eradication	(6.73)	1.58	-	(0.92)	(6.07)
Farm Ownership	(6.48)	37.56	-	(9.00)	22.08
Farm Storage Facility Loan Program	(0.97)	1.62	(0.11)	0.68	1.22
Sugar Storage Facility Loan Program	-	-	-	-	-
Community Facility Loans	(0.48)	0.19	-	(0.42)	(0.71)
Water and Waste Disposal Loans	3.56	0.09	-	(0.32)	3.33
Distance Learning and Telemedicine Loans	-	-	-	-	-
Broadband 4% Loans (Mandatory)	2.79	2.15	-	-	4.94
Broadband 4% Loans (Discretionary)	2.79	2.15	-	-	4.94
Broadband Treasury Loans (Mandatory)	-	2.28	-	(0.10)	2.18
Broadband Treasury Loans (Discretionary)	-	2.28	-	(0.10)	2.18
Electric Hardship Loans	(2.27)	0.03	-	(0.09)	(2.33)
Municipal Electric Loans	(2.26)	0.03	-	(0.19)	(2.42)
FFB Electric Loans	(1.35)	0.01	-	(0.65)	(1.99)
Treasury Electric Loans	-	0.03	-	(0.09)	(0.06)
Telecommunication Hardship Loans	(4.49)	0.02	-	0.03	(4.44)
FFB Telecommunications Loans	(1.04)	0.11	-	(0.92)	(1.85)
Treasury Telecommunication Loans	-	0.04	-	0.01	0.05
Rural Telephone Bank Loans	(4.29)	0.02	-	(0.05)	(4.32)
Single-Family Housing Credit Sales	(21.54)	1.22	-	2.86	(17.46)
Multi-Family Housing Credit Sales	(21.32)	0.07	-	65.45	44.20
Section 502 Single-Family Housing	(19.23)	2.62	-	25.88	9.27
Section 504 Housing Repair	25.08	2.59	-	(0.21)	27.46
Section 515 Multi-Family Housing	(20.70)	0.01	-	63.70	43.01
Section 523 Self-Help Site Development	0.13	3.22	-	(0.27)	3.08
Section 524 Site Development	(4.76)	3.37	-	1.36	(0.03)
Section 514 Farm Labor Housing	42.74	0.03	-	(0.04)	42.73
Intermediary Relending Program	43.27	-	-	-	43.27
Rural Economic Development Loans	19.61	0.04	-	(1.04)	18.61
P. L. 480 Direct Credits	42.49	24.53	-	11.88	78.90

Table 12. Subsidy Rates for Loan Guarantees (percentage)

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	-	-	-	-	-

FY 2004	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	7.48	(0.66)	-	6.82
Farm Operating—Unsubsidized	-	4.23	(0.90)	-	3.33
Farm Operating—Subsidized	10.18	3.48	(0.89)	-	12.77
Farm Ownership—Unsubsidized	-	1.44	(0.90)	-	0.54
Business and Industry Loans	-	6.33	(1.48)	0.01	4.86
Guaranteed Business & Industry NadBank Loans	-	4.53	(1.59)	-	2.94
Community Facility Loans	-	0.23	(0.83)	-	(0.60)
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Electric Guaranteed Loans	-	0.06	-	-	0.06
Local Television Loans (Discretionary)	-	8.96	(0.50)	-	8.46
Local Television Loans (Mandatory)	-	8.96	(0.50)	-	8.46
Guaranteed Broadband Loans (Discretionary)	-	3.90	-	-	3.90
Guaranteed Broadband Loans (Mandatory)	-	3.90	-	-	3.90
Section 502 Single-Family Housing Purchase	-	3.07	(1.50)	-	1.57
Section 502 Single-Family Housing Refinance	-	0.79	(0.50)	-	0.29
538 Multi-Family Housing-Subsidized	9.61	0.56	(4.22)	-	5.95
Renewable Energy	-	-	-	-	-
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, 2005 and 2004 were $79 million and $25 million, respectively. In fiscal year 2005, tobacco loan forfeitures amounted to $985 million including accrued interest.

	FY 2005		FY 2004	
Inventories		$ -		$ 1
Commodities:	Volume	Amount	Volume	Amount
Corn (In Bushels):				
On hand at the beginning of the year	12	22	16	29
Acquired during the year	99	204	19	52
Disposed of during the year				
Sales	(97)	(198)	(22)	(58)
Donations	(13)	(25)	-	(1)
Other	-	(1)	(1)	-
On hand at the end of the year	1	2	12	22
Wheat (In Bushels):				
On hand at the beginning of the year	81	291	81	290
Acquired during the year	68	287	56	240
Disposed of during the year				
Sales	(71)	(295)	(51)	(221)
Donations	(31)	(112)	(4)	(16)
Other	-	-	(1)	(2)
On hand at the end of the year	47	171	81	291
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	661	594	1,440	1,294
Acquired during the year	34	26	359	288
Disposed of during the year				
Sales	(186)	(164)	(381)	(344)
Donations	(276)	(259)	(436)	(388)
Other	(129)	(103)	(321)	(256)
On hand at the end of the year	104	94	661	594
Sugar (In Pounds):				
On hand at the beginning of the year	32	8	-	-
Acquired during the year	48	10	32	8
Disposed of during the year				
Sales	(80)	(18)	-	-
Donations	-	-	-	-
Other	-	-	-	-
On hand at the end of the year	-	-	32	8
Tobacco (In Pounds):				
On hand at the beginning of the year	2	2	96	278
Acquired during the year	280	986	-	-
Disposed of during the year				
Sales	(200)	(696)	(2)	(4)
Donations	(82)	(292)	-	-
Other	-	-	(93)	(272)
On hand at the end of the year	-	-	1	2
Other:				
On hand at the beginning of the year		33		93
Acquired during the year		5,675		871
Disposed of during the year				
Sales		(5,507)		(689)
Donations		(164)		(239)
Other		-		(3)
On hand at the end of the year		37		33
Allowance for losses		(275)		(809)
Total Commodities		29		141
Total Inventory and Related Property, Net		$ 29		$ 142

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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

FY 2004 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 76	$ -	$ 76
Improvements to Land	10 - 50	4,917	2,480	2,437
Construction-in-Progress		438	-	438
Buildings, Improvements and Renovations	15 - 30	1,766	983	783
Other Structures and Facilities	15 - 50	1,544	1,092	452
Equipment	5 - 20	1,842	1,378	464
Assets Under Capital Lease	3 - 20	40	17	23
Leasehold Improvements	10	46	26	20
Internal-Use Software	5 - 8	335	163	172
Internal-Use Software in Development		43	-	43
Other General Property, Plant and Equipment	5 - 15	6	-	6
Total		$ 11,053	$ 6,139	$ 4,914

NOTE 10. OTHER ASSETS

In fiscal 2005 and 2004, other assets include investments of $35 million in trust for loan asset sales.

	FY 2005	FY 2004
Intragovernmental:		
Advances to Others	$ 1	$ 1
Subtotal Intragovernmental	1	1
With the Public:		
Advances to Others	48	51
Prepayments	1	1
Other Assets	37	37
Subtotal With the Public	86	89
Total Other Assets	$ 87	$ 90

NOTE 11. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In fiscal 2005 and 2004, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $155 million and $161 million. Contract disputes claims payable to Treasury's Judgment Fund of $10 million and $7 million, respectively.

In fiscal 2005 and 2004, other liabilities with the public not covered by budgetary resources include, accruals for rental payments under the Conservation Reserve Program (CRP) of $1,858 million and $1,663 million, unfunded leave of $546 million and $526 million, Payments to States $378 million and $380 million, future funded indemnity cost of $479 million, and, contingent liabilities of $19 million and $10 million, respectively. There were no future funded indemnity costs in fiscal 2004. In fiscal 2005, CCC reported a long-term liability in the amount of $7,100 million under the TTPP.

	FY 2005	FY 2004
Intragovernmental:		
Other	$ 166	$ 168
Subtotal Intragovernmental	166	168
With the Public:		
Federal employee and veterans' benefits	834	836
Environmental and disposal liabilities	28	23
Benefits due and payable	-	36
Other	10,553	2,634
Subtotal With the Public	11,415	3,529
Total liabilities not covered by budgetary resources	11,581	3,697
Total liabilities covered by budgetary resources	119,425	103,133
Total liabilities	$ 131,006	$ 106,830

NOTE 12. DEBT

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

FY 2004	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental:			
Debt to the Treasury	$ 53,440	$ (6,547)	$ 46,893
Debt to the Federal Financing Bank	22,700	(540)	22,160
	76,140	(7,087)	69,053
Agency Debt:			
Held by the Public	80	(79)	1
Total Debt	$ 76,220	$ (7,166)	$ 69,054

NOTE 13. 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 $18 million and $10 million in fiscal 2005, $8 million for FS and $15 million for CCC in fiscal 2004, 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 14. OTHER LIABILITIES

As of September 30, 2005 and 2004, other intragovernmental liabilities include; credit reform reestimates of $410 million and $382 million; and General Sales Manager (GSM) Program $23 million and $17 million respectively.

Other liabilities with the public include estimated losses on crop insurance claims of $1,924 million and $2,320 million, stock payable to RTB borrowers of $1,390 million and $1,343 million, estimated underwriting gains on crop insurance of $740 million and $784 million, crop insurance premium subsidy deficiency reserve of $371 million and $420 million, RTB dividend payable to treasury of $50 million and $49 million and peanut/tobacco programs of $33 million and $32 million respectively.

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

FY 2004	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 19	$ 582	$ 601
Employer Contributions and Payroll Taxes	1	35	36
Unfunded FECA Liability	39	124	163
Advances from Others	3	15	18
Liability for Deposit Funds, Clearing Accounts	(1)	83	82
Resources Payable to Treasury	-	17,469	17,469
Custodial Liability	34	59	93
Other Liabilities	-	399	399
Subtotal Intragovernmental	95	18,766	18,861
With the Public:			
Other Accrued Liabilities	11	5,997	6,008
Accrued Funded Payroll and Leave	2	37	39
Unfunded Leave	31	495	526
Other Unfunded Employment Related Liability	-	43	43
Advances from Others	-	41	41
Deferred Credits	-	309	309
Liability for Deposit Funds, Clearing Accounts	20	614	634
Contingent Liabilities	1	9	10
Capital Lease Liability	-	23	23
Accounts Payable from Canceled Appropriations	1	-	1
Custodial Liability	-	16	16
Other Liabilities	1,361	3,618	4,979
Subtotal With the Public	1,427	11,202	12,629
Total Other Liabilities	$ 1,522	$ 29,968	$ 31,490

NOTE 15. LEASES

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA 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 $52 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 2005

Capital Leases:

Summary of Assets Under Capital Leases

Land and Building	$ 38
Accumulated Amortization	17

Future Payments Due:

Fiscal Year	Land & Buildings
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	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

FY 2004

Capital Leases:

Summary of Assets Under Capital Leases:

Land and Building	$ 40
Accumulated Amortization	17

Future Payments Due:

Fiscal Year	Land & Buildings
2005	11
2006	11
2007	11
2008	10
2009	10
After 5 Years	88
Total Future Lease Payments	141
Less: Imputed Interest	38
Less: Executory Costs	48
Less: Lease Renewal Options	32
Net Capital Lease Liability	$ 23
Lease liabilities covered by budgetary resources	$ 23

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2005	101	1	102
2006	93	1	94
2007	85	1	86
2008	75	-	75
2009	67	-	67
After 5 Years	360	-	360
Total Future Lease Payments	$ 781	$ 3	$ 784

NOTE 16. 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, $47 million and $10 million has been accrued in the financial statements as of September 30, 2005 and 2004, respectively.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The Department's potential liability for these claims ranges from $114 million to $134 million, as of September 30, 2005 and $475 million to $514 million as of September 30, 2004.

In fiscal 2005 and 2004, commitments under contractual and other commercial obligations were estimated to be $39,000 million and $66,000 million respectively. These consist of $2,000 million and $32,000 million in rental payments under the CRP; $2,000 million and $2,000 million in loan guarantees; and $19,000 million and $18,000 million of undelivered orders in direct loans, respectively. In addition, undelivered orders were $16,000 million for fiscal year 2005 and $14,000 million for fiscal 2004.

NOTE 17. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2005	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ 848	$ 1,129	$ 1,870	$ 34,623	$ 88	$ 231
Less: Earned Revenue	260	418	130	13,104	74	-
Net Goal Cost	588	711	1,740	21,519	14	231
	-	-	-	-	-	-
Support Increased Economic Opportunities and	-	-	-	-	-	-
Improved Quality of Life in Rural America:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's	-	-	-	-	-	-
Agriculture and Food Supply:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource	-	-	-	-	-	-
Base and Environment:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Total Gross Costs	848	1,129	1,870	34,623	88	231
Less: Total Earned Revenue	260	418	130	13,104	74	-
Net Cost of Operations	$ 588	$ 711	$ 1,740	$ 21,519	$ 14	$ 231

FY 2005	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ 40	$ 3,678	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	1,019	-	-	-	-
Net Goal Cost	40	2,659	-	-	-	-
	-	-	-	-	-	-
Support Increased Economic Opportunities and	-	-	-	-	-	-
Improved Quality of Life in Rural America:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's	-	-	-	-	-	-
Agriculture and Food Supply:	-	-	-	-	-	-
Gross Costs	-	-	-	-	249	748
Less: Earned Revenue	-	-	-	-	3	119
Net Goal Cost	-	-	-	-	246	629
	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:	-	-	-	-	-	-
Gross Costs	-	-	1,093	50,513	-	-
Less: Earned Revenue	-	-	5	24	-	-
Net Goal Cost	-	-	1,088	50,489	-	-
	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource	-	-	-	-	-	-
Base and Environment:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal 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
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ 82	$ 1,325	$ -	$ -	$ 26	$ 66
Less: Earned Revenue	3	189	-	-	1	36
Net Goal Cost	79	1,136	-	-	25	30
	-	-	-	-	-	-
Support Increased Economic Opportunities and	-	-	-	-	-	-
Improved Quality of Life in Rural America:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's	-	-	-	-	-	-
Agriculture and Food Supply:	-	-	-	-	-	-
Gross Costs	-	-	252	1,063	-	-
Less: Earned Revenue	-	-	20	462	-	-
Net Goal Cost	-	-	232	601	-	-
	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource	-	-	-	-	-	-
Base and Environment:	-	-	-	-	-	-
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal 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
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ -	$ -	$ -	$ 5	$ 71	$ 398
Less: Earned Revenue	-	-	(1)	-	19	7
Net Goal 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 Goal 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 Goal Cost	-	-	-	-	51	380
	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:	-	-	-	-	-	-
Gross Costs	-	-	-	-	16	89
Less: Earned Revenue	-	-	-	-	4	2
Net Goal 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 Goal 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**
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ 10	$ 360	$ 14	$ 26	$ 35	$ 101
Less: Earned Revenue	8	-	1	-	19	4
Net Goal 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 Goal 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 Goal Cost	3	275	1	3	-	3
	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:	-	-	-	-	-	-
Gross Costs	2	131	6	11	-	-
Less: Earned Revenue	4	-	-	-	-	-
Net Goal 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 Goal 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
Strategic Goals:						
Enhance Economic Opportunities for Agricultural						
Producers:	-	-	-	-	-	-
Gross Costs	$ -	$ -	$ 124	$ 271	$ 3,208	$ 42,213
Less: Earned Revenue	-	-	190	5	704	14,782
Net Goal Cost	-	-	(66)	266	2,504	27,431
	-	-	-	-	-	-
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 Goal 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 Goal 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 Goal Cost	-	-	(19)	76	1,085	50,794
	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource	-	-	-	-	-	-
Base and Environment:	-	-	-	-	-	-
Gross Costs	-	-	77	168	1,492	7,469
Less: Earned Revenue	-	-	118	3	479	576
Net Goal Cost	-	-	(41)	165	1,013	6,893
	-	-	-	-	-	-
Total Gross Costs	3,314	1,730	345	754	9,889	105,247
Less: Total Earned Revenue	416	3,920	528	13	1,886	19,900
Net Cost of Operations	$ 2,898	$ (2,190)	$ (183)	$ 741	$ 8,003	$ 85,347

FY 2005	Intradepartmental Eliminations	GRAND TOTAL
Strategic Goals:		
Enhance Economic Opportunities for Agricultural Producers:	-	-
Gross Costs	$ (1,406)	$ 44,015
Less: Earned Revenue	(349)	15,137
Net Goal Cost	(1,057)	28,878
	-	-
Support Increased Economic Opportunities and	-	-
Improved Quality of Life in Rural America:	-	-
Gross Costs	(171)	5,358
Less: Earned Revenue	(77)	4,344
Net Goal 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 Goal Cost	(81)	2,441
	-	-
Improve the Nation's Nutrition and Health:	-	-
Gross Costs	(940)	51,033
Less: Earned Revenue	(48)	46
Net Goal Cost	(892)	50,987
	-	-
Protect and Enhance the Nation's Natural Resource	-	-
Base and Environment:	-	-
Gross Costs	(381)	8,580
Less: Earned Revenue	(168)	887
Net Goal Cost	(213)	7,693
	-	-
Total Gross Costs	(3,079)	112,057
Less: Total Earned Revenue	(742)	21,044
Net Cost of Operations	$ (2,337)	$ 91,013

FY 2004	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	$ 687	$ 665	$ 1,221	$ 12,115	$ 161	$ 155
Less: Earned Revenue	252	474	135	1,510	75	-
Net Goal Cost	435	191	1,086	10,605	86	155
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs						
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Total Gross Costs	687	665	1,221	12,115	161	155
Less: Total Earned Revenue	252	474	135	1,510	75	-
Net Cost of Operations	$ 435	$ 191	$ 1,086	$ 10,605	$ 86	$ 155

FY 2004	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	$ 61	$ 3,810	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	745	-	-	-	-
Net Goal Cost	61	3,065	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	234	729
Less: Earned Revenue	-	-	-	-	9	117
Net Goal Cost	-	-	-	-	225	612
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	1,040	45,056	-	-
Less: Earned Revenue	-	-	1	17	-	-
Net Goal Cost	-	-	1,039	45,039	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Total Gross Costs	61	3,810	1,040	45,056	234	729
Less: Total Earned Revenue	-	745	1	17	9	117
Net Cost of Operations	$ 61	$ 3,065	$ 1,039	$ 45,039	$ 225	$ 612

FY 2004	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	$ 86	$ 840	$ -	$ -	$ 19	$ 57
Less: Earned Revenue	2	178	-	-	2	35
Net Goal Cost	84	662	-	-	17	22
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	241	980	-	-
Less: Earned Revenue	-	-	31	332	-	-
Net Goal Cost	-	-	210	648	-	-
Improve the Nation's Nutrition and Health:		-				
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Goal Cost	-	-	-	-	-	-
Total Gross Costs	86	840	241	980	19	57
Less: Total Earned Revenue	2	178	31	332	2	35
Net Cost of Operations	$ 84	$ 662	$ 210	$ 648	$ 17	$ 22

FY 2004	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	-	-	-	(8)	64	445
Less: Earned Revenue	-	-	1	-	22	9
Net Goal Cost	-	-	(1)	(8)	42	436
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	21	110	-	-
Less: Earned Revenue	-	-	3	1	-	-
Net Goal Cost	-	-	18	109	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	60	421
Less: Earned Revenue	-	-	-	-	21	8
Net Goal Cost	-	-	-	-	39	413
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	14	96
Less: Earned Revenue	-	-	-	-	5	2
Net Goal Cost	-	-	-	-	9	94
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	1,207	4,712	406	1,497	34	240
Less: Earned Revenue	121	538	58	16	12	5
Net Goal Cost	1,086	4,174	348	1,481	22	235
Total Gross Costs	1,207	4,712	427	1,599	172	1,202
Less: Total Earned Revenue	121	538	62	17	60	24
Net Cost of Operations	1,086	4,174	365	1,582	112	1,178

FY 2004	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	$ 12	$ 357	$ 16	$ 31	$ 36	$ 92
Less: Earned Revenue	13	4	1	1	15	3
Net Goal Cost	(1)	353	15	30	21	89
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3	163	4	7	3	17
Less: Earned Revenue	9	2	-	-	-	-
Net Goal Cost	(6)	161	4	7	3	17
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	9	263	1	2	1	3
Less: Earned Revenue	9	1	-	-	-	-
Net Goal Cost	-	262	1	2	1	3
Improve the Nation's Nutrition and Health:						
Gross Costs	3	124	3	6	-	-
Less: Earned Revenue	7	1	-	-	-	-
Net Goal Cost	(4)	123	3	6	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	6	197	4	7	1	2
Less: Earned Revenue	7	1	-	-	-	-
Net Goal Cost	(1)	196	4	7	1	2
Total Gross Costs	33	1,104	28	53	41	114
Less: Total Earned Revenue	45	9	1	1	15	3
Net Cost of Operations	$ (12)	$ 1,095	$ 27	$ 52	$ 26	$ 111

FY 2004	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Strategic Goals:						
Enhance Economic Opportunities for Agricultural Producers:						
Gross Costs	-	-	127	227	2,490	18,786
Less: Earned Revenue	-	-	152	11	670	2,970
Net Goal Cost	-	-	(25)	216	1,820	15,816
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3,339	2,407	55	98	3,425	2,802
Less: Earned Revenue	349	3,620	66	5	427	3,628
Net Goal Cost	2,990	(1,213)	(11)	93	2,998	(826)
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	59	105	605	2,503
Less: Earned Revenue	-	-	70	5	140	463
Net Goal Cost	-	-	(11)	100	465	2,040
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	38	68	1,098	45,350
Less: Earned Revenue	-	-	45	3	58	23
Net Goal Cost	-	-	(7)	65	1,040	45,327
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	78	140	1,736	6,795
Less: Earned Revenue	-	-	94	7	292	567
Net Goal Cost	-	-	(16)	133	1,444	6,228
Total Gross Costs	3,339	2,407	357	638	9,354	76,236
Less: Total Earned Revenue	349	3,620	427	31	1,587	7,651
Net Cost of Operations	2,990	(1,213)	(70)	607	7,767	68,585

FY 2004	Intradepartmental Eliminations	GRAND TOTAL
Strategic Goals:		
Enhance Economic Opportunities for Agricultural Producers:		
Gross Costs	$ (1,334)	$ 19,942
Less: Earned Revenue	(301)	3,339
Net Goal Cost	(1,033)	16,603
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	(125)	6,102
Less: Earned Revenue	(65)	3,990
Net Goal Cost	(60)	2,112
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	(172)	2,936
Less: Earned Revenue	(85)	518
Net Goal Cost	(87)	2,418
Improve the Nation's Nutrition and Health:		
Gross Costs	(994)	45,454
Less: Earned Revenue	(40)	41
Net Goal Cost	(954)	45,413
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	(299)	8,232
Less: Earned Revenue	(103)	756
Net Goal Cost	(196)	7,476
Total Gross Costs	(2,924)	82,666
Less: Total Earned Revenue	(594)	8,644
Net Cost of Operations	$ (2,330)	$ 74,022

NOTE 18. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

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

FY 2004

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 69,234	$ 891	$ 70,125
Apportionment for Special Activities	19,897	26,702	46,599
Exempt from Apportionment	1,036	49	1,085
Total Obligations Incurred	$ 90,167	$ 27,642	$ 117,809

NOTE 19. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

Available borrowing authority at September 30, 2005 and 2004 was $29,073 and $38,828 million, respectively.

NOTE 20. 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 21. ADJUSTMENTS TO BEGINNING BALANCE OF BUDGETARY RESOURCES

In fiscal 2004, RMA corrected errors in amounts previously reported. The effect of these corrections increased obligated and unobligated balances by $97 million and $3 million, respectively.

In fiscal 2004, FS corrected errors in amounts previously reported. The effect of these corrections increased obligated and decreased unobligated balances by $82 million.

	FY 2005		FY 2004	
	Obligated	Unobligated	Obligated	Unobligated
Beginning balances	$ 38,146	$ 25,081	$ 35,886	$ 22,644
Adjustments	-	-	179	(80)
Beginning balances, as adjusted	$ 38,146	$ 25,081	$ 36,065	$ 22,564

NOTE 22. 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 23. 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 24. Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2004 Statement of Budgetary Resources and the FY 2004 actual numbers presented in the FY 2006 Budget of the United States Government (Budget) are summarized below. The Budget excludes expired accounts that are no longer available for new obligations.

Corrections of timing differences and errors were made subsequent to the Budget submission as follows:

Rural Development — Error resulting from activity incorrectly recorded to Recoveries of Prior Year Obligations and Obligations Incurred when interest rate changes were processed due to market rate fluctuations. Forest Service — Cash adjustment, Supplemental 224, processed subsequent to the Budget submission.

In addition, Food and Nutrition Service made a downward adjustment to the current period Grant account balances based on the historical relationship between the September 30 grant account balance and the final grant account balance produced throughout the closeout process which does not occur for 3-9 months after the end of the fiscal year. 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 2005 Statement of Budgetary Resources and the fiscal 2005 actual numbers presented in the fiscal 2007 Budget cannot be performed as the fiscal 2007 Budget is not yet available. The fiscal 2007 Budget is expected to be published in February 2006 and will be available from the Government Printing Office.

FY 2004

	Budgetary Resources	Outlays
Combined Statement of Budgetary Resources	$ 142,890	$ 78,446
Reconciling Items:		
Expired accounts	(8,236)	(8)
Food and Nutrition Service	(453)	-
Rural Development	(239)	-
Forest Service	0	154
Native American Institutions	(11)	(10)
Milk Market Orders Fund	49	5
Other	(47)	7
Budget of the United States Government	$ 133,953	$ 78,594

NOTE 25. 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 2005	FY 2004
Current year liabilities not covered by budgetary resources, as disclosed in Note 11	$ 11,581	$ 3,697
Prior year liabilities not covered by budgetary resources	(3,697)	(5,141)
Increase (Decrease) in liabilities not covered by budgetary resources	7,884	(1,444)
Upward/Downward Reestimates of Credit Subsidy Expense	(1,853)	(341)
Increase in Exchange Revenue Receivable from the Public	(7,791)	534
Other	1,267	3,080
Components requiring or generating resources in future periods, as reported on the Statement of Financing	$ (493)	$ 1,829

NOTE 26. 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 Appalachian Regional Commission and Economic Development Administration for accounting services; and funds transferred to the Agency for International Development for transportation in connection with foreign commodity donations.

NOTE 27. INCIDENTAL CUSTODIAL COLLECTIONS

The majority of custodial collections represent National Forest Fund receipts from the sale of timber and other forest products. The balance represents miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

Revenue Activity:	FY 2005	FY 2004
Sources of Collections:		
Miscellaneous	$ 64	$ 62
Total Cash Collections	64	62
Accrual Adjustments	(7)	9
Total Custodial Revenue	57	71
Disposition of Collections:		
Transferred to Others:		
Treasury	(8)	(7)
States and Counties	(7)	(52)
(Increase)/Decrease in Amounts Yet to be Transferred	(42)	(12)
Net Custodial Activity	$ -	$ -

NOTE 28. DEDICATED COLLECTIONS

Dedicated 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.

Financial information for all significant dedicated collections is shown below. Following the descriptive narrative is the financial information for each of the significant dedicated collection funds. Donations are handled on the cash basis and all other collections are accounted for on the accrual basis.

Commodity Credit Corporation

Tobacco Transition Payment Program

The Tobacco Transition Payment Program (TTPP) was authorized by the Fair and Equitable Tobacco Reform Act of 2004. The program terminates the New Deal-era tobacco quota program and establishes a 10-year transitional payment program funded through assessments of approximately $10 billion on domestic manufacturers of tobacco products and importers of foreign tobacco. The legislation authorizes the Farm Service Agency (FSA) to provide outreach, communication and other necessary services to ensure that all eligible producers and quota holders are familiar with the features of the TTPP.

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-Aid Highways

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.

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.

Dedicated Collections
As of and for the year ended September 30, 2005
(in millions)

Dedicated Collections
As of and for the year ended September 30, 2005

(In Millions)	CCC Tobacco Transition Payment Program	RMA Federal Crop Insurance Corporation Fund	AMS Funds for Strengthening Markets, Income, and Supply	AMS Expenses and Refunds, Inspection and Grading of Farm Products	AMS Perishable Agricultural Commodities Act	APHIS Agricultural Quarantine Inspection User Fee Account	APHIS Miscellaneous Contributed Funds	FS Cooperative Work	FS Land Acquisition	FS Payments to States, National Forests Fund	FS Timber Salvage Sales	FS Fee, Operation and Maintenance of Recreation Facilities	FS Timber Roads, Purchaser Election
ASSETS													
Fund Balance with Treasury	$ -	$ 1,537	$ 350	$ 44	$ 20	$ 91	$ 13	$ 624	$ 67	$ 165	$ 101	$ 13	$ 68
Investments	-	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable, Net	7,215	1,368	1	23	-	8	10	2	20	-	2	-	-
Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-	-
General Property, Plant, and Equipment, Net	-	-	-	2	-	4	-	17	48	3	1	-	2
Other	-	65	244	15	3	-	-	-	-	-	-	-	-
TOTAL ASSETS	7,215	2,970	595	84	23	103	23	643	135	168	104	13	70
LIABILITIES													
Accounts Payable	341	13	1	3	-	(3)	-	-	-	1	(1)	-	-
Federal Employee and Veterans Benefits	-	-	-	34	-	-	-	-	-	-	-	-	-
Other	-	3,486	3	22	1	4	-	49	1	65	5	11	-
TOTAL LIABILITIES	341	3,499	4	59	1	1	-	49	1	66	4	11	-
Total Net Position	6,874	(529)	591	25	22	102	23	594	134	102	100	2	70
TOTAL LIABILITIES AND NET POSITION	7,215	2,970	595	84	23	103	23	643	135	168	104	13	70
CHANGE IN NET POSITION	-	-	-	-	-	-	-	-	-	-	-	-	-
Beginning Balances	-	(205)	933	34	27	95	16	442	145	69	95	82	63
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-	-	-	-
Beginning Balances, as adjusted	-	(205)	933	34	27	95	16	442	145	69	95	82	63
Budgetary Financing Sources:													
Appropriations Received	-	2,242	-	-	-	-	-	-	-	-	-	-	-
Appropriations Transfer In (Out)	-	(5)	-	-	-	-	-	-	-	-	-	-	-
Other Adjustments (rescissions, etc.)	-	49	-	-	-	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In (Out) without Reimbursement	-	5	749	-	-	(208)	-	149	61	-	-	(80)	-
Imputed Financing from Costs Absorbed by Others	-	-	-	28	-	-	-	-	-	-	-	-	-
Other	-	2	-	-	-	-	-	-	-	-	-	-	-
Total Financing Sources	-	2,293	749	28	-	(208)	-	149	61	-	-	(80)	-
Net Cost of Operations	6,874	(2,618)	(1,090)	(38)	(4)	215	8	3	(72)	32	5	-	7
Ending Balances	$ 6,874	$ (530)	$ 592	$ 24	$ 23	$ 102	$ 24	$ 594	$ 134	$ 101	$ 100	$ 2	$ 70

Dedicated Collections
As of and for the year ended September 30, 2005

(In Millions)	FS Expenses, Brush Disposal	FS State, Private, and International Forestry, Land and Water Conservation Fund	FS Federal-Aid Highways	FS Recreation Fee Demonstration Program	FS Roads and Trails for States, National Forest Fund	FS National Forest Fund Receipts	FS Reforestation Trust Fund	FS Restoration of Forest Lands and Improvements	FS Payments to Counties, National Grasslands	FS Timber Sales Pipeline Restoration Fund	CSREES Native American Institutions Endowment Fund	ARS Miscellaneous Contributed Funds
ASSETS												
Fund Balance with Treasury	$ 57	$ 80	$ 24	$ 130	$ 29	$ 21	$ 26	$ 19	$ 54	$ 12	$ 7	$ 18
Investments	-	-	-	-	-	-	-	-	-	-	64	-
Accounts Receivable, Net	-	-	28	1	-	7	-	-	7	-	-	-
Loans Receivable	-	-	-	-	-	-	-	-	-	-	-	-
General Property, Plant, and Equipment, Net	-	-	10	3	16	-	-	-	-	2	-	1
Other	-	-	-	1	-	-	-	-	-	-	-	-
TOTAL ASSETS	57	80	62	135	45	28	26	19	61	14	71	19
LIABILITIES												
Accounts Payable	-	-	-	1	1	-	-	-	-	-	-	-
Federal Employee and Veterans Benefits	-	-	-	-	-	-	-	-	-	-	-	-
Other	(1)	6	1	3	2	25	3	-	18	-	-	-
TOTAL LIABILITIES	(1)	6	1	4	3	25	3	-	18	-	-	-
Total Net Position	58	74	61	131	42	3	23	20	43	14	71	19
TOTAL LIABILITIES AND NET POSITION	57	80	62	135	45	28	26	20	61	14	71	19
CHANGE IN NET POSITION	-	-	-	-	-	-	-	-	-	-	-	-
Beginning Balances	56	52	52	44	38	(1)	23	20	(1)	13	58	23
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-	-	-
Beginning Balances, as adjusted	56	52	52	44	38	(1)	23	20	(1)	13	58	23
Budgetary Financing Sources:												
Appropriations Received	-	-	-	-	-	-	-	-	-	-	12	-
Appropriations Transfer In (Out)	-	-	-	-	-	-	-	-	-	-	-	-
Other Adjustments (rescissions, etc.)	-	-	-	-	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-	-	-
Transfers In (Out) without Reimbursement	-	57	16	81	-	-	30	-	-	-	-	-
Imputed Financing from Costs Absorbed by Others	-	-	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Total Financing Sources	-	57	16	81	-	-	30	-	-	-	12	-
Net Cost of Operations	1	(35)	(6)	6	4	3	(30)	-	44	1	1	(4)
Ending Balances	$ 57	$ 74	$ 62	$ 131	$ 42	$ 2	$ 23	$ 20	$ 43	$ 14	$ 71	$ 19

Dedicated Collections
As of and for the year ended September 30, 2005

AARC

(In Millions)	Alternative Agricultural Research and Commercialization Revolving Fund	Other	Total
ASSETS			
Fund Balance with Treasury	$ -	$ 83	$ 3,653
Investments	15	5	84
Accounts Receivable, Net	-	21	8,713
Loans Receivable	-	-	-
General Property, Plant, and Equipment, Net	-	2	111
Other	-	-	328
TOTAL ASSETS	15	111	12,889
LIABILITIES			
Accounts Payable	-	1	358
Federal Employee and Veterans Benefits	-	10	44
Other	-	15	3,719
TOTAL LIABILITIES	-	26	4,121
Total Net Position	15	85	8,769
TOTAL LIABILITIES AND NET POSITION	15	111	12,890
CHANGE IN NET POSITION	-	-	-
Beginning Balances	15	57	2,245
Prior Period Adjustments	-	-	-
Beginning Balances, as adjusted	15	57	2,245
Budgetary Financing Sources:			
Appropriations Received	-	1	2,255
Appropriations Transfer In (Out)	-	1	(4)
Other Adjustments (rescissions, etc.)	-	-	49
Donations and Forfeitures of Cash	-	-	-
Transfers In (Out) without Reimbursement	-	4	864
Imputed Financing from Costs Absorbed by Others	-	10	38
Other	-	8	10
Total Financing Sources	-	24	3,212
Net Cost of Operations	-	4	3,311
Ending Balances	$ 15	$ 85	$ 8,768

Dedicated Collections
As of and for the year ended September 30, 2004
(in millions)

As of and for the year ended September 30, 2004

(In Millions)	RMA Federal Crop Insurance Corporation Fund	AMS Funds for Strengthening Markets, Income, and Supply	AMS Expenses and Refunds, Inspection and Grading of Farm Products	AMS Perishable Agricultural Commodities Act	APHIS Agricultural Quarantine Inspection User Fee Account	APHIS Miscellaneous Contributed Funds	FS Cooperative Work	FS Land Acquisition	FS Payments to States, National Forests Fund
ASSETS									
Fund Balance with Treasury	$ 2,160	$ 453	$ 67	$ 27	$ 82	$ 15	$ 472	$ 99	$ 131
Investments	-	-	-	-	-	-	-	-	-
Accounts Receivable, Net	1,487	4	18	-	10	-	2	-	-
Loans Receivable	-	-	-	-	-	-	-	-	-
General Property, Plant, and Equipment, Net	-	-	2	-	5	1	16	48	2
Other	84	481	-	1	-	-	-	-	-
TOTAL ASSETS	3,731	938	87	28	97	16	490	147	133
LIABILITIES									
Accounts Payable	82	-	2	1	-	-	-	-	1
Federal Employee and Veterans Benefits	-	-	35	-	-	-	-	-	-
Other	3,854	4	15	-	1	-	48	3	63
TOTAL LIABILITIES	3,936	4	52	1	1	-	48	3	64
Total Net Position	(205)	934	35	27	96	16	442	144	69
TOTAL LIABILITIES AND NET POSITION	3,731	938	87	28	97	16	490	147	133
CHANGE IN NET POSITION	-	-	-	-	-	-	-	-	-
Beginning Balances	(451)	410	42	29	90	13	300	76	53
Prior Period Adjustments	-	-	-	-	-	-	-	-	-
Beginning Balances, as adjusted	(451)	410	42	29	90	13	300	76	53
Budgetary Financing Sources:									
Appropriations Received	3,366	-	-	-	-	-	-	-	-
Appropriations Transfer In (Out)	(5)	-	-	-	-	-	-	-	-
Other Adjustments (recissions, etc.)	(78)	-	-	-	-	-	-	(1)	-
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-
Transfers In (Out) without Reimbursement	5	1,148	-	-	(141)	-	154	163	93
Imputed Financing from Costs Absorbed by Others	-	-	27	-	-	-	-	-	-
Other	2	-	-	-	-	-	-	-	-
Total Financing Sources	3,290	1,148	27	-	(141)	-	154	162	93
Net Cost of Operations	(3,044)	(624)	(35)	(2)	147	2	(12)	(94)	(77)
Ending Balances	$ (205)	$ 934	$ 34	$ 27	$ 96	$ 15	$ 442	$ 144	$ 69

As of and for the year ended September 30, 2004

(In Millions)	FS Timber Salvage Sales	FS Fee, Operation and Maintenance of Recreation Facilities	FS Timber Roads, Purchaser Election	FS Expenses, Brush Disposal	FS State, Private, and International Forestry, Land and Water Conservation Fund	FS Federal-Aid Highways	FS Recreation Fee Demonstration Program	FS Roads and Trails for States, National Forest Fund	FS National Forest Fund Receipts	FS Reforestation Trust Fund
ASSETS										
Fund Balance with Treasury	$ 98	$ 93	$ 62	$ 56	$ 55	$ 33	$ 42	$ 26	$ 20	$ 26
Investments	-	-	-	-	-	-	-	-	-	-
Accounts Receivable, Net	-	1	-	-	-	12	2	-	6	-
Loans Receivable	-	-	-	-	-	-	-	-	-	-
General Property, Plant, and Equipment, Net	1	-	1	-	-	8	4	15	-	-
Other	-	-	-	-	-	-	-	-	-	-
TOTAL ASSETS	99	94	63	56	55	53	48	41	26	26
LIABILITIES										
Accounts Payable	(1)	-	-	-	-	-	1	1	-	-
Federal Employee and Veterans Benefits	-	-	-	-	-	-	-	-	-	-
Other	5	12	-	-	3	1	3	2	27	3
TOTAL LIABILITIES	4	12	-	-	3	1	4	3	27	3
Total Net Position	95	82	63	56	52	52	44	38	(1)	23
TOTAL LIABILITIES AND NET POSITION	99	94	63	56	55	53	48	41	26	26
CHANGE IN NET POSITION										
Beginning Balances	56	82	29	35	-	48	28	38	31	25
Prior Period Adjustments	-	-	-	-	-	-	-	-	-	-
Beginning Balances, as adjusted	56	82	29	35	-	48	28	38	31	25
Budgetary Financing Sources:										
Appropriations Received	-	-	-	-	-	-	-	-	-	-
Appropriations Transfer In (Out)	-	-	-	-	-	-	-	-	-	-
Other Adjustments (recissions, etc.)	-	-	-	-	-	-	-	-	-	-
Donations and Forfeitures of Cash	-	-	-	-	-	-	-	-	-	-
Transfers In (Out) without Reimbursement	35	-	35	20	64	12	14	(2)	(121)	30
Imputed Financing from Costs Absorbed by Others	-	-	-	-	-	-	-	-	-	-
Other	-	-	-	-	-	-	-	-	-	-
Total Financing Sources	35	-	35	20	64	12	14	(2)	(121)	30
Net Cost of Operations	5	-	-	2	(12)	(8)	2	2	89	(32)
Ending Balances	$ 96	$ 82	$ 64	$ 57	$ 52	$ 52	$ 44	$ 38	$ (1)	$ 23

As of and for the year ended September 30, 2004

(In Millions)	FS Restoration of Forest Lands and Improvements	FS Payments to Counties, National Grasslands	FS Timber Sales Pipeline Restoration Fund	CSREES Native American Institutions Endowment Fund	ARS Miscellaneous Contributed Funds	AARC Alternative Agricultural Research and Commercialization Revolving Fund	Other	Total
ASSETS								
Fund Balance with Treasury	$ 12	$ 17	$ 12	$ 5	$ 22	$ -	$ 74	$ 4,159
Investments	-	-	-	53	-	15	4	72
Accounts Receivable, Net	8	-	-	-	-	-	6	1,556
Loans Receivable	-	-	-	-	-	-	-	-
General Property, Plant, and Equipment, Net	-	-	2	-	2	-	2	109
Other	-	-	-	-	-	-	-	566
TOTAL ASSETS	20	17	14	58	24	15	86	6,462
LIABILITIES								
Accounts Payable	-	-	-	-	-	-	-	87
Federal Employee and Veterans Benefits	-	-	-	-	-	-	9	44
Other	-	18	1	-	1	-	20	4,084
TOTAL LIABILITIES	-	18	1	-	1	-	29	4,215
Total Net Position	20	(1)	13	58	23	15	57	2,247
TOTAL LIABILITIES AND NET POSITION	20	17	14	58	24	15	86	6,462
CHANGE IN NET POSITION	-	-	-	-	-	-	-	-
Beginning Balances	7	(1)	11	48	29	16	99	1,143
Prior Period Adjustments	-	-	-	-	-	-	-	-
Beginning Balances, as adjusted	7	(1)	11	48	29	16	99	1,143
Budgetary Financing Sources:								
Appropriations Received	-	-	-	-	-	-	1	3,367
Appropriations Transfer In (Out)	-	-	-	-	-	-	-	(5)
Other Adjustments (recissions, etc.)	-	-	-	-	-	(1)	-	(80)
Donations and Forfeitures of Cash	-	-	-	-	-	-	1	1
Transfers In (Out) without Reimbursement	-	(6)	5	-	-	-	(47)	1,461
Imputed Financing from Costs Absorbed by Others	-	-	-	-	-	-	10	37
Other	-	-	-	-	-	-	-	2
Total Financing Sources	-	(6)	5	-	-	(1)	(35)	4,783
Net Cost of Operations	13	6	(3)	10	(6)	-	(7)	(3,678)
Ending Balances	$ 20	$ (1)	$ 13	$ 58	$ 23	$ 15	$ 57	$ 2,248

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for recognition in the financial statements. Information about these resources is important to understanding USDA's mission, operations, and financial condition at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the financial statements in the year the costs are incurred. However, these costs and resultant resources are intended to provide long-term benefits to the public and are included as required supplementary stewardship reporting to highlight their long-term benefit nature and to demonstrate accountability over them.

Stewardship resources are categorized into two major groups, Stewardship Property, Plant and Equipment and Stewardship Investments as follows:

STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

Stewardship PP&E consists of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in financial statements. However, due to the nature of these assets, (1) valuation would be difficult and (2) matching costs with specific periods would not be meaningful. Stewardship PP&E includes heritage assets and stewardship land.

Heritage Assets

Category	FY 2004 (Sites)	Condition
Total Heritage Assets	318,259	Poor to Fair
Eligible for the National Register of Historic Places	57,925	Poor to Fair
Listed on the National Register	3,397	Fair
Sites with Structures Listed on the National Register	1,874	Poor to Fair
National Historic Landmarks	19	Fair to Good

The FS estimates that more than 320,000 heritage assets are on land that it manages. Assets held at museums and universities are managed by those entities. This information was estimated from the nine FS regions and annual Department of the Interior report to Congress. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. The FS heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. A module in the agency's Real Property Management Infrastructure System (INFRA) has been developed and implemented for heritage assets. The Healthy Forests Initiative and competing budget priorities, however, have prevented full population of the database. Heritage assets include the following:

Historic Structures

Constructed works consciously created to serve some human purpose. They include buildings, monuments, logging and mining camps, and ruins.

National Historic Landmarks

Includes sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States, 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.

National Register of Historic Places

Includes properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and the cultural foundation of the Nation.

Eligible for the National Register

Those sites formally determined as eligible for the National Register through the Keeper of the National Register or documented by consultation with State Historic Preservation Offices.

Acquisition and Withdrawal of Heritage Assets

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.

Stewardship Land

The acquisition cost of stewardship land in FY 2005 and FY 2004 was $246 million and $113 million, respectively.

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	1,396,369	134,250	-	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	1,596,589	148,212	-	1,448,377

Description	FY 2004 Balance	Additions (+)	Withdrawals (-)	FY 2003 Balance
National Forest System Land (In acres):				
National Forests	144,076,791	233,515	-	143,843,276
National Forests Wilderness Areas	34,953,370	124,868	-	34,828,502
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	950,906	2,907	-	947,999
National Recreation Areas	2,911,239	-	-	2,911,239
National Scenic–Research Areas	137,130	58	-	137,072
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,833,941	-	-	3,833,941
National Grasslands	3,839,543	376	-	3,839,167
Purchase Units	370,026	10,675	-	359,351
Land Utilization Projects	1,876	-	-	1,876
Other Areas	450,637	236	-	450,401
Total National Forest System Land	192,897,320	372,635	-	192,524,685
Conservation Easements (In acres):				
Natural Resources Conservation Service				
Wetlands Reserve Program	1,262,119	162,784	-	1,099,335
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,099	-	-	94,099
Total Conservation Easements	1,448,377	162,784	-	1,285,593

National Forest System

The FS manages over 192 million acres of public land, the majority of which is classified as stewardship land. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states and counties. The National Forest System (NFS) is comprised of the following:

National Forests

A unit formerly established and permanently set-aside and reserved for National Forest purposes. The following categories of NFS lands have been set-aside for specific purposes in designated areas:

- National Forests Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- National Forests Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- National Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- National Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- National Scenic-Research Areas: Areas established by Congress to provide use and enjoyment of certain ocean headlands and to insure protection and encourage the study of the areas for research and scientific purposes.
- National Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- National Monument Areas: Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands

A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Purchase Units

A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the federal government to purchase lands for stream-flow protection, and maintain the acquired lands as national forests.

Land Utilization Projects and Research and Experimentation Areas

Reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas

Areas administered by the FS that are not included in one of the above groups.

Condition of NFS Lands

The FS monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis program in 45 States covering 77 percent of the forested lands of the U.S. The Forest Health Monitoring program is active in 50 states providing surveys and evaluations of forest health conditions and trends. While most of the 193 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires.

About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1&2 and Condition Classes 2&3). Based on these two maps, approximately 9.5 million acres are at risk to both pest caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of native vegetation. The National Fire Plan has enhanced our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.5 million acres in fiscal year 2005 and another .4 million acres were treated to reduce risk from fire, improve wildlife habitat and prevent insect outbreaks for a total of 1.9 million acres of NFS lands. Insect and disease prevention and suppression treatments were completed on 1.7 million acres of NFS lands.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC/NRCS 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. Once enrolled, the land is monitored to ensure compliance with program requirements. At any time, a landowner may request the evaluation of additional activities (such as cutting hay, grazing livestock, or harvesting wood products) to determine if there are other compatible uses for the site. Compatible uses are allowed if it is fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC/NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing transactions, survey, and restoration costs. Easements can be either permanent or 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, 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 a voluntary program that helps landowners and operators restore and protect grassland, including rangeland, pastureland, and certain other lands, while maintaining the land's 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. The program is jointly administered by the Natural Resources Conservation Service (NRCS) and the Farm Service Agency (FSA). NRCS has the lead responsibility on technical issues and easement administration. FSA has the lead responsibility for rental agreement administration and financial activities.

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.

Participants have the opportunity to enroll acreage in rental agreements with varying lengths or long-term or permanent easements. With both easements and rental agreements, participants have the opportunity to utilize common management practices to maintain the viability of the grassland acreage. GRP participants are required to follow a conservation plan on all acres enrolled in the program.

Enrollment options permit grazing on the land in a manner that is consistent with maintaining the viability of the natural grasses, shrubs, and forbs. Haying, mowing, or harvesting for seed production is also permitted except during the nesting seasons for birds in the area that are in significant decline.

The various enrollment options are as follows:

- 10-year, 15-year, 20-year or 30-year rental agreements: Rental payment amounts will not exceed 75 percent of the grazing value for the length of the agreement. Rental payments are paid annually after the anniversary date of the agreement. Local grazing values are determined on a per county basis based on soil productivity and posted in USDA Service Centers. Payment rates are evaluated locally to determine whether the rates generally reflect local prevailing rental rates.
- Permanent easements: Easement duration is in perpetuity. Participants are provided an easement payment after the easement is filed. Easement payment amounts are based on the current market value of the land less the grazing value of the land encumbered by the easement. Land values are determined through a site specific appraisal.
- 30-year easements or easements for the maximum duration permitted based on State law: Participants are provided an easement payment that is 30 percent of the amount determined for a permanent easement.

For all easement options, the CCC pays for all the overhead costs associated with recording the easement in the local land records office including recording fees, charges for abstracts, surveys, appraisal fees, and title insurance. If NRCS and the landowner determine that restoration is necessary to return the vegetation to a desired condition, cost-share assistance is available. Participants may receive up to 90 percent of the cost of carrying out measures and practices on lands that have never been cultivated and not more than 75 percent of the cost on land that has been cultivated.

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. The land is monitored to ensure that the wetland is in compliance with contract requirements, including compatible uses, such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWRP are permanent in duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

Emergency Watershed Protection Program

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments 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 this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWP are permanent in duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of 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.

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. 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 2005 Expense	FY 2004 Expense	FY 2003 Expense	FY 2002 Expense	FY 2001 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Food Stamp Program	$ 22	$ 36	$ 39	$ -	$ 41
Special Supplemental Nutrition Program	17	8	16	-	18
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	17	15	15	14	12
Total Non-Federal Property	$ 56	$ 59	$ 70	$ 14	$ 71
Human Capital:					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	$ 507	$ 502	$ 511	$ 532	$ 479
Food and Nutrition Service					
Food Stamp Program	49	75	99	-	57
Forest Service					
Job Corps Program	161	106	118	104	101
Agricultural Research Service					
National Agricultural Library	21	21	21	20	21
Risk Management Agency					
Risk Management Education	10	7	4	-	-
Total Human Capital	$ 748	$ 711	$ 753	$ 656	$ 658
Research and Development:					
Agricultural Research Service					
Plant Sciences	$ -	$ -	$ 394	$ 384	$ 324
Commodity Conversion and Delivery	-	-	185	182	194
Animal Sciences	-	-	194	102	146
Soil, Water, and Air Sciences	-	-	110	100	98
Human Nutrition	84	83	78	80	77
Integration of Agricultural Systems	-	-	43	40	34
Collaborative Research Program	6	5	6	11	11
Product Quality/Value Added	105	104	-		
Livestock Production	84	82	-	-	-
Crop Production	197	194	-	-	-
Food Safety	103	96	-	-	-
Livestock Protection	78	64	-	-	-
Crop Protection	193	183	-	-	-
Environmental Stewardship	219	216	-	-	-
Homeland Security	-	21	-	-	-
Cooperative State Research, Education, and Extension Service					
Land-grant University System	645	610	601	542	495
Forest Service	295	312	233	227	200
Economic Research Service					
Economic and Social Science	74	71	69	67	66
National Agricultural Statistics Service					
Statistical	5	5	5	5	4
Total Research and Development	$ 2,088	$ 2,046	$ 1,918	$ 1,740	$ 1,649

Non-Federal Physical Property

Food and Nutrition Service

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the 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' nonfederal 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 839,218 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,207,295 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 18 Job Corps Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people ages 16 to 24. The 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 2005, accomplishments included the following:

- 8,889 participants received 4,441 placements with an average starting hourly wage of 43 cents more than the DOL national average.
- Approximately 1,500 female students received training in nontraditional vocations.
- 482 students received high school diplomas, and 1,934 students obtained general equivalency diplomas.
- Approximately 1,100 Job Corps students and staff assisted the agency in its firefighting efforts.
- Students accomplished conservation work on NFS lands appraised at $20.3 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 2005 and 2004, 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 47,000 in fiscal year 2005 and 46,000 in fiscal year 2004. Additionally, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately $9.4 million for fiscal year 2005 and $9.8 million for fiscal year 2004. The following table summarizes the RME initiatives since fiscal year 2001:

(dollars in millions)		2005	2004	2003	2002	2001
RME Obligations	$	9.4	10	9	6	5
Number of producers attending RME sessions		47,000	46,000	62,000	50,000	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 has five strategic goals and two major management initiatives (i.e., NAL and Buildings and Facilities).

GOAL 1: Enhance Economic Opportunities for Agricultural Producers. Under this goal research focuses on:

- **Product Quality/Value Added**—New products, new uses, and value-added processes that appeal to consumers will create additional demand-driven need for agricultural production, thus providing more opportunities for agricultural producers and businesses. Biobased technologies promise new opportunities for energy, industrial, and pharmacological markets for U.S. farmers. New markets are emerging for environmental activities and products that mitigate environmental concerns.
- **Livestock Production**—Intense competition in global markets emphasizes the need for American agriculture to pursue and market higher value animal products. Research must respond to consumer demands for more healthful and safe products to ensure a sustainable and profitable livestock production system that produces affordable value-added food, fiber, and industrial products. These superior technologies must effectively differentiate U.S. agricultural products from competing sources, and provide customers with value-added processes that enhance product quality.
- **Crop Production**—ARS will develop and disseminate science-based information to provide U.S. crop producers with increased flexibility to effectively manage unforeseen risks that impact profitability and product quality. U.S. agricultural production and marketability is constantly influenced by factors such as unpredictable weather, disease and pest outbreaks, and changing consumer demands. Use of genetically diverse germplasm resource collections and best management practices require research that helps improve production efficiency and productivity through the development of pest resistant varieties and information to facilitate decision-making.

GOAL 2: Support Increased Economic Opportunities and Improved Quality of Life in Rural America. While ARS research has a positive impact on rural America, most of its research programs are organized around the other four programmatic strategic goals detailed here.

GOAL 3: Enhance Protection and Safety of the Nation's Agriculture and Food Supply. Under this goal research focuses on:

- **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 introduction of pathogens and toxins through natural processes, global commerce, and by intentional means. Thus, the food supply must be protected during production, processing, and preparation from pathogens, toxins, and chemical contamination that cause disease in humans.
- **Livestock Protection**—Economic sustainability of livestock production systems in both 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, continued 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.
- **Crop Protection**—Economic sustainability of agricultural crop production in both 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, continued emergence of new diseases, genetic resistance of crops, and the availability of trained plant health specialists. Crop systems have limited diversity and will remain extensive and thereby more vulnerable to intentional exposure to pathogens.

GOAL 4: Improve the Nation's Nutrition and Health. Under this goal research focuses on:

- 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. In addition, 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.

GOAL 5: Protect and Enhance the Nation's Natural Resource Base and Environment. Under this goal research focuses on:

- **Environmental Stewardship**—Agriculture relies on a natural resource base whose sustainability depends on sound, science-based production practices. The management of our 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 our resources that can satisfy most competing concerns. The outcome will be technology and practices that will mitigate the adverse impact of agriculture on the environment, moderate the build up of greenhouse gasses that may contribute to climate change, and remove the necessity of farming environmentally sensitive marginal lands.

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, policy-makers, teachers, and students. The Library's program is organized to provide three kinds of services:

- **Access to Information**—Reference and research services, many Web-based; specialized information centers in Animal Welfare, Food, Nutrition and Food Safety, Alternative Farming, Water Quality, Technology Transfer, and Rural Revitalization; management of NAL collections including

Special Collections (responsible for rare and historical publications); document delivery services; desktop access for USDA staff to electronic information via the USDA Digital Desktop Library (DigiTop) initiative; leadership of the AgNIC (Agricultural Network Information Center) Alliance, an international partnership which provides collaboration access to agricultural information via the Web, and the www.invasivespecies.gov, www.nutrition.gov and www.science.gov Federal interagency Web portals.

- **Information Management**—Production of the AGRICOLA database; selection and acquisition of printed and electronic publications for the NAL collections and the USDA Digital Desktop Library (DigiTop) initiative; production of the NAL Thesaurus; and development and promulgation of standards for the creation, organization, and maintenance of computerized bibliographic data.
- **Information Systems**—Information technology support for the Library's programs and services; preservation of digital publications; and digitization of printed materials.

Management Initiative: Facilities

- ARS' Facilities program is designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.
- ARS has over 100 laboratories, primarily located throughout the United States. The agency is in the process of modernizing and upgrading selected laboratories, many of which are badly outdated and no longer meet ARS' requirements.

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:

- Vegetation management and protection
- Wildlife, fish, watershed, and air
- Resource valuation and use research
- Forest Resources inventory and monitoring

Research staff is involved in all areas of the FS, supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2005 accomplishments include the following:

- 63 new interagency agreements and contracts

- 93 interagency agreements and contracts continued
- 1,320 articles published in journals
- 1,779 articles published in all other publications
- 1 patents granted
- 16 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

STATEMENT OF BUDGETARY RESOURCES

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:										
Budget Authority:										
Appropriations Received	$ 1,736	$ -	$ 15,444	$ -	$ 316	$ 2,314	$ 47,398	$ 827	$ 6,267	$ 1,179
Borrowing Authority (Note 19 & 20)	-	1,723	45,357	688	-	-	-	-	-	-
Contract Authority	-	-	-	-	-	-	-	-	-	-
Net Transfers	50	-	(2,171)	-	13	(1)	5,168	-	(5,139)	169
Other	-	-	-	-	-	-	-	-	-	-
Unobligated Balances:	-	-	-	-	-	-	-	-	-	-
Beginning of Period (Note 21)	246	1,868	1,197	2,643	37	2,060	7,768	54	517	366
Net Transfers, Actual	-	-	(665)	-	-	-	-	-	-	(208)
Anticipated Transfers Balances	-	-	-	-	-	-	-	-	-	-
Spending Authority From Offsetting Collections:	-	-	-	-	-	-	-	-	-	-
Earned	-	-	-	-	-	-	-	-	-	-
Collected	1,016	1,535	17,267	1,769	97	1,236	80	110	59	81
Receivable from Federal Sources	13	-	(158)	(113)	(24)	-	-	6	(2)	17
Change in Unfilled Customer Orders	-	-	-	-	-	-	-	-	-	-
Advance Received	3	(3)	(1,391)	3	-	-	-	2	-	-
Without Advance from Federal Sources	-	-	-	(4)	-	-	-	-	-	-
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-	-	-	-	-	-
Previously unavailable	-	-	-	-	-	-	-	-	-	-
Transfers from Trust Funds	-	-	899	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	70	70	2,837	3	761	5	391	247	10	269
Temporarily not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not Available	(655)	(1,368)	(33,582)	(735)	(3)	(2)	(2,511)	(17)	(164)	(8)
Total Budgetary Resources	2,479	3,825	45,034	4,254	1,197	5,612	58,294	1,229	1,548	1,865
Status of Budgetary Resources:										
Obligations Incurred (Note 18):										
Direct	1,714	1,678	2,954	1,556	926	4,255	51,157	1,053	1,115	1,305
Reimbursable	419	-	40,784	-	97	-	28	104	56	245
Unobligated Balance:	-	-	-	-	-	-	-	-	-	-
Apportioned	176	1,692	333	2,523	76	1,355	526	42	49	274
Exempt from Apportionment	-	-	872	5	1	-	-	2	343	12
Other Available	-	-	-	-	-	-	-	-	-	-
Unobligated Balance not Available	166	454	97	170	98	2	6,582	28	(14)	29
Total Status of Budgetary Resources	2,475	3,824	45,040	4,254	1,198	5,612	58,293	1,229	1,549	1,865
Relationship of Obligations to Outlays:										
Obligated Balance, Net, Beginning of Period (Note 21)	200	436	5,596	(229)	73	204	3,048	101	93	435
Obligated Balance, Transferred, Net	-	-	(216)	-	-	-	-	-	-	-
Obligations Incurred	2,133	1,678	43,738	1,556	1,023	4,255	51,185	1,157	1,171	1,550
Less:	-	-	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	70	70	2,837	3	761	5	391	247	10	269
Change from Federal Sources	13	-	(158)	(117)	(24)	-	-	6	(2)	17
Obligated Balance, Net, End of Period:	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	(21)	-	(1,221)	(205)	(29)	-	-	(27)	(6)	(43)
Unfilled Customer Orders from Federal Sources	(10)	(11)	-	-	-	-	-	-	-	-
Undelivered Orders	129	183	1,661	48	87	80	700	91	99	463
Accounts Payable	68	314	7,988	1	19	188	3,240	18	26	60
Total Obligated Balance, Net, End of Period	166	486	8,428	(156)	77	268	3,940	82	119	480
Disbursements	2,079	1,564	38,011	1,591	281	4,186	49,902	923	1,137	1,218
Collected and Advances Received	(1,015)	(1,536)	(16,780)	(1,768)	(97)	(1,236)	(79)	(112)	(59)	(81)
Outlays	1,064	28	21,231	(177)	184	2,950	49,823	811	1,078	1,137
Less: Offsetting Receipts	322	-	1	722	-	-	-	3	122	15
Net Outlays	$ 742	$ 28	$ 21,230	$ (899)	$ 184	$ 2,950	$ 49,823	$ 808	$ 956	$ 1,122

FY2005	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:												
Budget Authority:												
Appropriations Received	$ 37	$ 5,812	$ 1,354	$ 1,314	$ 1,195	$ 75	$ 130	$ 2,997	$ -	$ 545	$ 88,940	$ -
Borrowing Authority (Note 19 & 20)	-	-	-	-	-	-	-	-	8,475	-	45,357	10,886
Contract Authority	-	-	-	-	-	-	-	-	-	-	-	-
Net Transfers	-	50	1,813	6	5	-	-	1	-	1	(35)	-
Other	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated Balances:	-	-	-	-	-	-	-	-	-	-	-	-
Beginning of Period (Note 21)	7	1,738	313	342	148	2	5	3,751	1,814	205	18,756	6,325
Net Transfers, Actual	-	1	-	-	-	-	-	-	-	-	(872)	-
Anticipated Transfers Balances	-	-	-	-	-	-	-	-	-	-	-	-
Spending Authority From Offsetting Collections:	-	-	-	-	-	-	-	-	-	-	-	-
Earned	-	-	-	-	-	-	-	-	-	-	-	-
Collected	36	448	1,637	67	30	1	23	4,737	5,272	535	27,460	8,576
Receivable from Federal Sources	1	13	45	(1)	(7)	-	2	19	-	76	-	(113)
Change in Unfilled Customer Orders	-	-	-	-	-	-	-	-	-	-	-	-
Advance Received	-	3	-	-	-	-	-	-	-	-	(1,383)	-
Without Advance from Federal Sources	-	75	-	4	(7)	-	(3)	-	6	(54)	15	2
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-	-	-	-	-	-	-	-
Previously unavailable	-	-	-	-	-	-	-	-	-	-	-	-
Transfers from Trust Funds	-	-	-	-	-	-	-	-	-	-	899	-
Recoveries of Prior Year Obligations	11	169	464	265	350	28	22	273	486	71	6,243	559
Temporarily not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-	-	-	-
Permanently not Available	(1)	(67)	(9)	(14)	(16)	(2)	(1)	(2,812)	(2,808)	(7)	(39,871)	(4,911)
Total Budgetary Resources	91	8,242	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 18):												
Direct	47	5,545	5,011	1,478	1,511	101	150	3,949	11,262	608	82,879	14,496
Reimbursable	37	264	139	94	58	2	22	520	-	591	43,460	-
Unobligated Balance:	-	-	-	-	-	-	-	-	-	-	-	-
Apportioned	5	1,804	306	395	101	-	3	362	1,457	112	5,919	5,672
Exempt from Apportionment	-	-	4	11	14	-	-	-	-	3	1,262	5
Other Available	-	-	-	-	-	-	-	-	-	-	-	-
Unobligated Balance not Available	3	625	158	5	13	1	2	4,136	527	58	11,989	1,151
Total Status of Budgetary Resources	92	8,238	5,618	1,983	1,697	104	177	8,967	13,246	1,372	145,509	21,324
Relationship of Obligations to Outlays:												
Obligated Balance, Net, Beginning of Period (Note 21)	9	1,493	1,437	476	1,192	29	15	6,527	16,929	82	21,010	17,136
Obligated Balance, Transferred, Net	-	-	216	-	-	-	-	-	-	-	-	-
Obligations Incurred	84	5,809	5,150	1,572	1,569	103	172	4,469	11,262	1,199	126,339	14,496
Less:	-	-	-	-	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	11	169	464	265	350	28	22	273	486	71	6,243	559
Change from Federal Sources	1	88	45	3	(14)	-	(1)	19	6	22	15	(111)
Obligated Balance, Net, End of Period:	-	-	-	-	-	-	-	-	-	-	-	-
Accounts Receivable	(6)	(226)	(99)	(39)	(9)	(2)	(6)	(97)	-	(147)	(1,978)	(205)
Unfilled Customer Orders from Federal Sources	-	(192)	(1)	(38)	(57)	-	(3)	-	(624)	(127)	(428)	(635)
Undelivered Orders	5	1,226	3,506	462	1,329	24	18	5,852	18,485	250	15,982	18,716
Accounts Payable	8	752	160	58	5	5	7	268	11	109	12,979	326
Total Obligated Balance, Net, End of Period	7	1,560	3,566	443	1,268	27	16	6,023	17,872	85	26,555	18,202
Disbursements	74	5,489	2,728	1,338	1,157	76	152	4,681	9,827	1,104	114,536	12,982
Collected and Advances Received	(36)	(451)	(1,637)	(67)	(30)	(1)	(23)	(4,737)	(5,272)	(535)	(26,976)	(8,576)
Outlays	38	5,038	1,091	1,271	1,127	75	129	(56)	4,555	569	87,560	4,406
Less: Offsetting Receipts	-	426	-	15	3	-	-	538	-	-	1,445	722
Net Outlays	$ 38	$ 4,612	$ 1,091	$ 1,256	$ 1,124	$ 75	$ 129	$ (594)	$ 4,555	$ 569	$ 86,115	$ 3,684

FY 2004	FSA		CCC		FAS	RMA	FNS	FSIS	AMS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:									
Budget Authority:									
Appropriations Received	$ 1,514	$ -	$ 24,941	$ -	$ 273	$ 3,438	$ 42,592	$ 788	$ 6,141
Borrowing Authority (Note 19 & 20)	-	2,184	29,004	693	-	-	-	-	-
Contract Authority	-	-	-	-	-	-	-	-	-
Net Transfers	(6)	-	(1,781)	-	15	-	4,715	(1)	(4,779)
Other	-	-	-	-	-	-	-	-	-
Unobligated Balances:	-	-	-	-	-	-	-	-	-
Beginning of Period (Note 21)	173	2,315	1,340	2,095	61	1,857	8,077	65	245
Net Transfers, Actual	-	-	(2)	-	-	-	-	-	-
Anticipated Transfers Balances	-	-	-	-	-	-	-	-	-
Spending Authority From Offsetting Collections:	-	-	-	-	-	-	-	-	-
Earned	-	-	-	-	-	-	-	-	-
Collected	1,169	1,485	13,931	1,090	55	928	84	124	48
Receivable from Federal Sources	(4)	-	(669)	150	19	-	-	(2)	-
Change in Unfilled Customer Orders	-	-	-	-	-	-	-	-	-
Advance Received	-	-	942	-	-	-	2	-	-
Without Advance from Federal Sources	(3)	(1)	-	-	-	-	-	-	-
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-	-	-	-	-
Previously unavailable	-	-	-	-	-	-	-	-	-
Transfers from Trust Funds	-	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	112	79	1,848	12	357	10	468	93	24
Temporarily not Available Pursuant to Public Law	-	-	-	-	-	-	-	-	-
Permanently not Available	(728)	(1,906)	(40,856)	(123)	(2)	(2)	(2,369)	(21)	(2)
Total Budgetary Resources	$ 2,227	$ 4,156	$ 28,698	$ 3,917	$ 778	$ 6,231	$ 53,569	$ 1,046	$ 1,677
Status of Budgetary Resources:									
Obligations Incurred (Note 18):									
Direct	$ 1,578	$ 2,289	$ 2,431	$ 1,274	$ 654	$ 4,171	$ 45,783	$ 847	$ 1,111
Reimbursable	406	-	25,070	-	88	-	19	145	50
Unobligated Balance:	-	-	-	-	-	-	-	-	-
Apportioned	66	1,861	813	2,627	13	2,057	619	-	17
Exempt from Apportionment	-	-	1	6	2	-	-	1	500
Other Available	-	-	-	-	-	-	-	-	-
Unobligated Balance not Available	178	7	382	10	23	3	7,149	54	-
Total Status of Budgetary Resources	$ 2,228	$ 4,157	$ 28,697	$ 3,917	$ 780	$ 6,231	$ 53,570	$ 1,047	$ 1,678
Relationship of Obligations to Outlays:									
Obligated Balance, Net, Beginning of Period (Note 21)	$ 263	$ 512	$ 5,789	$ (30)	$ 137	$ 240	$ 2,796	$ 88	$ 82
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-	-
Obligations Incurred	1,984	2,289	27,501	1,274	742	4,171	45,801	993	1,161
Less:	-	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	112	79	1,848	12	357	10	468	93	24
Change from Federal Sources	(7)	(1)	(669)	150	19	-	-	(2)	-
Obligated Balance, Net, End of Period:	-	-	-	-	-	-	-	-	-
Accounts Receivable	(6)	-	(1,379)	(316)	(52)	-	-	(22)	(8)
Unfilled Customer Orders from Federal Sources	(5)	(16)	-	-	-	-	-	-	-
Undelivered Orders	160	101	1,885	87	115	75	532	92	79
Accounts Payable	50	351	5,090	1	11	129	2,517	31	22
Total Obligated Balance, Net, End of Period	$ 199	$ 436	$ 5,596	$ (228)	$ 74	$ 204	$ 3,049	$ 101	$ 93
Disbursements	$ 1,942	$ 2,286	$ 26,515	$ 1,311	$ 429	$ 4,197	$ 45,081	$ 888	$ 1,126
Collected and Advances Received	(1,169)	(1,485)	(14,873)	(1,090)	(55)	(928)	(86)	(124)	(48)
Outlays	773	801	11,642	221	374	3,269	44,995	764	1,078
Less: Offsetting Receipts	994	-	-	601	-	-	-	3	126
Net Outlays	$ (221)	$ 801	$ 11,642	$ (380)	$ 374	$ 3,269	$ 44,995	$ 761	$ 952

FY 2004	APHIS	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:								
Budget Authority:								
Appropriations Received	$ 1,056	$ 36	$ 5,923	$ 1,182	$ 1,171	$ 1,095	$ 71	$ 129
Borrowing Authority (Note 19 & 20)	-	-	-	-	-	-	-	-
Contract Authority	-	-	-	-	-	-	-	-
Net Transfers	210	-	(12)	1,616	6	6	-	-
Other	-	-	-	-	-	-	-	-
Unobligated Balances:	-	-	-	-	-	-	-	-
Beginning of Period (Note 21)	327	10	1,256	150	455	207	3	3
Net Transfers, Actual	(194)	-	4	-	-	-	-	-
Anticipated Transfers Balances	-	-	-	-	-	-	-	-
Spending Authority From Offsetting Collections:	-	-	-	-	-	-	-	-
Earned	-	-	-	-	-	-	-	-
Collected	99	36	428	77	57	42	2	19
Receivable from Federal Sources	(12)	1	(13)	2	13	-	1	(1)
Change in Unfilled Customer Orders	-	-	-	-	-	-	-	-
Advance Received	-	-	(10)	1	-	-	-	-
Without Advance from Federal Sources	-	-	20	(5)	4	4	(1)	3
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-	-	-	-
Previously unavailable	-	-	-	-	-	-	-	-
Transfers from Trust Funds	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	318	8	97	533	244	730	10	21
Temporarily not Available Pursuant to Public Law	-	-	(1)	-	-	-	-	-
Permanently not Available	(6)	-	(54)	(7)	(10)	(18)	(1)	(1)
Total Budgetary Resources	$ 1,798	$ 91	$ 7,638	$ 3,549	$ 1,940	$ 2,066	$ 85	$ 173
Status of Budgetary Resources:								
Obligations Incurred (Note 18):								
Direct	$ 1,237	$ 47	$ 5,632	$ 3,181	$ 1,504	$ 1,837	$ 82	$ 142
Reimbursable	195	37	269	54	93	81	2	25
Unobligated Balance:	-	-	-	-	-	-	-	-
Apportioned	317	1	1,263	251	308	116	-	4
Exempt from Apportionment	24	-	-	5	15	2	-	(1)
Other Available	-	-	-	-	-	-	-	-
Unobligated Balance not Available	26	6	475	58	20	30	2	2
Total Status of Budgetary Resources	$ 1,799	$ 91	$ 7,639	$ 3,549	$ 1,940	$ 2,066	$ 86	$ 172
Relationship of Obligations to Outlays:								
Obligated Balance, Net, Beginning of Period (Note 21)	$ 410	$ 3	$ 1,597	$ 1,192	$ 414	$ 1,134	$ 23	$ 10
Obligated Balance, Transferred, Net	-	-	-	-	-	-	-	-
Obligations Incurred	1,432	84	5,901	3,235	1,597	1,918	84	168
Less:	-	-	-	-	-	-	-	-
Recoveries of Prior Year Obligations	318	8	97	533	244	730	10	21
Change from Federal Sources	(12)	1	7	(3)	17	3	-	2
Obligated Balance, Net, End of Period:	-	-	-	-	-	-	-	-
Accounts Receivable	(25)	(5)	(213)	(55)	(40)	(16)	(2)	(4)
Unfilled Customer Orders from Federal Sources	-	-	(120)	(1)	(34)	(65)	-	(7)
Undelivered Orders	387	11	1,233	1,408	498	1,266	22	18
Accounts Payable	73	3	594	85	52	6	9	8
Total Obligated Balance, Net, End of Period	$ 435	$ 9	$ 1,494	$ 1,437	$ 476	$ 1,191	$ 29	$ 15
Disbursements	$ 1,100	$ 69	$ 5,901	$ 2,460	$ 1,274	$ 1,127	$ 68	$ 140
Collected and Advances Received	(99)	(36)	(418)	(78)	(58)	(42)	(2)	(19)
Outlays	1,001	33	5,483	2,382	1,216	1,085	66	121
Less: Offsetting Receipts	16	-	384	-	14	2	-	1
Net Outlays	$ 985	$ 33	$ 5,099	$ 2,382	$ 1,202	$ 1,083	$ 66	$ 120

FY 2004	RD Budgetary	RD Non-Budgetary Financing Accounts	DO Budgetary	TOTAL Budgetary	TOTAL Non-Budgetary Financing Accounts
Budgetary Resources:					
Budget Authority:					
Appropriations Received	$ 3,457	$ -	$ 508	$ 94,315	$ -
Borrowing Authority (Note 19 & 20)	2	8,480	-	29,006	11,357
Contract Authority	-	-	-	-	-
Net Transfers	3	-	8	-	-
Other	-	-	-	-	-
Unobligated Balances:	-	-	-	-	-
Beginning of Period (Note 21)	2,298	1,391	233	16,760	5,801
Net Transfers, Actual	-	-	-	(192)	-
Anticipated Transfers Balances	-	-	-	-	-
Spending Authority From Offsetting Collections:	-	-	-	-	-
Earned	-	-	-	-	-
Collected	5,852	4,943	509	23,460	7,518
Receivable from Federal Sources	(16)	(4)	10	(671)	146
Change in Unfilled Customer Orders	-	-	-	-	-
Advance Received	-	(96)	-	935	(96)
Without Advance from Federal Sources	-	-	77	99	(1)
Anticipated for the Rest of Year, Without Advances	-	-	-	-	-
Previously unavailable	-	-	-	-	-
Transfers from Trust Funds	-	-	-	-	-
Recoveries of Prior Year Obligations	309	543	73	5,255	634
Temporarily not Available Pursuant to Public Law	-	-	-	(1)	-
Permanently not Available	(2,981)	(2,347)	(8)	(47,066)	(4,376)
Total Budgetary Resources	$ 8,924	$ 12,910	$ 1,410	$ 121,900	$ 20,983
Status of Budgetary Resources:					
Obligations Incurred (Note 18):					
Direct	$ 4,665	$ 11,096	$ 606	$ 75,508	$ 14,659
Reimbursable	509	-	599	27,642	-
Unobligated Balance:	-	-	-	-	-
Apportioned	396	1,434	156	6,397	5,922
Exempt from Apportionment	-	-	2	551	6
Other Available	-	-	-	-	-
Unobligated Balance not Available	3,355	381	48	11,811	398
Total Status of Budgetary Resources	$ 8,925	$ 12,911	$ 1,411	$ 121,909	$ 20,985
Relationship of Obligations to Outlays:					
Obligated Balance, Net, Beginning of Period (Note 21)	$ 6,916	$ 14,389	$ 100	$ 21,194	$ 14,871
Obligated Balance, Transferred, Net	-	-	-	0.00	0.00
Obligations Incurred	5,174	11,096	1,205	103,151	14,659
Less:	-	-	-	-	-
Recoveries of Prior Year Obligations	309	543	73	5,255	634
Change from Federal Sources	(16)	(100)	87	(573)	49
Obligated Balance, Net, End of Period:	-	-	-	-	-
Accounts Receivable	(78)	-	(71)	(1,976)	(316)
Unfilled Customer Orders from Federal Sources	-	(618)	(181)	(413)	(634)
Undelivered Orders	6,320	17,547	253	14,354	17,735
Accounts Payable	285	-	81	9,046	352
Total Obligated Balance, Net, End of Period	$ 6,527	$ 16,929	$ 82	$ 21,011	$ 17,137
Disbursements	$ 5,270	$ 8,113	$ 1,064	$ 98,651	$ 11,710
Collected and Advances Received	(5,852)	(4,943)	(509)	(24,396)	(7,518)
Outlays	(582)	3,170	555	74,255	4,192
Less: Offsetting Receipts	387	-	-	1,927	601
Net Outlays	$ (969)	$ 3,170	$ 555	$ 72,328	$ 3,591

DEFERRED MAINTENANCE

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
Developed Site (minor Constr. 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 (FY 2001)	98	33	65
General Forest Area (FY 2001)	4	1	3
Total Forest Service	$ 5,963	$ 1,440	$ 4,523

FY 2004	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Bridges	$ 121	$ 25	$ 96
Buildings	436	113	323
Dam	29	10	19
Developed Site (minor Constr. Features)	91	0	91
Fence	440	440	0
Handling Facility	24	24	0
Heritage	10	5	5
Road	5,159	749	4,410
Trail Bridge	8	3	5
Wastewater	31	19	12
Water	79	49	30
Wildlife, Fish, TES	6	4	2
Trails (FY 2001)	98	33	65
General Forest Area (FY 2001)	4	1	3
Total Forest Service	$ 6,536	$ 1,475	$ 5,061

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.

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.

The overall agency indirect cost for managing the program is 17.8 percent.

Condition of Assets

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.

Roads and Bridges

Conditions of roads and bridges with the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of Forest Service Manuals and Handbooks.

Dams

The overall condition of dams is below acceptable. The condition of dams is acceptable when current design standards are met and no deficiencies that threaten the safety of the structure or public are detected. Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

Buildings

Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. 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

This category includes developed recreation sites, general forest areas, campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330, Publicly Managed Recreation Opportunities) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of facility.

Range Structures

The condition assessment (fences and stock handling facilities) is based on: 1) a determination by knowledgeable range specialists or other district personnel that the structure performs as intended, and 2) a determination through the use of a protocol system to assess conditions based on age. A long-range methodology is used to gather this data.

Heritage Assets

These assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Trails

Trails are managed according to Federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350, Trail, River, and Similar Recreation Opportunities) and the Forest Service Trails Management Handbook (FSH 2309.18).

Wildlife, Fish and Threatened and Endangered Species Structures

Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

INTRAGOVERNMENTAL AMOUNTS

Assets

FY 2005	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Trading Partner (Code)				
Unidentified (00)	$ -	$ -	$ 140	$ (4)
Department of Interior (14)	-	-	46	-
Department of Justice (15)	-	-	2	-
Department of Labor (16)	-	-	4	-
Department of the Navy (17)	-	-	1	-
U.S. Postal Service (18)	-	-	1	6
Department of the Treasury (20)	42,327	69	7	-
Department of the Army (21)	-	-	13	-
Office of Personnel Management (24)	-	-	2	-
General Services Administration (47)	-	-	30	-
Environmental Protection Agency (68)	-	-	2	-
Department of Transportation (69)	-	-	195	(1)
Department of Homeland Security (70)	-	-	96	-
Agency for International Development (72)	-	-	24	-
Department of Health and Human Services (75)	-	-	1	-
National Aeronautics & Space Admin. (80)	-	-	1	-
Department of Energy (89)	-	-	2	-
U.S. Army Corps of Engineers (96)	-	-	3	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	8	-
Treasury General Fund (99)	-	-	134	-
Total Assets	$ 42,327	$ 69	$ 712	$ 1

FY 2004	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Trading Partner (Code)				
Unidentified (00)	$ -	$ -	$ 143	$ (5)
Department of Interior (14)	-	-	29	-
Department of Justice (15)	-	-	1	-
Department of Labor (16)	-	-	-	-
Department of the Navy (17)	-	-	1	-
U.S. Postal Service (18)	-	-	-	6
Department of State (19)	-	-	-	-
Department of the Treasury (20)	39,488	56	10	-
Department of the Army (21)	-	-	10	-
Office of Personnel Management (24)	-	-	2	-
General Services Administration (47)	-	-	7	-
Federal Deposit Insurance Corporation (51)	-	-	-	-
Department of Transportation (69)	-	-	298	-
Department of Homeland Security (70)	-	-	9	-
Agency for International Development (72)	-	-	54	-
Department of Health and Human Services (75)	-	-	-	-
Department of Energy (89)	-	-	2	-
U.S. Army Corps of Engineers (96)	-	-	1	-
Office of the Secretary of Defense-Defense Agencies (97)	-	-	12	-
Treasury General Fund (99)	-	-	46	-
Total Assets	$ 39,488	$ 56	$ 625	$ 1

Liabilities

FY 2005

Trading Partner (Code)	Accounts Payable	Debt	Resources Payable to Treasury	Other
Unidentified (00)	$ 7	$ -	$ -	$ 171
Architect of the Capitol (01)	-	-	-	(5)
Government Printing Office (04)	-	-	-	(4)
Department of Commerce (13)	-	-	-	1
Department of Interior (14)	-	-	-	128
Department of Justice (15)	-	-	-	32
Department of Labor (16)	-	-	-	199
U.S. Postal Service (18)	-	-	-	2
Department of State (19)	1	-	-	(4)
Department of the Treasury (20)	-	83,515	-	19
Department of the Army (21)	-	-	-	4
Office of Personnel Management (24)	-	-	-	42
Department of Veterans Affairs (36)	-	-	-	(1)
General Services Administration (47)	-	-	-	31
Department of Transportation (69)	-	-	-	1
Department of Homeland Security (70)	-	-	-	1
Agency for International Development (72)	813	-	-	5
Department of Health and Human Services (75)	-	-	-	(2)
National Aeronautics & Space Admin. (80)	-	-	-	-
U.S. Army Corps of Engineers (96)	-	-	-	(176)
Treasury General Fund (99)	-	-	18,147	-
Total Assets	$ 821	$ 83,515	$ 18,147	$ 444

FY 2004

Trading Partner (Code)	Accounts Payable	Debt	Resources Payable to Treasury	Other
Unidentified (00)	$ 4	$ -	$ -	$ 205
Architect of the Capitol (01)	-	-	-	(5)
Government Printing Office (04)	-	-	-	-
Department of Commerce (13)	-	-	-	3
Department of Interior (14)	-	-	-	129
Department of Justice (15)	-	-	-	22
Department of Labor (16)	-	-	-	166
Department of the Navy (17)	-	-	-	-
U.S. Postal Service (18)	-	-	-	1
Department of State (19)	-	-	-	(4)
Department of the Treasury (20)	1	69,053	-	20
Department of the Army (21)	-	-	-	5
Office of Personnel Management (24)	-	-	-	39
General Services Administration (47)	-	-	-	21
Tennessee Valley Authority (64)	-	-	-	1
Environmental Protection Agency (68)	-	-	-	1
Department of Transportation (69)	-	-	-	1
Department of Homeland Security (70)	-	-	-	-
Agency for International Development (72)	804	-	-	1
Department of Health and Human Services (75)	-	-	-	30
Department of Energy (89)	-	-	-	1
U.S. Army Corps of Engineers (96)	-	-	-	(133)
Office of the Secretary of Defense-Defense Agencies (97)	-	-	-	1
Treasury General Fund (99)	-	-	17,469	887
Total Liabilities	$ 809	$ 69,053	$ 17,469	$ 1,392

Non-exchange Revenue

	FY 2005		FY 2004	
	Transfers-In	Transfers-Out	Transfers-In	Transfers-Out
Trading Partner (Code)				
Unidentified (00)	$ 473	$ (293)	$ 395	$ (376)
Department of Commerce (13)	-	(80)	-	(80)
Department of Interior (14)	1	(5)	131	(13)
Department of Justice (15)	-	-	1	-
Department of Labor (16)	114	(3)	100	(1)
Department of State (19)	6	-	5	-
Appalachian Regional Commission (46)	12	-	16	-
Department of Transportation (69)	-	-	12	-
Department of Homeland Security (70)	-	(208)	30	(194)
Agency for International Development (72)	13	(1,159)	-	(696)
Arms Control & Disarmament Agency (94)	-	-	3	-
Independent Agencies (95)	1	-	-	-
Office of the Secretary of Defense-Defense Agencies (97)	40	-	-	-
Treasury General Fund (99)	$ 6,051	$ (5,785)	$ 5,930	$ (3,991)
	$ 6,711	$ (7,533)	$ 6,623	$ (5,351)

Segment Information

The Departmental Working Capital Fund and the FS Working Capital Fund are not separately reported in the consolidated financial statements. The following information summarizes the working capital funds' financial condition and results of operations as of and for the fiscal years ending September 30, 2005, and 2004.

FY 2005	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	$ 56	$ 128	$ 184
Accounts Receivable	106	1	107
Property, Plant, and Equipment	54	205	259
Other Assets	-	-	-
Total Assets	$ 216	$ 334	$ 550
Liabilities and Net Position			
Accounts Payable	$ 2	$ -	$ 2
Deferred Revenues	-	-	-
Other Liabilities	102	34	136
Unexpended Appropriations	84	9	93
Cumulative Results of Operations	28	291	319
Total Liabilities and Net Position	$ 216	$ 334	$ 550

	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	$ 255	$ 233	$ 22
Communications	7	7	-
Information Technology	193	185	8
Administration	40	40	-
Executive Secretariat	3	4	(1)
Total Departmental Working Capital Fund	498	469	29
Forest Service Working Capital Fund:			
Other	238	178	60
Total Working Capital Funds	$ 736	$ 647	$ 89

FY 2004	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	$ 109	$ 139	$ 248
Accounts Receivable	29	3	32
Property, Plant, and Equipment	52	242	294
Other Assets	1	-	1
Total Assets	$ 191	$ 384	$ 575
Liabilities and Net Position			
Accounts Payable	$ 2	$ 1	$ 3
Deferred Revenues	-	-	-
Other Liabilities	77	24	101
Unexpended Appropriations	87	9	96
Cumulative Results of Operations	25	350	375
Total Liabilities and Net Position	$ 191	$ 384	$ 575

	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	$ 257	$ 250	$ 7
Communications	11	11	-
Information Technology	96	97	(1)
Administration	34	33	1
Executive Secretariat	3	3	-
Total Departmental Working Capital Fund	401	394	7
Forest Service Working Capital Fund:			
Other	263	238	25
Total Working Capital Funds	$ 664	$ 632	$ 32

Departmental Working Capital Fund

Services provided by the Departmental Working Capital Fund include the following:

- Administrative and Supply Services;
- Video, Teleconferencing, Graphic and Exhibit Services;
- Payroll, Accounting and Administrative Services and Thrift Savings Plan Support;
- ADP Services, Application Development, and Telecommunications Services; and
- Executive correspondence control and tracking.

Major customers of the fund are the FSA and the FS in FY 2005 and the FS and the Thrift Savings Investment Board in FY 2004.

Forest Service Working Capital Fund

Services provided by the FS Working Capital Fund include the following:

- Fleet services, rental, and maintenance;
- Aircraft services, operation, and maintenance;
- Supply services; and
- Computer services.

Major customers of the fund are FS units.

Section V

Report of the Office of Inspector General

USDA

U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2005 and 2004

Report No. 50401-56-FM
November 2005

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

NOV 15 2005

REPLY TO
ATTN OF: 50401-56-FM

TO: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Senior Program Analyst
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 2005 and 2004

This report presents the results of our audit of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2005 and 2004. The report contains an unqualified opinion and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2005 and 2004 (Audit Report No. 50401-56-FM)

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position, net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations; (2) the internal control objectives were met; (3) the Department complied with laws and regulations for those transactions and events that could have a material effect on the consolidated financial statements; and (4) the information in the Performance and Accountability Report was materially consistent with the information in the consolidated financial statements.

We conducted our audit at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

Results in Brief

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, 2005 and 2004; 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 controls over financial reporting, we identified three reportable conditions.

- 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 the first two conditions are material weaknesses. Our report on compliance with laws and regulations discusses two instances of noncompliance relating to the Federal Financial Management Improvement Act and the Anti-Deficiency Act.

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.

Abbreviations Used in This Report

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
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
JFMIP	Joint Financial Management Improvement Program
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

Table of Contents

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The consolidated financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements." Those standards and OMB Bulletin No. 01-02 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the USDA as of September 30, 2005 and 2004; 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..

The information in the Performance and Accountability Report (see exhibit B) is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America or by OMB 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, the Department did not provide its final analysis in time for us to complete our review. Therefore, we can provide no assurance on the reliability of the information. In addition, 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 controls over financial reporting, we identified three reportable conditions.

- 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 the first two conditions are material weaknesses. Our report on compliance with laws and regulations discusses two instances of noncompliance relating to the Federal Financial Management Improvement Act and the Anti-Deficiency Act.

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 10, 2005

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General on Internal Control Over Financial Reporting

To: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), and have issued our report thereon dated November 10, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

In planning and performing our audits, we considered USDA's internal control over financial reporting by obtaining an understanding of the internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02 and Government Auditing Standards. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act of 1982. The objective of our audit was not to provide assurance on USDA's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants, reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

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.

- 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. 01-02, 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. 01-02, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

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Inspector General

November 10, 2005

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: Patricia E. Healy
Acting Chief Financial Officer
Office of the Chief Financial Officer

We have audited the consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2005 and 2004, and the related consolidated statements of net cost, changes in net position, and financing, and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements"), and have issued our report thereon dated November 10, 2005. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 01-02, "Audit Requirements for Federal Financial Statements."

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA). We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed one instance of noncompliance with laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under Government Auditing Standards and OMB Bulletin No. 01-02. (See Findings and Recommendations, Section 3, "Compliance With Laws and Regulations.")

This report is intended solely for the information and use of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong
Inspector General

November 10, 2005

Findings and Recommendations

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements, in amounts that would be material in relation to the consolidated financial statements being audited, may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the findings discussed in this section are material internal control weaknesses.

Finding 1 — Improvements Needed in Overall Financial Management Across USDA

During fiscal year 2005, the Department continued to make significant improvements in its overall financial management. However, we noted areas where further improvements are needed. For example:

- In response to last year's audit report OCFO revised its methodology in fiscal year 2005 for compiling the consolidated statement of financing (SOF). However, as the OCFO did not timely engage Forest Service personnel in the process, the initial revised methodology did not correctly produce the SOF at the Forest Service level. For example, the USDA OCFO made assumptions that were not correct because of the uniqueness of certain Forest Service business processes.

- Abnormal balances existed at yearend without being fully researched and corrected. As of fiscal yearend, we noted that over 90 abnormal account balances existed, totaling over $1 billion. 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. Although the number of abnormal account balances had been reduced by about half, the dollar value had increased. When abnormal balances exist, immediate research should be performed to identify the cause and correct the condition.

- Our review disclosed that budgetary and proprietary accounts were sometimes forced to equal each other in order to pass the Federal

Agencies' Centralized Trial Balance System (FACTS) II edit checks. These accounting relationships should exist naturally; when they do not, immediate research should be performed to identify the cause and correct the condition.

- We also noted the lack of financial management systems and processes that were not always capable of fully monitoring and controlling budgetary resources for all programs. This occurred, primarily, because the Commodity Credit Corporation (CCC) and the Forest Service (FS) do not yet track and manage the status of obligations and administrative limitations established by legislation or agency policy and are dependent upon manual processes. This subjects overall funds control to significant risk. Funds control is a vital component of any Federal Government operation.

- We continued to identify deficiencies in the credit reform processes used by CCC and the Farm Service Agency (FSA) relating to their cash flow models. We have reported material internal control weaknesses relating to credit reform processes and practices for fiscal year 2001 and all subsequent years. The conditions described below were primarily caused by the lack of adequate management oversight and review.

    - FSA incorrectly entered the loan maturity range for one loan program. FSA's cash flow model for direct loans also did not calculate the weighted average interest rate correctly. We identified these situations and brought them to FSA's attention. FSA immediately corrected the model and re-ran the reestimates used for financial reporting.

    - CCC made errors in the development, implementation, and maintenance of cash flow models. Additionally, the data underlying the cash flow models were not always appropriately processed. Errors in the cash flow models and related data were corrected by CCC prior to finalizing the reestimates used for financial reporting.

    - Additionally, our review of the initial version of the footnotes found errors in disclosure relating to CCC's loans. Corrections totaling more than $8 billion were subsequently made to the footnote.

- We also noted that FS and CCC yearend accrual processes need to be calculated accurately and posted prior to providing the financial statements for audit. CCC also inappropriately applied accounting standards and erroneously determined no accrual was needed for one program, and the auditors proposed an adjustment and a liability in the amount of about $7 billion was recorded.

Recommendation No. 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.

Recommendation No. 2

Provide additional training on the relationship of the SOF to the statements of budgetary resources and net cost.

Recommendation No. 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.

Recommendation No. 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.

Finding 2 **Improvements Needed in Information Technology (IT) Security and Controls**

Federal information security has been on the U.S. Government Accountability Office (GAO) list of high-risk areas since 1997. Federal agencies rely extensively on computerized information systems and electronic data to carry out their missions. The security of these systems and data is essential to preventing data tampering, disruptions in critical operations, fraud, and inappropriate disclosure of sensitive information.

Protecting federal computer systems and the systems that support critical infrastructures is a continuing concern.

The efforts of the Department's Office of the Chief Information Officer (OCIO) and OIG in the past few years have heightened program management's awareness of the need to plan and implement effective IT security. Agencies and the Department accelerated their efforts to comply with Federal information security requirements during the fiscal year. While progress has been made there is still much to be accomplished. Due to the significance of these weaknesses the Department cannot be assured that its systems and data are adequately secured. As a result, IT management and security remains a material weakness within the Department.

While individual agencies need to improve the management and security of their respective IT environments, the Department should retain accountability for the lack of adequate guidance, oversight, and management of the certification and accreditation efforts, and the general support system of the service center agencies[1] operated by Information Technology Services (ITS), a component of OCIO. These departmental weaknesses have had a significant impact on the integrity, confidentiality, and availability of the systems and data.

The results of our audit work throughout the year are highlighted in the paragraphs below.

Certification and Accreditation

The Department and its agencies have made progress in addressing the lack of compliance with OMB Circular No. A-130, Appendix III, but weaknesses continue to exist. While the Department's efforts were commendable, completion of the first accreditation process did not correct the Department's security weaknesses; rather, it was the first step in identifying controls, documenting and testing those controls, and ensuring that the process is integrated into each system's development life cycle as OMB intended.

We found that the Department certification and accreditation (C&A) process did not produce complete and reliable documentation to support the accreditation decisions. Agencies did not fully comply with the National Institute of Standards and Technology (NIST) guidance in preparing the necessary system documentation, misapplied Federal Information Processing Standards 199 in assessing system risk, and did not ensure that thorough and adequate independent testing was performed during the Security Testing and Evaluation stage of the process. Finally, our review disclosed that the agencies had not yet established effective configuration management or

[1] The service center agencies include Rural Development, FSA, and the Natural Resources and Conservation Service.

continuous control monitoring of their systems, an integral part of the C&A process. Additional details of the weaknesses we identified are available under separate cover.[2]

Common Computing Environment Management and Security

OCIO-ITS assumed the responsibilities over the general support system for the Department's service center agencies. Our audit identified many of the same weaknesses we had identified in prior audits of the service center agencies individually. While the service center agencies retained ownership and control over their own applications, weaknesses in the general support system had significant implications regarding the reliability of the data processed by those agencies.

We found that OCIO-ITS had not established effective policies and procedures covering its operations, established clearly defined roles and responsibilities, adequately prepared to take over the vulnerability scanning and mitigation process, established a reliable baseline inventory of all systems and network equipment, nor established effective physical or environmental controls over the network equipment in the offices we visited. Additional details of the weaknesses we identified are available under separate cover.[3]

Federal Information Security Management Act Report (FISMA)

Our FISMA report consolidated the results of our audits, and those conducted through contract auditors throughout the year. This year, those audits continued to disclose noncompliance with OMB Circular No. A-130, Appendix III, and NIST guidance. Our conclusion was arrived at primarily from the results of our audit of the Department's certification and accreditation efforts cited above; however, we noted other weaknesses that persisted within the Department. For instance, the Department was still unable to produce a reliable inventory of applications and general support systems, had not yet established a reliable inventory of Internet Protocol addresses, had not ensured that agencies reported complete and accurate Plan of Action and Milestone reports, and had not ensured that all Department personnel received security awareness training. Additional details of the weaknesses we identified are available under separate cover.[4]

The Department and its agencies are in the process of addressing the above weaknesses by implementing the recommendations we made in the cited

[2] Audit Report No. 50501-4-FM, "Review of the U.S. Department of Agriculture's Certification and Accreditation Efforts," dated October 21, 2005.
[3] Audit Report No. 50501-3-FM, "Office of the Chief Information Officer, Management and Security Over Information Technology Convergence – Common Computing Environment," dated October 24, 2005.
[4] Audit Report No. 50501-5-FM, "Fiscal Year 2005 Federal Information Security Management Act Report," dated October 6, 2005.

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 relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the consolidated financial statements.

Finding 3 **Additional Financial Management Issues Warrant Attention**

Our review disclosed certain areas for which financial management processes and practices can be improved. For example:

- The Foundation Financial Information System (FFIS) uses standard vouchers (SV) to process adjustments to the general ledger. SVs use predefined debits and credits based on business rules. We reviewed 91 SVs processed for fiscal year 2005 prior to October 1, 2005. We noted that 26 of the SVs reviewed were processed to (1) correct a system weakness, (2) compensate for a control weakness, and/or (3) correct another SV. Additionally, our review disclosed that the supporting documentation was inadequate for 47 SVs. The types of problems that we found could have been reduced had the agencies effectively implemented the controls outlined in FFIS Bulletin 02-06, "Internal Controls Over Standard Vouchers in the FFIS," which establishes overarching guidance for developing proper internal controls.

- We reviewed 65 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 of FFIS application controls disclosed that controls relating to agency approvals could be strengthened. For example, we found that significant documents such as manual adjustments, payment documents, and appropriation documents did not require approval at some agencies. This preventative measure would provide a basis for a good quality control structure within the accounting system.

- Our review 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).[5] Invalid obligations increase the risk that funds may be inappropriately diverted for purposes other than what Congress intended. Treasury's annual closing guidance (Bulletin No. 2005-06) requires the annual review of unliquidated obligations. Departmental Regulation 2230-1, "Reviews of Unliquidated Obligations," dated April 17, 2002, requires semi-annual reviews and annual certifications from agency Chief Financial Officers (CFO) that the semiannual reviews were performed and unliquidated obligations existing at yearend are valid based on the reviews. Both Treasury and USDA require appropriate records of the reviews to be retained for audit purposes. However, we noted the following exceptions.

- We selected 60 unliquidated obligations from 4 agencies for which no activity had occurred for over 2 years. We found that 54 of 60 (90 percent) obligations reviewed were invalid and agencies indicated the items would be de-obligated.
- We also requested evidence of the March 31, 2005, reviews from seven agencies. Three were unable to provide complete evidence of their reviews.

The 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 No. 5

Ensure that agencies adhere to FFIS Bulletin No. 02-06, "Internal Controls Over Standard Vouchers in the FFIS."

Recommendation No. 6

Ensure that agency approval of appropriate significant documents is required prior to processing.

Recommendation No. 7

Provide oversight to ensure that general ledgers reflect valid obligations and that agencies perform the required reviews of unliquidated obligations

[5]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.

appropriately and effectively. Additionally, ensure that agencies maintain evidence of the reviews.

Section 3. Compliance With Laws and Regulations

The management of USDA is responsible for complying with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin No. 01-02, including certain requirements referred to in the Federal Financial Management Improvement Act (FFMIA).

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 system requirements (FFMSR), (2) applicable Federal accounting standards, and (3) the U.S. Government Standard General Ledger Ledger 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 2005, USDA agencies worked to meet FFMIA and FISMA objectives, and as a result, corrective actions were taken to mitigate several significant deficiencies; however, additional work remains. USDA's fiscal year 2005 Performance and Accountability Report reported that financial management systems continued to be out of substantial compliance with the three requirements of the FFMIA. Our audit work during fiscal year 2005 has identified the following significant system nonconformances with FFMIA.

- FSA/CCC financial auditors reported non-compliance with all three requirements of the FFMIA. They found that although CCC had issued policies and procedures to correct deficiencies previously reported in its budgetary accounting and accounting for accruals, CCC was not able to fully implement them in fiscal year 2005. Auditors reported the inability of CCC to properly assess the correct accounting treatment for certain budgetary transactions in accordance with generally accepted accounting principles. Additionally, it was reported that CCC inappropriately applied the accounting standards in

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formulating the policies related to accrued program liabilities. Finally, auditors reported the lack of a complete information security management program that can be applied to its general support and financial systems, along with the need for establishing and maintaining sustainable and repeatable information security and contingency planning controls.

- IT control weaknesses, which include an unreliable certification and accreditation process and ineffective controls in the OCIO-ITS general control environment, have a material effect on the integrity, confidentiality, and availability of Rural Development's systems and data. Rural Development aggressively pursued accreditation of its major applications as required by OMB Circular No. A-130. However, our review of the C&A documentation supporting four applications disclosed that the documentation did not meet basic accreditation requirements, the security testing and evaluation were inadequate, and/or the systems were fully accredited without restriction or limitation before all components were fully operational. Additionally, our review of the common computing environment network and systems identified the same types of weaknesses that our prior audits identified in the Service Center Agencies individually, including inadequate controls over physical and logical access, inventory of systems and network equipment, effective policies and procedures, and vulnerability scanning and mitigation.

In addition, we noted other information security control weaknesses during our fiscal year 2005 Federal Information Systems Control Audit Manual reviews that should have been reported as FFMIA noncompliance by the Department and its component agencies. Those weaknesses are described in Finding No. 2 of this report. Unresolved information security weaknesses could adversely affect the ability of agencies to produce accurate data for decision making and financial reporting because such weaknesses could compromise the reliability and availability of data that are recorded in or transmitted by an agency's financial management system.

The Department continues its effort to achieve compliance with the FFMIA requirements. It has been working with the component agencies to accelerate completion of corrective actions previously estimated to extend into fiscal year 2006. Currently, all scheduled completion dates are targeted for fiscal year 2006, except for corrective actions relating to CCC funds control. CCC's funds control completion is scheduled for fiscal year 2009. Issues regarding modernization of systems continue to be and will remain significant challenges in fiscal year 2006. These are complex areas and significant efforts will be needed to accomplish the target dates without, again, extending timeframes. We believe correcting these deficiencies should be a primary concern and priority for the Department during fiscal year 2006.

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 Anti-Deficiency Act Violation

During fiscal year 2005, Rural Development reported a $1 billion Anti-Deficiency Act violation. The violation occurred when a bond guarantee agreement and the related guarantee of payment were executed prior to the approval of the apportionment of funds.[6] Specifically, the initial note and guaranteed loan level was signed on June 14, 2005, and the apportionment was not approved by OMB until July 20, 2005.

OIG's review of this matter disclosed that controls existed to prevent an Anti-Deficiency Act violation from occurring; however, management circumvented those controls. Rural Development has stated that to prevent future violations, any unsigned note will be held in the Office of the Assistant Administrator for Electric Programs pending written verification that OMB has processed the Apportionment of Funds.

We are making no further recommendations because the Anti-Deficiency Act violation was appropriately reported to OMB and the President.

[6] There is no budget authority associated with the $1 billion bond guarantee. Section 6101 of the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) directed the Secretary to guarantee Investment Grade Bonds issued by non-profit lenders if the proceeds were used for electric and telephone projects eligible for assistance under the Rural Electrification Act of 1936.

Exhibit A – Audit Reports Related to the Fiscal Year 2005 Financial Statements

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
05401-14-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2005 and 2004	November 2005
06401-20-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2005 and 2004	November 2005
08401-5-FM	Forest Service's Financial Statement Audit for Fiscal Years 2005 and 2004	November 2005
11401-22-FM	Fiscal Year 2005 Review of the National Finance Center General Controls	November 2005
15401-6-FM	Rural Telephone Bank's Financial Statements for Fiscal Years 2005 and 2004	November 2005
27401-1-FM	Food and Nutrition Service's Financial Statements for Fiscal Year 2005	November 2005
50501-3-FM	Management and Security Over IT Convergence	November 2005
50501-4-FM	Review of USDA's Certification and Accreditation Effort	November 2005
50501-5-FM	Fiscal Year 2005 Federal Information Security Management Act Report	October 2005
85401-12-FM	Rural Development's Financial Statements for Fiscal Years 2005 & 2004	November 2005
88501-2-FM	National Information Technology Center General Controls Review-Fiscal Year 2005	September 2005

Section VI

Appendices

APPENDIX A—MANAGEMENT CHALLENGES

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington D.C. 20250

September 2, 2005

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 the Department and its agencies face. This year we have consolidated our concerns into the six major crosscutting challenges that we believe are the most significant management issues facing USDA.

To identify the current 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 which could pose significant challenges due to their range and complexity. We discussed these challenges with USDA officials to obtain their input.

Last year OIG identified 10 Department-wide and 2 agency-specific challenges. Because the majority of USDA's challenges frequently cross jurisdictional lines within the Department, we reassessed last year's issues and combined them into six Departmental challenges. We also removed two challenges that were included in last year's list in recognition of the progress made by Civil Rights in addressing backlogged complaints and Rural Development's promulgation of appropriate regulations in the Rural Multi-Family Housing Program.

We look forward to working with the Department to address these management challenges. If you have any questions or would like to discuss this, please contact me at 720-8001, or have a member of your staff contact either Robert W. Young, Assistant Inspector General for Audit, at 720-6772 or Mark R. Woods, Assistant Inspector General for Investigations, at 720-3306.

Attachment

cc:
Deputy Secretary
Secretary's Subcabinet
Chief Financial Officer
Agency Administrators

OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2005)

Current Challenges - Synopsis

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

- Establish for farm programs comprehensive information management systems, data reconciliation processes, and effective data mining.
- Implement a Department-wide Research Misconduct Policy.
- 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 Control) Systems Still Needed**

- Strengthen the 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.

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

Agencies need to

- Emphasize security program planning and management.
- Establish an internal control program throughout the systems' 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) **Reducing Improper Payments Continues to be a Priority of Congress and the Administration**

- 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.
- 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.

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

- Continue efforts to coordinate with DHS in implementing effective control systems to ensure the safety and security of agriculture products entering the country.
- Conduct 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 work with OIG and other USDA agencies to ensure effective coordination and implementation of HSPD-9; i.e., develop a coordinated agriculture and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile.
- Strengthen controls over select agents and toxins.
- Establish Department-wide policies and procedures for defining sensitive and dual use information and implementing adequate controls to protect such information.

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

- Strengthen germplasm policies and procedures.
- Strengthen GEO field testing process.
- Establish improved methods to detect GEO products in trade exports.

Challenges Removed from the FY 2004 List

Civil Rights Complaints Processing Still a Concern in USDA – This challenge was removed based on actions taken by the Department. The premise behind the challenge was that civil rights complaints were not timely addressed and there was a backlog of old complaints. Recent audit work shows the backlog has been dealt with and the Assistant Secretary has developed 13 initiatives to address the long-standing problems pertaining to Civil Rights.

Improvements and Safeguards Needed for the Rural Multi-Family Housing Program – This management challenge was removed based on the Rural Housing Service's (RHS) issuance of new regulations which closed many long-standing audit recommendations, and the agency's proactive approach to identify and address program challenges. Past OIG audits identified major problems related to RHS' ability to maintain its portfolio of rural multi-family housing in good repair so that it can continue to provide safe and affordable housing for low to moderate-income rural residents. Our audit reviews found that RHS needed to do a better job of inspecting and repairing its aging portfolio of Rural Rental Housing (RRH) projects. We also found that RHS needed to implement wage matching to identify excessive rental assistance. Additionally, RHS needed to identify and prevent theft (equity skimming) of RRH project funds. In response to OIG audit recommendations, RHS developed regulations to address many of the issues identified by OIG and has implemented improved management controls. Although all actions have not been fully implemented, RHS has taken aggressive steps to resolve these RRH issues.

2

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 the Department 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 Farm Programs Could Improve Fraud Prevention and Detection through Cross-Agency Information Sharing. Participation in the Farm Service Agency's (FSA) 1998-2002 crop disaster programs was predicated on crop production data managed by the Risk Management Agency (RMA). The Agricultural Risk Protection Act (ARPA) of 2000, enacted in part to improve the efficiency and integrity of the Federal crop insurance programs, requires FSA and 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 the Departmental efforts on data reconciliation on the 2001 crop data were effectively negated by the hundred of thousands of disparate records that were identified between the two agencies. OIG's reviews of the crop disaster programs also have shown the importance of data sharing and data reconciliation. 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.

OIG investigative experience supports this audit finding. Investigations have found that allegations of fraud involving one farm-related program, such as crop insurance fraud, can develop into complex cases involving fraud in other farm-related programs (i.e., disaster payments, farm loans). In a recent investigation, we found that a producer and his two sons falsified production worksheets. As a result, they received over $255,000 in illegal crop insurance indemnities on their 1998 crops. They also made a false claim for FSA disaster assistance in the amount of $166,227 and received $30,677 in 1998 Loan Deficiency Payments and $25,000 in other FSA program payments for which they were not eligible. Over the past 5 fiscal years, our investigations involving these programs resulted in a total monetary result of $100.3 million and 287 convictions. With a more efficient data matching capability between the various agencies responsible for these programs, schemes such as these may be identified at a much earlier stage and potentially reduce program monetary losses.

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The interrelationship of RMA crop insurance and FSA disaster programs and the associated risk led OIG to initiate a multifaceted and comprehensive review of these programs to identify improper payments and address fraud and abuse. To carry out this review, OIG established a Farm Fraud Working Group composed of auditors, investigators, and representatives from FSA and RMA who had considerable work experience with crop insurance and disaster assistance programs. The overall goal of the Working Group is to make recommendations to strengthen the safety net that these programs provide to American producers. Specific objectives are to: (1) ensure program integrity by strengthening the Department's protection against dishonest participants; (2) fortify program controls; and (3) reduce fraud, waste, and abuse. To accomplish the objectives, the Working Group analyzed audits and investigations from the past 5 years and held numerous discussions with representatives from RMA, FSA, and the Government Accountability Office (GAO) to identify inherent weaknesses in these programs and develop corrective actions. The Working Group's results will be included in a report containing short and long-term recommendations to improve programs.

Under the Wetlands Reserve Program (WRP) administered by the Natural Resources Conservation Service (NRCS), the law requires that the owners and operators of land subject to WRP conservation easements agree to the permanent retirement of any existing cropland bases for such land under any USDA program. In our ongoing review of WRP, we noted specifically that NRCS is not consistently coordinating with FSA to ensure such bases are permanently reduced (retired) for farm program purposes. As a result, USDA is both compensating the producers for the value of the base acres under WRP and issuing farm program payments on the base acres to the producers under the farm programs.

USDA Still Needs a Department-wide Directive on Research Misconduct. In our March 2005 report, we reported that despite an Office of Science and Technology Policy (OSTP) directive issued on December 6, 2001, to implement a research misconduct policy, the Department had not yet implemented one. Furthermore, since the Department did not assign this responsibility to any specific group or agency, the Department did not ensure that an individual agency implement such a policy or that agency policies were consistent across the Department or compliant with OSTP's directive. The Department also did not have a Department-wide research misconduct policy that addresses extramural research misconduct referrals, allegations, investigations, and adjudications.

Coordination between USDA Agencies Necessary for Effective Protection of Food Safety, Public Health, and Agriculture Trade. In our August 2004 audit review of the Bovine Spongiform Encephalopathy (BSE) Surveillance Program – Phase I, we reviewed the BSE plan in place and the plans for the expanded program. We made 19 recommendations to address limitations in the surveillance plan, make full disclosure of assumptions, and better define the animal population to be tested. Agreement on the recommendations was achieved at report issuance. Although many steps are being taken to improve the BSE surveillance program, the Animal and Plant Health Inspection Service (APHIS) and the Food Safety and Inspection Service (FSIS) need to closely coordinate their activities to protect the safety of our food supply and agriculture markets.

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In February 2005, we reported that from August 2003 to April 2004, APHIS officials allowed a gradual expansion in the types of Canadian beef products approved for import into the United States. Additionally, APHIS allowed an expansion in the type of Canadian facilities that would be allowed to produce items for export to the United States. However, FSIS and APHIS did not always communicate effectively about the eligibility status of products imported, which resulted in ineligible product being brought into the United States. APHIS and FSIS agreed with the report's recommendations.

In September 2004, we initiated an audit to evaluate whether USDA enforcement of the ban on specified risk materials in meat products, the administration of its testing program, and the controls to prevent central nervous system (CNS) tissue in advanced meat recovery product have been effectively implemented to reduce the public health risk, provide consumer protection, and monitor the success of adopted prevention and control measures. We also started an audit to evaluate whether the newly expanded BSE Surveillance Program is accomplishing its intended objectives and has been effectively implemented and administered.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In carrying out their mandate, RMA and FSA have established a working group to develop a comprehensive information management system (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 re-defining 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 information collection and systems development.

APHIS agreed that additional discussion and clarification of the BSE surveillance program objectives and assumptions would contribute to public understanding of its efforts. Both FSIS and APHIS have issued instructions to field personnel that clearly state the policy to sample all cattle condemned on ante mortem inspection (except veal calves condemned for non-CNS reasons). Personnel in both APHIS and FSIS have been trained on the sample collection process. The APHIS and FSIS Administrators signed a Memorandum of Understanding on July 6, 2005, relative to cooperation in surveillance programs.

For research misconduct, the Department agreed, as recommended in our report, that a centralized body for implementing a research misconduct policy will be established within the Department. The office of the Under Secretary for Research, Education, and Economics will be accountable for coordinating research misconduct policies and procedures.

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.

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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 upfront in the design of software used for program administration to detect data anomalies and potential improper payments. (RMA has estimated $310 million in potential savings over a 4-year period; FSA has not participated, contending it is prohibited statutorily; NRCS could also benefit in its direct administration of conservation programs).

Research Misconduct. The Department needs to develop and implement a Department-wide, OSTP-compliant research misconduct policy. Such a Department-wide policy would include specific instructions applicable to USDA-funded research and proposals submitted for research funding.

Food Safety, Public Health, and Agriculture Trade. Effective coordination and communication within USDA and with external stakeholders is essential to protect consumers and prevent the entry of animal and plant diseases into the United States. The Department needs to:

- Develop scientifically based animal disease surveillance programs and ensure that representations made regarding the prevalence of animal diseases in the United States can be supported by valid statistical sampling methodologies that are complete and accurate.

- Implement controls to ensure that actual practice is consistent with public announcements.

- Issue policies to strengthen controls over meat and poultry products arriving from restricted countries with foreign diseases, such as BSE.

APHIS needs to institute procedures for communicating changes in policy to all interested parties, and monitoring the consistency between agency practice and publicly stated policy. FSIS should implement controls to communicate the specific eligibility of product when its eligibility status changes. FSIS should also implement an edit check in its import information system to identify ineligible product presented for entry into the United States.

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 will be 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 Department-wide weaknesses.

Improved Oversight Needed to Ensure the Quality Control of the Federal Crop Insurance Programs. For the 2004 crop year, indemnity payments totaled approximately $3.1 billion, and Government subsidies of insurance premiums totaled approximately $2.2 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 reviews (QCR) by the insurance companies 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. However, based upon the results of our audit work, RMA will begin insurance company operations reviews starting with the 2005 reinsurance year.

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. In the last 15 semiannual reports to Congress, USDA agencies have averaged more than 50 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. As of June 9, 2005, there were more than 120 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many OIG findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Systems. 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 the Department's programs. Although the Department has now obtained unqualified audit opinions for 3 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, the fiscal year (FY) 2003 statements had to be reissued to correct material errors disclosed during the FY 2004 audit. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

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Forest Service Needs Improvement in Internal Control Issues. Management issues within the Forest Service (FS) have proven resistant to change. We attributed 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 management performance information is severely limited. The usefulness of performance measures and the accuracy of reporting processes within the FS are often significantly 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 the FS has concurred.

Another internal control issue discovered through an OIG investigation is the need for more FS oversight of national firefighting contract crews. Specific issues identified included the lack of 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.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has taken specific actions to assist Departmental agencies in improvement of the overall management control structure.

- Our audit work has disclosed that RMA lacks an effective QCR system to evaluate private sector delivery of the Federal Crop Insurance Program. Our upcoming work includes an audit to evaluate RMA's overall compliance activities, including the adequacy of its review of insurance providers. 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 CPA firms. These audits ensure that the annual financial reports accurately reflect the results of operations and the financial results of the Department 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 the FS. We currently plan to conduct an audit of the overall structure of FS management control systems. This work is

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scheduled to start in late FY 2005 or early FY 2006 depending on availability of audit staff. Our 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

- RMA has begun conducting company operations reviews to develop a rolling Program Error Rate. RMA plans to complete a review of all participating companies once every 3 years. These operational reviews assess the company's compliance with Appendix IV (quality control (QC)) and other provisions in the Standard Reinsurance Agreement. The planned reviews will require looking at documentation of the companies' 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 process will be in place for Crop Year 2005 reviews.

- The Department's Office of Chief Financial Officer (OCFO), along with a number of the agencies, have undertaken efforts to reduce the number of audits with unresolved recommendations as well as those audits where final actions have not been completed within 1 year. While some progress has been made, continued efforts will be needed to reduce the backlog. Successfully reducing the backlog will help the Department implement those management actions needed to improve the Department's operations.

- The Department has continued to strengthen its financial management process. 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.

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 agencies and the Department need to ensure that their proposed management actions address audit recommendations and are structured so they can be achieved within reasonable time frames. 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.

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CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY

SUMMARY: USDA depends on information technology (IT) to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. One of the most significant dangers USDA faces is a cyber attack on its IT infrastructure, whether by terrorists seeking to destroy unique databases, criminals seeking economic gain, or disgruntled internal staff members. OIG considers the spectrum of these threats to pose a major challenge because of the extraordinary risk incumbent in the Department's automated data systems expressed in terms of billions of dollars in payments flowing through them, the untold disruption which could occur in the world's financial and agricultural markets, and the potential negative impact on the health and safety of the world's population. It is imperative, therefore, that IT controls such as risk assessments and measures to preclude unauthorized access are in place.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has had an extensive IT security audit program and investigative Computer Forensic Unit in place for several years, which has enabled us to provide coverage to virtually every agency in the Department. Our audits, performed pursuant to the Federal Information Security Management Act (FISMA) of 2002, have found that despite strong guidance provided by the Office of the Chief Information Officer (OCIO), agency implementation of IT security requirements has been inadequate. OCIO has agreed these material weaknesses stem from lack of compliance with OMB Circular A-130, Management of Information Resources, provisions requiring development of security plans, performance of risk assessments, preparation of disaster recovery plans, completion of security awareness training, and performance of system certification and accreditation plans. In addition, our annual audits of general controls at the National Finance Center (NFC) and National Information Technology Center (NITC) have disclosed security weaknesses that could jeopardize the confidentiality, integrity, and availability of the data the centers process.

DEPARMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: OCIO has worked diligently to facilitate and assist the agencies to achieve conformance with security mandates. Significantly, OCIO plans to independently verify and validate all information systems certified in FY 2004. The majority of the systems (86 percent) have been accredited. Other systems are currently under review. The reviews should be completed by October 2005. Further, OCIO has become actively involved in the budget process to ensure, among other initiatives, that cyber security and FISMA requirements are addressed in IT acquisitions. We view these as significant steps to address the challenges ahead.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Agency-level managers should 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 provisions of OMB Circular A-130 are fully met.

CHALLENGE: REDUCING IMPROPER PAYMENTS CONTINUES TO BE A PRIORITY OF CONGRESS AND THE ADMINISTRATION

SUMMARY: The Federal Government 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 because of the number and complexity of USDA programs and activities that fulfill the Act's criteria. The methodology to be employed to identify improper payments consists of a detailed risk assessment of programs' internal controls. While the impact of the challenge cannot yet be forecast, OMB has estimated improper payments of about $55 billion, Government wide. 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 $47.7 billion, were reported as having been determined to be susceptible to significant improper payments and to require further actions as specified in the IPIA.

OIG AUDIT/INVESTIGATION ACTIONS: OIG performed a series of five audits in which we reviewed the Department's oversight (administered by OCFO), and six agencies' compliance with the Department's guidance issued to implement the IPIA. Our reviews disclosed that the risk assessments, as performed, were not adequate to estimate the agencies' susceptibility to improper payments because OCFO's guidance was not sufficiently prescriptive and detailed to translate into meaningful results. For example, the guidance did not include a methodology for establishing estimated error rates, a critical measure needed to support the overall vulnerability ranking (only those programs rated as "high" must be further analyzed through the development of a statistical projection estimating the extent of improper payments and a corrective action plan to mitigate them). We recommended that OCFO strengthen guidance over the IPIA risk assessments to provide reasonable assurance that the requirements of the Act are met, and monitor the agencies' implementation of the OCFO guidance to ensure adherence. OCFO fully agreed with our recommendations and promptly revised its guidance, which mitigated the policy deficiencies.

The risk assessment methodology proposed by OIG entailed the following:

- Risk factors should be identified which are discrete to the program being assessed and consider information from all sources, such as audit reports. Factors should be significant (pose a potential quantitative risk) and have a reasonable likelihood of occurrence.

- Documented internal controls, designed to mitigate the risk factors, should be identified and preliminarily evaluated to provide reasonable assurance that they are adequate as prescribed (designed to preclude or detect errors and irregularities in a timely manner).

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- Tests of transactions should be performed to quantitatively determine error rates. The extent of testing should be based, in part, on the results of the preliminary evaluation performed above and any other known vulnerabilities (from audits, internal reviews, or other sources).

- The resultant error rate should be multiplied by the program outlays and the process continued, as appropriate.

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 Program, FSA loan programs, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led to total monetary results of $658 million, of which $404 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 agency-wide 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 has published detailed guidance on the IPIA process, worked with the agencies, and tabulated the current results. It is incumbent upon the agencies, however, to meet the requirements prescribed.

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.

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 the Department'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 2005, $601 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 deter deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must 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 or implemented 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 implemented effectively. 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 (EPA), 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. For example, USDA, in conjunction with these agencies, needs to develop a coordinated agriculture- and food-specific standardized response plan for integration into the National Response Plan and a National Veterinary Stockpile.

OIG AUDIT/INVESTIGATION ACTIONS: In our February 2004 review of Homeland Security issues regarding USDA commodity inventories, OIG found that FSA needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities. We also found that FSA needs to formulate clear directions on food safety and security for the commodities that it manages, handles, transports, stores, and distributes.

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Another OIG audit issued in June 2005 reviewed 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. OIG's review found that APHIS had not taken adequate steps to register all entities possessing, using, or transferring listed agents or toxins; granted provisional registrations without determining whether adequate security measures were in place; and had not established policies and procedures to ensure consistent and thorough inspection of registered entities.

OIG audits conducted prior to the transfer of APHIS inspection duties to DHS disclosed serious control weaknesses at the 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. In March 2005, OIG reported on our review to determine whether APHIS had implemented controls, processes, and procedures, in conjunction with CBP, to ensure timely and effective coordination of inspection activities that could impact agriculture. OIG concluded that APHIS needs to establish a more effective way to coordinate with CBP to ensure that adequate safeguards are implemented, and that APHIS has access to all information needed to verify that U.S. agriculture is being protected. APHIS concurred on the need to resolve outstanding issues with CBP, but discussions continue as to the best means to accomplish this.

Problems identified in several GAO reports overlap with the specific issues included in the OIG reports cited above. In testimony before Congress, GAO referred to four GAO reports that identified problems with Federal oversight of the Nation's agriculture and food supply. For example, GAO found that border inspectors needed to be provided with adequate guidance for detecting and preventing foot-and-mouth disease and that inspection resources could not handle the magnitude of international passengers and cargo. In another report, GAO found that Federal oversight officials did not have clear authority to impose requirements on food processors to ensure secure facilities. GAO recommended that both USDA and HHS study and identify the additional authorities needed to ensure security at these food-processing facilities. GAO reported that USDA and HHS generally agreed with the recommendations.

In March 2005, GAO issued a report titled, "Much Is Being Done to Protect Agriculture from a Terrorist Attack, but Important Challenges Remain." GAO recommended that USDA examine the costs and benefits of developing stockpiles of ready-to-use vaccines, and that it determine the reasons for the decline in agricultural inspections at the borders.

During FY 2005, we will begin work to evaluate the Department's actions to implement many of the initiatives outlined in HSPD-9. These initiatives are critical to the defense of agriculture against terrorist attack, disasters, and other emergencies.

In addition, OIG investigations continue to uncover illegal smuggling of plant and animal products that may threaten American agriculture by introducing foreign pests and diseases. For example, we recently opened a criminal investigation after APHIS alerted us to the smuggling of

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boneless chicken feet, a prohibited item, into the country. This activity is significant because of the potential for avian influenza to be present on the smuggled product. In another investigation, we found that company officials at a manufacturer and international supplier of poultry vaccines illegally smuggled both a live Exotic Newcastle Disease virus and an inactive avian influenza virus into the country.

Although APHIS has the 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. We will continue to work with USDA agencies and other law enforcement agencies on all levels to pursue possible threats to American agriculture and the American food supply.

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, further action is needed to ensure timely implementation of those measures.

APHIS generally agreed with OIG's recommendations regarding safeguards to prevent the entry of prohibited animal and plant diseases and pests. USDA entered into a memorandum of agreement with DHS to address how the Departments will coordinate their activities in this area. Individual appendices have been written to address issues such as training and transfer of funds; functions and employees transferred to DHS; and regulations, policies, and procedures.

In a May 3, 2005, speech at the International Symposium on Agro-Terrorism, the Secretary of Agriculture outlined 14 new measures the Department has taken to protect America's food and agricultural systems. In addition, USDA recently released four model food security plans that will guide producers and importers in developing their own security measures to deter international contamination of the food supply.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: HSPD-9 specifically directed USDA, HHS, and DHS to expand current vulnerability assessments of the agriculture and food sectors, and to develop mitigation strategies to reduce vulnerable critical nodes of food production or processing. FSA needs to work with the Department's Homeland Security Office to conduct vulnerability or risk assessments of its agricultural commodity and inventory operations and related programs. FSA, in collaboration with the Food and Drug Administration and the Department's Homeland Security Office, also needs to establish and implement measures to mitigate any vulnerabilities identified.

HSPD-9 also called for USDA, HHS, and DHS to build on their existing efforts to develop common screening and inspection procedures for agriculture and food items entering the United States. After the significant transfer of responsibilities and personnel from USDA to DHS in March 2003, USDA now faces the major challenge of timely and effective coordination and communication not only within USDA, but also with DHS. In addition, the USDA Office of

Homeland Security working with OIG can strengthen its monitoring of the USDA agencies to ensure that they have fully implemented corrective actions to address Homeland Security weaknesses.

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CHALLENGE: DEPARTMENT-WIDE EFFORTS AND INITIATIVES ON GENETICALLY ENGINEERED ORGANISMS NEED TO BE STRENGTHENED

SUMMARY: The use of biotechnology-derived or genetically engineered crops has grown significantly over the past decade, particularly in the United States. In 2001, approximately 88 million acres of such crops were planted in the United States. For the 2004 crop year, genetically engineered crops were to be planted on as much as 86 percent of the planned 75.4 million acres of soybeans and approximately 46 percent of the planned 79 million acres of corn. Approximately 76 percent of the 14.4 million acres of cotton were planted with genetically engineered seeds. In all, approximately 118 million acres of genetically engineered crops were planted in 2004. Just recently, the seed industry reported that the 1 billionth acre of gene-altered seeds had been planted.

In a recent report, the Food and Agriculture Organization of the United Nations cited the benefits of genetically engineered crops, including higher yields, lower costs, reduced pesticide use, and greater resistance to disease, pests, and drought. However, the acceptance of genetically engineered crops in the world market is mixed. The European Union (EU), for example, has instituted both labeling and traceability requirements for biotechnology-derived imports. These documentation requirements significantly impact the ability of U.S. producers to compete in the EU market. Recent incidents in which several shipments of U.S. crops were found to contain unauthorized (for human consumption) genetically engineered material and were returned to the United States could affect the international debate over genetically engineered crops. Further, such incidents could lead to bans on imports of certain U.S. commodities, which would have serious economic consequences for American agriculture. Disparities in approval processes and lack of harmonization could continue to impact U.S. agricultural exports of these commodities.

USDA plays a major role in regulating and monitoring genetically engineered crops – from storing the germplasm used to produce seeds and approving field testing, to monitoring interstate shipment and imports and providing export assistance. The Department must balance the goals of (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 accept genetically engineered crops and the added costs of allaying safety concerns.

OIG AUDIT/INVESTIGATION ACTIONS: In our recent review of the Department's germplasm storage system, we found the need for increased accountability and tracking controls over genetically engineered germplasm. Specifically, the Department 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. As described in the recently issued HSPD-9, the germplasm storage system will be the primary source of genetic resources for rebuilding agricultural production in the event of a national or regional agricultural disaster.

In our ongoing review of USDA's accountability for and monitoring of genetically engineered crops, we evaluated the Department's controls over issuance of GEO release notifications and permits, which are required to ship or field-test regulated GEOs. We found that the Department needed to strengthen its controls over the entire process, from the initial permit and notification applications to the devitalization of the genetically engineered crops under approved notifications and permits. In subsequent discussions with the Department, it stated that corrective actions to address some of the recommendations have been initiated.

We also plan to conduct an audit to evaluate the Department's controls over genetically engineered food crops once they have entered the American food system.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: The Department has agreed to publish and implement procedures to strengthen controls over the germplasm storage system; however, no timeframes for doing so have been established. Also, OIG and the Department have worked to develop meaningful corrective actions to improve oversight of genetically engineered crops.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: The Department needs to strengthen the field release application process by developing a standard application review guide, implementing more specific standards for field-testing, and requiring more detailed information from applicants. To adequately account for field tests of genetically engineered crops, the Department needs to maintain an updated, comprehensive inventory of approved field-test and movement applications. Until it implements these upfront controls, the Department cannot effectively monitor genetically engineered crops and does not have assurance that such crops will not inadvertently enter the human food supply. The Department needs to strengthen its oversight of field tests by clearly defining the line of authority for field inspections, developing standard inspection procedures, and providing consistent training to field inspectors.

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 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 that enter into contracts with a total value of 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. Under this guidance, USDA has four programs required to report under Section 57 of A-11 and has identified an additional seven programs 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 2005 USDA achieved "yellow" status by completing the following items:

- Completed assessments of risk for all programs;
- Developed plans to measure improper payments for all high risk programs and received OMB approval;
- Developed corrective action plans to reduce improper payments and established both reduction and recovery targets for all high-risk programs; and
- Fully complied with reporting standards.

USDA will be able to move to "green" status when error rates are available for all programs and it can demonstrate that reduction and recovery goals are being met. Due to budget and program constraints, this upgrade can be complicated. For the programs that have not yet estimated an error rate, USDA is working with OMB to develop interim methods to establish and track erroneous payment percentages.

Additionally, USDA is implementing recovery auditing fully. The Department completed a pilot recovery auditing project at the Forest Service. Using an independent recovery audit contractor working on contingency, USDA identified $333,000 worth of improper payments. The Department has recovered $189,000 to date. These numbers represent a dramatic improvement in findings and collections from FY 2004. Based on these results, USDA is expanding the use of independent recovery audit contractors working on contingency to the entire Department. A second dramatic increase in findings and collections is expected in 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 premise and processes 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 number of improper payments needed to meet the reporting standards;
- A description of the program including purpose, basic eligibility requirements and how fund were disbursed;
- Improper Payments were defined specifically for the program;
- Program vulnerabilities to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Testing of the internal controls;
- A listing of significant reviews and audits;
- A final determination of risk;
- Planned future enhancements (optional); and
- A description of how improper payments are recovered (optional).

The Office of Inspector General is in the process of reviewing the FY 2005 risk assessments and will make recommendations to USDA agencies for additional improvements to be used in the FY 2006 risk assessment process.

USDA has identified the following 11 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
	Food Nutrition Service (FNS)	Food Stamp Program
		School Lunch and Breakfast
		Woman, Infants and Children
USDA Identified as Risk-Susceptible	Farm Service Agency (FSA)	Milk Income Loss Contract Program
		Loan Deficiency Payments
	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	Federal Crop Insurance Corporation Program Fund
	Natural Resource 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	The Marketing Assistance Loan (MAL) Program is composed of an application, review and payment phase. The application phase (Phase I) is the most complex of the three phases. It requires the demonstration of the applicant eligibility, the commodity (crop) eligibility and financial compliance with the terms of the program. In Phase II, the application then is reviewed by the FSA representative (county field office) and county committee to validate the application information. Phase III includes the authorization of the application, which then initiates the loan payment to the applicant. Statistical program sampling occurs today during Phase I, at the completion of Phase II and at the completion of Phase III as follows: • **Phase I Statistical Sampling:** During Phase I, the county field offices completed random spot checks on 2.5 percent of all loan value originating in the county office. The county requested additional background and supporting information to validate the application. Validation may include additional documentation, Geological Information System information on the farm acreage or viewing of the commodity and storage arrangements on the production site. • **Phase II Statistical Sampling:** Random statistical sampling was conducted by an outside contractor on all commodity loans granted within a selected crop year. The statistical analysis included reviewing randomly-selected loans approved during Phase II from all the loans made in the same crop year. The number of sample files chosen satisfied the OMB requirements for statistically significant sampling process. The files then were reviewed against USDA/FSA requirements for loan approval to determine whether the loan was compliant or a potential erroneous payment. • **Phase III Sampling:** The approved loan applications were reviewed for correct payment information as part of the contractor sampling process. The sampling included review of the loan dollar value, address and recipient name.
FNS	Food Stamp Program (FSP)	The FSP payment-error rate is developed from a long-standing program-integrity process called Quality Control (QC). QC reviews and measures the accuracy of household certifications using a statistical-sampling process initially established in 1970. The system is mandated by the Food Stamp Act and further defined in program regulations and agency guidance. Specific procedures are established in three handbooks: *Sampling Methodology*, *State Review Procedures* and *Federal Validation Reviews*. This well-designed and controlled process yields quality data with a confidence level for accuracy that complies with IPIA. During the process: • States select a statistical sample from all participating households. This occurs after the monthly issuance amount for households has been determined, and follows the Federally pre-approved sampling plan devised for that fiscal year; • State personnel conduct QC reviews on the cases selected; • States report the findings of all QC reviews to FNS; • FNS conducts validation reviews of a statistical sample of the completed State reviews; • The results of the Federal validation and State findings are used to calculate a final error rate for each State agency. These individual rates have been used previously to assess penalties against States with high rates and award incentives to those with low rates; and • Official State error rates are weighted annually to determine a national average error rate for the Food Stamp Program.
FNS	School Lunch and Breakfast	The School Lunch and Breakfast erroneous payments rate for School Year 2005-2006 is anticipated to be reported in the *FY 2007 Performance and Accountability Report*. The next section discusses estimating this rate and includes detailed, OMB-approved plans to calculate the rate as well as component rates in the future.

Agency	Program	Sampling Process
FNS	Women, Infants and Children (WIC)	A measurement of the dollar amount of erroneous payments associated with certification error in WIC is scheduled to be reported in the *FY 2008 Performance and Accountability Report*. The vendor management study currently underway will provide a dollar amount estimate for erroneous payments involving vendor charges. The next section discusses estimating these rates and includes detailed, OMB-approved plans to calculate these rates in the future.
FNS	Child and Adult Care Food Program (CACFP)	The measurement of the dollar amount of erroneous payments in CACFP is anticipated to be reported in the *FY 2010 Performance and Accountability Report*. The next section discusses estimating this rate and includes detailed, OMB-approved plans to calculate a component rate in the future. Congress denied funding for this activity in FY 2006.
FSA	Milk Income Loss Contract Program (MILC)	MILC is composed of the application, market-rate evaluation and payment phases. The application phase (Phase I) occurs where producer eligibility and evidence of production is determined. The market rate evaluation phase (Phase II) occurs where the Boston Class I price for milk during any month falls below the $16.94 per hundredweight target. The payment phase (Phase III) occurs when the payment is calculated and payment limitation imposed. Four requirements were determined to be conclusive as to whether or not an improper payment was made. These four criteria can be grouped into one of the three phases as follows: • Phase I for consistent eligibility determination of "dairy operation" and quantity per operation based on evidence of production provided by the producer;
FSA	Milk Income Loss Contract Program (MILC) [cont'd]	• Phase II for MILC Rate Accuracy; and • Phase III for MILC Payment Accuracy and to ensure that the maximum quantity payment was not exceeded.
FSA	Loan Deficiency Payments	The Loan Deficiency Payment (LDP) Program is composed of an application, review and payment phase. The application phase (Phase I) is the most complex of the three phases and requires the demonstration of the applicant eligibility, the commodity (crop) eligibility, and financial compliance with the terms of the program. In Phase II, the application then was reviewed by the FSA representative (county field office) and the county committee to validate and approve the application information. In Phase III the producer determines the day the LDP request will be made. The decision initiates the LDP payment to the applicant. The producer has to provide evidence of production to support the quantity. The payment is calculated by multiplying the quantity by the difference between the loan rate and posted county price. Statistical program sampling occurs as follows: • **Phase I Statistical Sampling:** During Phase I, the county field offices complete an automated spot check process on 2.5 percent of all LDPs originating in the county office each month. The county requests additional background and supporting information to validate the application. Validation may include additional documentation, Geological Information System information on the farm acreage or viewing of the commodity and storage arrangements on the production site. • **Phase II Statistical Sampling:** Random statistical sampling was conducted by an outside contractor on all LDP payments made within a selected crop year. The statistical analysis included reviewing randomly-selected payments approved during Phase II from all the payments made in the same crop year. The number of sample files chosen satisfied the OMB requirements for statistically significant sampling process. The program files were reviewed against USDA/FSA requirements for LDP approval. This process was designed to determine if there is sufficient evidence of production and beneficial interest in the commodity. Such evidence would ensure that the request for the program payment either was compliant or a potential erroneous payment. • **Phase III Sampling:** The approved LDP payments also were reviewed for correct payment information as part of the contractor sampling process. The sampling included review of the LDP rate used to calculate the payment, dollar value calculated, the recipient name and address, and banking information if the payment was electronic.

Agency	Program	Sampling Process
FS	Wildland Fire Suppression Management	A service need is identified and requested through the requisition process. After the services are performed and invoice received, the payment is completed. The FY 2005 statistical sample wild fire suppression payments was reviewed and evaluated against payment criteria. Documentation to support the review was gathered from the requisition through the payment process.
RD	Rental Assistance Program	USDA provides rental assistance subsidies to more than a quarter-million households. To qualify for assistance, a household must submit an application to a multifamily borrower or his or her property management agent. The application process requires that the individual or family provide information on the amount and source(s) of income. A property agent will verify this information. This income determination is the primary determinant of a family's rent charge and, in turn, the amount of housing subsidy provided. The source of errors studied in the IPIA Report on Section 521 Rental Assistance was the borrowers' analysis and computation of the housing subsidy amount. The Rural Housing Service conducted a sample audit from March through May 2005. Agency staff conducted the sample and input data to an on-line questionnaire. The questionnaire was monitored electronically for timely completion and automatic data calculation. Sample size was sufficient to achieve a 90-percent confidence level.
RMA	Federal Crop Insurance Corporation Program Fund	Under the terms of the Standard Reinsurance Agreement, the companies are provided a random sample of indemnity payments to review at the completion of each crop year. RMA selects the policies from the entire population of indemnities paid. The companies then are required to review the payments, correct errors according to procedure and report the results to RMA. For the current cycle, the companies reviewed 1,575 polices with $44,346,567 in indemnities. RMA will use this interim process for the 2004 and 2005 reporting. Starting with the 2006 reporting cycle, RMA will begin using random policy selections from company operations reviews to develop a rolling program error rate. RMA will review all participating companies triennially. Accordingly, the first full review cycle will be completed for the *FY 2008 Performance and Accountability Report*.
NRCS	Farm Security and Rural Investment Programs	The Farm Security and Rural Investment Programs were treated as eight different programs following the apportionment schedule (FRPP, WRP, CSP, EQIP-Base, EQIP-GSWC, EQIP-Klamath, WHIP, and GRP). The statistical sample was identified separately based upon input from individual program managers. Improper payment criteria were identified. This identification incorporated statutory items common to all the programs and added causes unique to each specific program. Each national program manager was interviewed to determine potential areas of risk of Improper Payments. Statutory requirements and program rules were reviewed further for internal control measures to mitigate risks. Statistical samples were selected based upon a baseline estimate of rate of occurrence, a confidence level of 95 percent and precision range provided by the program managers. Payments then were reviewed for program, contract and statutory compliance.

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	**Causes of Improper Payments** **Loan Rate Validity Essential Requirement:** The correct loan rate must be applied for loan payment calculations. The loan rate must be for the correct commodity, county and crop year. It also should agree with the loan rate information contained on form CCC-677. Otherwise, the payment is considered improper. The statistical sample results indicate a .60-percent error rate for this requirement. **Evidence of Production:** A producer can certify or provide acceptable production evidence of the commodities pledged as collateral for a MAL. Within the file, form CCC-666 (Farm Stored Loan Quantity Certification), CCC-677-1 or warehouse receipt must be completed to FSA minimum standards. The analysis team reviewed forms to verify the

Agency	Program	Corrective Actions Planned
FSA/CCC (cont'd)	Marketing Assistance Loan program	commodity, type and quantity disclosed on the form. The form also requires the producer's signature and date of certification. Commodities must meet the minimum United States Grain Standards to be eligible for a MAL. Production evidence must coincide with the form FSA-578 values for production quantities. If not, the calculation of the loan amount would be incorrect and the payment would be considered improper. The statistical sample results indicate a .60-percent error rate for this requirement. **Corrective Action Plans** The agency will remind State and county offices through notices and policy handbooks of the necessary policy requirements for receiving loan benefits. The agency also is developing new software and databases that will automate several manual processes to validate producer eligibility requirements. The centralized databases will help to alleviate manual data entry errors. Applicant eligibility "flags" would be set and read in "real time" to verify when eligibility. The new eligibility process will read such information as AD-1026 and crop acreage files. The new automated process also will include a centralized loan rates table. Loan rates and other types of program payment data will be obtained directly from the loan rates table instead of entering loan rates manually.
FNS	Food Stamp Program	**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 are a 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, 42 percent of the errors were client-caused. The majority of errors (50 percent) were income related and caused by the client misreporting or the agency misapplying the reported income. Misreporting or misapplying deductions was the second largest source of errors at 31 percent. **Corrective Action Plans** Program regulations require State agencies to analyze data. The agencies use this analysis to develop corrective action plans for reducing or eliminating 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 quality control 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. Specific strategies already exist which are designed to help States prevent erroneous payments. FSP builds upon and refines its activities in small increments absent a significant increase in funding for payment accuracy. Additionally, examples of activities determined to be both cost efficient and effective toward reducing payment errors are: • FNS, through its regional offices, informs States of the importance of payment accuracy and correct payments to its leadership. The agency also assists States in developing effective corrective action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as: Data analysis; Reviewing and monitoring corrective action plans; Developing error-reduction and corrective action strategies; Participating on boards and in work groups; and Hosting, attending and supporting payment accuracy conferences. • 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 the development of effective corrective action.

Agency	Program	Corrective Actions Planned
FNS	School Lunch and Breakfast	**Causes of Improper Payments** In the National School Lunch and School Breakfast Programs, erroneous payments potentially can occur when ineligible households misreport income at application, are approved for free or reduced-price meals and then receive them. Such payments also can occur when a school incorrectly certifies a student as eligible for meal benefits, or submits inaccurate claims for meals that were misclassified, not served or failed to meet program requirements. In recent years, there has been growing evidence of errors in certifying students for subsidized school meals. While certification errors alone do not result in a loss to the Government – loss occurs when ineligible students actually receive meals – these errors represent a significant risk for erroneous payments. In response, FNS has participated in several demonstration projects to understand the extent and nature of the problem better. FNS also is working with program partners to improve certification in the context of current regulations, and exploring alternatives to and/or improvements in the process. **Corrective Action Plans** 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. 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. The first required reports from all SFAs for School Year 2004-05 were due to FNS in April 2005. Some States experienced significant difficulties in implementing the new reporting requirements. FNS is working with these States to assist them in completing their reports. FNS also has secured resources and entered into a contract to conduct a nationally representative study of the NSLP/SBP eligibility determination process and establish the first erroneous-payments rate. An erroneous payments rate for School Year 2005-2006 is anticipated to be available in FY 2007. Because of the scope and cost of this study, it is more prudent to repeat it on a multi-year cycle. With appropriate funding approval, FNS will repeat this type of study and produce an erroneous payment measurement every five years. FNS also will develop a methodology that uses data available from other sources. This methodology will measure erroneous payments on a component of the National School Lunch Program annually. In the interim (before the nationally representative erroneous payments rate is available in FY 2007), FNS is planning to monitor/assess two components of the program: Conducting annual on-site reviews focused on the certification and verification process. One important source of certification error that FNS has identified is SFA errors in certifying and verifying applications. In 2002, FNS conducted on-site reviews of the application verification process at 14 SFAs. It determined that 6 percent of the SFAs' verification determinations were incorrect due to administrative errors. Training and technical assistance are being developed to help SFAs improve the accuracy of these processes. Beginning in FY 2005, FNS will review a statistical sample of SFA application eligibility determinations annually. This review will be used to measure changes in administrative error rates, allowing FNS to assess the impact of its corrective action, and target and focus future activities. Beginning in 2007, it is anticipated that this component also will become part of the formula used to develop the annual payment error estimate. Comparing annual demographic data on the number of children eligible for school meals with the number of children actually certified. One of the sources of data originally used to assess the extent of certification error was a comparison of national survey data on household income with administrative data on NSLP certification. FNS plans to resume the use and publication of this analysis annually. Data from the Survey on Income and Program Participation (SIPP) will be compared with State-reported administrative data on the number of free and reduced price certifications. The U.S. Census Bureau administers SIPP. While this comparison has some methodological weaknesses and cannot substitute for the payment error estimate required under IPIA, the comparison does provide an

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<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FNS (cont'd)</td><td>School Lunch and Breakfast</td><td>annual error indicator that will help gauge changes in the rate of certification error. It also will determine the effectiveness of administrative initiatives intended to improve certification accuracy. Results from analysis of 2001 and 2002 data will be reported in FY 2005. Information based on 2003 data will be reported in FY 2006.</td></tr>
<tr><td>FNS</td><td>Special Supplemental Program for Women, Infants and Children (WIC)</td><td>Causes of Improper Payments
Erroneous WIC payments potentially can occur at the participant level (ineligible persons receive benefits) and/or the vendor level (WIC food instruments redeemed for foods not received, provided at excess prices or for unauthorized items). FNS periodically has constructed estimates relating to these types of errors.
Corrective Action Plans
FNS plans to continue periodic examinations of certification and vendor error in WIC.
• Certification Error: The next decennial national study to measure WIC certification error is scheduled for 2008. This study will include a first measurement of the amount of erroneous payments associated with certification error. Previous studies did not include any value determination of erroneous payments. Selected demographic, income and other characteristic data were and continue to be collected on a near census of WIC participants biannually. From this, data that correlate most strongly with error, along with other administrative data and data from the 1998 study, were used to develop aged estimates of the WIC certification error rate since 1998. When the data from the 1998 decennial study is applied to the demographics, it provides a trend in the error rate over a six-year period. This error rate remains constant at 2.6 percent. A similar method or an improved alternative (conditional upon funding for its development) will be used to develop estimates for the years following the 2008 study.
• Vendor Error: The vendor management study currently underway will provide a national erroneous payments estimate of vendor charges. This information, for FY 2005 activity, will be available in 2006. Subsequently, FNS will generate an annual update for the improper payment measurement of this vendor component using statistical techniques. FNS is exploring options for aging this estimate for the years following this study using existing administrative data. Although FNS has not determined a specific approach, the agency is continuing to explore other options. These options include focusing on information on high-risk vendors and information from States which might serve as "sentinel sites." If an acceptable method for aging cannot be developed using existing data, FNS could develop a regulatory proposal requiring limited new data collection and reporting by the States on not more than 1 percent of WIC vendors.
Since the 1998 measurements were made, FNS has taken substantial actions aimed at improving program operations and reducing improper payments, including:
• Changing program rules so that WIC applicants now are required to document income;
• Publishing a final rule in December 2000 on food-delivery systems that strengthened retail vendor management by establishing mandatory vendor selection criteria, price limitations on the amounts paid to vendors, vendor-training requirements, criteria to be used to identify high-risk vendors and such vendor-monitoring requirements as compliance investigations; and supporting the development of WIC electronic benefits transfer (EBT) systems. EBT is an electronic system that allows a recipient to authorize the transfer of his WIC benefits from a State account to a retailer account to pay for supplemental foods received. Because these systems require a personal identification number entry prior to retail transactions and the validation of WIC-authorized foods by Universal Product Codes, participant and vendor error are minimized. An evaluation of several WIC EBT pilot projects thus far indicates that participant and vendor error related to the retail transaction process virtually are eliminated.</td></tr>
<tr><td>FNS</td><td>Child and Adult Care Food Program (CACFP)</td><td>Causes of Improper Payments
Payments and claim information in this program are transferred among FNS, State agencies, program sponsors and program sites. Each such transaction represents a risk for erroneous payments. Because requirements vary for each different type of program sponsor and site, a full and rigorous assessment of the rate of erroneous payments is extremely complex.</td></tr>
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<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FNS (cont'd)</td><td>Child and Adult Care Food Program (CACFP)</td><td>Corrective Action Plans
As the problems in the CACFP were identified, FNS initiated actions to address them, including:
• Working with Congress to enact legislation to improve oversight and accountability. Interim regulations implementing these laws have been published;
• Developing new management improvement guidance for program cooperators;
• Training all State agencies on implementing statutory and regulatory changes, and new management improvement guidance materials;
• Revising monitoring tools to evaluate State agencies' and institutions' implementation of CACFP better and support State agency oversight efforts;
• Developing additional discretionary changes designed to improve management and accountability; and
In July 2002 and September, 2004, published an interim rule implementing such changes.
FNS has initiated the Child Care Assessment Project to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes. Over a four-year period, begun in the spring of 2004, FNS will conduct comprehensive on-site assessments of a sample of participating family day care home sponsors. These assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance. It also will offer additional insights on the control points in the claiming and reimbursement process that cause or contribute to improper payments most frequently. Additionally, this information will help support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA.</td></tr>
<tr><td>FSA</td><td>Milk Income Loss Contract Program (MILC)</td><td>Causes of Improper Payments
The statistical sample data specifically identified 2 erroneous payments out of 594 contracts examined by the contractor. Both of these erroneous payments were caused by errors in the MILC payment calculation. They also occurred in the same office. Other causes identified through separate reviews of the program included input errors in recording production and not confirming that the maximum payment amount had not been exceeded.
Corrective Action Plans
FY 2005 is the last year of the program. No payments will be made in FY 2006 unless there is legislation to extend the program and funding authorized by the Office of Management and Budget. No additional corrective actions or statistical samples currently are possible.</td></tr>
<tr><td>FSA</td><td>Loan Deficiency Payments (LDP)</td><td>Causes of Improper Payments
The statistical sample data specifically identified three potential areas that contribute to erroneous payments. They are:
1. Production Evidence (Quantity)
A producer who receives an LDP must provide production evidence in accordance to the Commodity Credit Corporation (CCC) requirements. Production evidence includes:
• Evidence of sales;
• Warehouse receipts;
• Load summary; and
• Assembly sheets.
Eligible commodities include:
Barley, Small Chickpeas, Corn, Grain Sorghum, Honey, Lentils, Mohair, Oats, Dry Peas, Peanuts, Rice, Soybeans, Upland Cotton, Wheat, Wool and Other Oilseeds
If the quantity reflected on form CCC 700 did not agree with the evidence of production presented, the quantity was considered inaccurate. Therefore, the payment was considered improper.</td></tr>
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<tr><th>Agency</th><th>Program</th><th>Corrective Actions Planned</th></tr>
<tr><td>FSA (cont'd)</td><td>Loan Deficiency Payments (LDP)</td><td>2. Loan Deficiency Payment Rate (Price)
The CCC determines the local county market price on either daily or weekly for commodities eligible for Loan Deficiency Payment. This is referred to as the posted county price.
The LDP rate equals the amount by which the applicable loan rate where the commodity is stored exceeds the alternative loan repayment rate for the respective commodity.
The loan rate must be for the correct commodity, county and crop year. The loan rate information contained on form CCC 700 should agree with the prevailing rate published at the time of payment on the USDA/FSA Price Support Web site. Otherwise, the payment is improper.
3. Loan Deficiency Payment Amount (Price)
The LDP amount equals the rate multiplied by the quantity of the commodity for which the payment is requested. If this was calculated incorrectly, then the payment was considered improper.
Corrective Action Plans
The agency will continue to remind State and county offices through notices and policy handbooks of the necessary requirements for receiving LDP benefits. The agency has developed a new electronic loan deficiency payment process. The process has eliminated manual processes and validates producer eligibility and commodity reasonableness online. A customer profile is created based on the applicant's eligibility, which includes the necessary eligibility requirements for receiving LDP benefits. The electronic loan deficiency payment (eLDP) process calculates the LDP rate and the LDP amount based on the information entered by the producer. The LDP rates are selected from a centralized rate table.
The agency will continue to promote such Web-based programs as eLDP fully. These types of processes reduced the number of errors caused by manually entered data. The eLDP process validates the data entered against a customer profile that reads "real time" eligibility files.</td></tr>
<tr><td>FS</td><td>Wildland Fire Suppression Management</td><td>Causes of Improper Payments
There are three basic causes of improper payments listed below.
• Payment for services not authorized under contract.
• Invoice had wrong rate for services and error was not identified during field office review.
• Failure to take early-payment discount.
Corrective Action Plans
A memo will be issued to all field offices, emphasizing the importance of comparing invoice rates to contract rates to ensure invoice accuracy. The memo also will emphasize the importance of taking early-payment discounts when advantageous to do so. All fire incident payments were consolidated in four centers Nationwide, effective May 15, 2005. Payment processing for invoices related to fire incidents will be consolidated in the Albuquerque Service Center (ASC) in the second quarter of FY 2006.</td></tr>
<tr><td>RD</td><td>Rental Assistance Program</td><td>Causes of Improper Payments
The statistical sample showed that insufficient file documentation was the most common source of all errors (36 percent of instances assigning fault did so for this reason), followed by management agent error, "other" and mathematical or transcription errors. The lack of documentation did not permit the analyzer to determine the accuracy of the tenant certification. File documentation is a requirement of the Sections 515, 514 and 516 loan and grant programs. Failure to obtain and maintain such documentation is the fault of the borrower and his management agent.
Corrective Action Plans
After reviewing the most recent survey and determining the error findings, the national office will compile a list of these errors. The office then will submit the list to States that reported having either insufficient documentation to support the income reported on the tenant certification or management agent error in calculating the tenant's income. As part of the agency's follow-up, the field staff will review the list of errors and provide a report as to corrections that may or may not have been taken to correctly identify the errors. This report will be due back to the national office by December 31, 2005, for tabulation.</td></tr>
</table>

Agency	Program	Corrective Actions Planned
RD (cont'd)	Rental Assistance Program	The agency implemented a number of recommendations from the prior report. Its oversight of borrowers and management agents was improved through implementation of the 7 CFR 3560, the new Multi-Family Housing regulation. Borrowers and agents are responsible for ensuring tenant incomes are verified with sufficient supporting documentation. The new regulation took effect February 24, 2005. Specifically, the two recommendations that were implemented were: 1. HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 6, Section 2: "Calculating Income and Initial Certification," provides extensive guidance regarding the procedures that borrowers should follow to assure that proper verification and income calculations are done. 2. HB-2-3560, Multi-Family Housing Asset Management Handbook, Chapter 9, Section 9.14 provides guidance to the State offices regarding the use of wage and benefit matching with State Departments of Labor or similar agencies. Because of the regulation's newness, the agency has not yet seen results of this improved guidance. While the agency responded to the prior report's findings by implementing a corrective action plan, the timing of those actions and the FY 2005 survey overlapped to some degree. Thus, the results of the corrective actions are not reflected in this report and may have impacted the error rate positively. The agency trained field staff as partial implementation of the prior report's training recommendation. It revised the survey instrument from the initial study to capture more responsive information. Quality assurance issues appeared to be less of a problem with this re-designed instrument. Consequently, the data reported in the FY 2005 report may be more reliable. Recommendations for the FY 2005 report will include the following: 1. State offices must train field staff, borrowers and property managers in appropriate and required documentation. They also must follow-up with tenants and income-verifiers. 2. The national office will continue to pursue access to the HSS New Hires data to be shared with State Offices. This legislation currently is being prepared for OMB review. 3. 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. Office staff must ensure that this shared data is used by borrowers and property managers. The new regulation, 7 CFR 3560, requires State offices to report quarterly on their efforts to participate in wage matching, where available. 4. The national office must complete its evaluation and restructuring of the supervisory visit procedure. These moves strengthen and provide more focus when reviewing tenant files. 5. The national office should employ an independent contractor to undertake this study in the future. An independent contractor will provide objective and impartial analysis. 6. The national office will add to the Multi-Family Housing Program's Servicing Goals. This move is a requirement for the State offices to be more aggressive in educating and training borrowers/management agents on calculating and documenting tenant's incomes.
RMA	Federal Crop Insurance Corporation Program Fund	**Causes of Improper Payments** While the majority of improper payments are caused by simple error, some are related to program abuse and fraud. RMA renegotiated the 2005 Standard Reinsurance Agreement (SRA) to include an entirely new process. This process requires companies to review policies identified as anomalous by data mining in accordance with the Agricultural Risk Protection Act of 2000. The 2003 random sample conducted by the insurance companies required by the old SRA produced an error rate result smaller than anticipated, and therefore questioned. RMA will calculate the error rate in the FY 2006 reporting cycle. Performing the sample with RMA staff will provide more detailed information on the causes and magnitude of improper payments.

Agency	Program	Corrective Actions Planned
RMA (cont'd)	Federal Crop Insurance Corporation Program Fund	**Corrective Action Plans** For 2005, RMA negotiated and entered into a new SRA with the companies who deliver crop insurance on behalf of the Federal Crop Insurance Corporation. The new SRA contains a range of new controls and requirements to improve program integrity and reduce program errors. The majority of the changes are found in Appendix III and Appendix IV to the SRA. Appendix III provides the submission requirements to the companies for the policies they write to be reinsured by FCIC. Appendix IV provides requirements and the authority for FCIC to have the companies review policies under a quality-control environment driven largely by data mining and the identification of anomalous financial behavior.
NRCS	Farm Security and Rural Investment Programs	**Causes of Improper Payments** A total of 1,193 payments were sampled statistically. Thirty-nine were determined to be improper. These improper payments resulted from: • Incomplete documentation, causing 20 improper payments; • Payment share miscalculations, causing 9 of the errors; and • Procedural errors accounting for the rest. **Corrective Action Plans** NRCS has developed a software feeder system as a tool to automate the contracting and payment process for many of the FSRIA 2002 programs. This tool incorporates automated edits that prevent many of the improper payment errors identified in the statistical sample. Beginning October 1, 2004, all contracts and payment processing for the Environmental Quality Incentives Program (Base, Klamath, and GSWC) were transferred from the Farm Service Agency (FSA) to NRCS. Of the improper payments found in the sample, 26 payments (65 percent) would not have occurred if they were processed through our feeder system. Currently, NRCS is in the final stages of updating the Conservation Program Contracting Manual for programs using ProTracts. The procedures outlined in the manual include information specifically addressing IPIA and the need for preventing improper payments. The Financial Management Division's (FMD) efforts to educate NRCS staff of the IPIA initiative will continue. Additionally, FMD is developing plans focused on improving the timing of field sampling and the amount of time given to return sample requests. These moves are designed to minimize the impact on NRCS field personnel. This was the first year IPIA sampling was performed by NRCS field offices. NRCS' FMD has engaged senior agency and program managers in every step of the process. It is committed to continuing its efforts to educate NRCS employees of the entire improper payment issues. This education and communication initiative already has resulted in an increased sensitivity to the issues and ramifications of improper payments throughout the agency.

IV. Based on the rate(s) obtained in Step III, set annual improvement targets through FY 2007.

Improper Payment Reduction Outlook FY 2004 – FY 2007

Below is a summary-level table 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)						
	FY 2003 Results Reported in FY 2004			FY 2004 Results Reported in FY 2005		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	8,768	B	B	6,400	0.70%	45
Food Stamp Program, FNS	21,371	6.64%	1,400	24,358	5.88%	1,432
School Lunch and Breakfast, FNS	8,390	C	C	8,187	C	C
Women, Infants and Children, FNS	4,764	C	C	4,812	C	C
Child and Adult Care Food Program, FNS	1,989	C	C	2,061	C	C
Milk Income Loss Contract Program, FSA	1,859	B	B	245	0.09%	0.2
Loan Deficiency Payments, FSA	650	B	B	453	1.00%	5
Wildland Fire Suppression Management, FS	625	B	B	1,980	3.70%	73
Rental Assistance Program, RD	710.3	2.59%	20	846	3.19%	27
Federal Crop Insurance Corporation Program Fund, RMA (Note A)	2,500	5.0%	125	3,170	0.89%	28
Farm Security and Rural Investment Programs, NRCS	50	B	B	1,027	1.55%	16

The following table is a detailed breakout of the FY 2004 error rates (reported in FY 2005) by type of improper payment.

Detailed Breakout of FY 2004 Improper Payment Rates reported in FY 2005 ($ in millions)														
Program	Marketing Assistance Loan Program		Food Stamps		Milk Income Loss Contract		Loan Deficiency Payments		Wildland Fire Suppression		Rental Assistance Program		Farm Security and Rural Investment Programs	
	$	%	$	%	$	%	$	%	$	%	$	%	$	%
Total Payments	6,400		24,358		245		453		1,980		846		1,027	
Total Improper Payments		0.70		5.88		0.09		1.00		3.70		3.19		1.55
Overpayments		0.70		4.48		0.09		1.00		2.79		2.07		1.44
Underpayments		0.00		1.41		0.00		0.00		0.91		1.12		0.10
Other		0.00		0.00		0.00		0.00		0.00		0.00		0.01

Improper Payment Reduction Outlook ($ in millions)									
	FY 2006 Reporting FY 2005 Targets			FY 2007 Reporting FY 2006 Targets			FY 2008 Reporting FY 2007 Targets		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	10,132	0.69%	70	10,041	0.65%	65	9,743	0.60%	58
Food Stamp Program, FNS	29,721	6.50%	1,932	33,079	6.20%	2,051	D	E	
School Lunch and Breakfast, FNS	9,073	C		7,253	C		D	C	
Women, Infants and Children, FNS	5,070	C		5,394	C		D	C	
Child and Adult Care Food Program, FNS	2,065	C		2,161	C		D	C	
Milk Income Loss Contract Program, FSA	20	F	F	0	F	F	0	F	F
Loan Deficiency Payments, FSA	5,124	0.95%	49	4,444	0.90%	40	3,567	0.80%	29
Wildland Fire Suppression Management, FS	1,782	3.00%	53	1,508	2.90%	44	700	2.80%	20
Rental Assistance Program, RD	838	2.99%	25	855	2.79%	24	836	2.59%	22

Improper Payment Reduction Outlook ($ in millions)									
	FY 2006 Reporting FY 2005 Targets			FY 2007 Reporting FY 2006 Targets			FY 2008 Reporting FY 2007 Targets		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Federal Crop Insurance Corporation Program Fund, RMA (Note A)	2,883	4.90%	141	3,358	4.80%	161	3,321	4.70%	156
Farm Security and Rural Investment Programs, NRCS	1375	1.00%	14	1452	0.80%	12	1558	0.60%	9

NOTE A: The amount reported for FY 2004 PAR for Federal Crop Insurance Corporation Program Fund was based on an internal RMA estimation methodology and is not comparable to other numbers. The amount reported in FY 2005 is based on an industry compliance program conducted the insurance companies. While this methodology has been criticized by both RMA and the Office of the Inspector General, it is comparable to other years. The comparable FY 2004 improper payment rate was 0.52 percent. RMA is developing a new compliance testing program that will begin reporting next fiscal year. RMA's target rates are based on the expected results of this new compliance program.

NOTE B: FY 2004 was the first year of implementing the Improper Payments Information Act. Marketing Assistance Loan, Wildland Fire Suppression Management and Farm Security and Rural Investment Programs did not complete a statistical sample in FY 2004. Milk Income Loss Contract Program and Loan Deficiency Payments first were determined to be high risk in FY 2005. The FY 2005 statistical sample created the baseline error rate for all of these programs.

NOTE C: Due to the program complexity and cost of sampling, a comprehensive error rate has not been developed for School Lunch and Breakfast, WIC and CACFP. OMB has approved plans for these programs to develop an error rate to be used in the future.

NOTE D: While OMB's reporting template requires the reporting of three years of estimated outlays from the most recent President's Budget, that budget only reports two years of estimated outlays. Internal USDA estimates have been provided where available. FY 2007 estimated outlays will be updated when the FY 2007 President's Budget is issued.

NOTE E: Food Stamp targets are developed during the budget process. The FY 2007 President's Budget has not been issued.

NOTE F: The Milk Income Loss Contract Program is scheduled to end with FY 2005. FY 2004 was the last year with significant disbursements for this program. Because the program is ending, no additional statistical samples will be completed and there is no need for future targets.

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 conducted a recovery audit pilot program as the Forest Service using an independent recovery audit firm. USDA exempted all contracts except those in the Forest Service because the agency-developed recovery audit programs in FY 2004 were not cost effective. Additionally, the effectiveness of independent firms had yet to be proven.

Using the independent recovery audit firm, USDA has been able to increase its findings and collections dramatically in FY 2005 while reducing the cost of administering the program. This trend is expected to continue in FY 2006. Due to the success of the Forest Service pilot, USDA will expand the use of independent recovery audit firms to the entire Department in FY 2006.

Specific types of payment errors found during the course of the recovery audit process include:

- Duplicate payments;
- Unposted credit memos resulting from returned merchandise to vendors;
- Overpayment of various contractual charges, such as incorrect per diem rates;
- Improper rates charged for meals provided during fire suppression; and
- General and administrative expense recovery not provided by contract.

Additional overpayment errors included the payment of both sales tax on tangible personal property purchased and a previously voided invoice. All recovery audit information and the underlying transactions will be communicated to all Forest Service employees to reduce future errors.

FY 2005 Recovery Auditing Results ($ in Million)						
Agency Component	Amount Subject to Review for FY 2004 Reporting	Actual Amount Reviewed and Reported	Amounts Identified for Recovery	Amount Identified / Actual Amount Reviewed	FY 2004 Amounts Recovered	FY 2003 Amounts Recovered
Forest Service	2,428	2,428	0.333	0.0137%	0.189	0
All Others	2,538	0	0	N/A	0	0
USDA Total	4,965	2,428	0.333	0.0137%	0.189	0

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.

Food and Nutrition Service (FNS)

FNS already has a corporate priority to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high risk for erroneous payments. Each program's goals and priorities are incorporated into each manager's performance plan.

- The goal for the Food Stamp Program is to continue reducing the error rate.
- The goal for NSLP is to improve the accuracy of NSLP certifications;
- The goals for WIC are to maintain certification accuracy and continue to improve vendor management; and
- The goal for CACFP is to continue management improvements.

Forest Service (FS)

To ensure that FS management holds itself accountable for reducing and recovering improper payments, the agency has taken several steps:

- Hold accountable the entire Albuquerque Service Center (ASC) management team for compliance with IPIA through performance metrics in their performance elements;
- Issue specific policy guidance throughout the agency, emphasizing corrective actions to mitigate the causes of improper payments;
- Consolidate payment processing at ASC for more consistency; and
- Reduce future improper payments by communicating all information related to improper payment recoveries and the underlying transactions to all FS employees.

Farm Service Agency (FSA)

FSA has included performance based rating measures in each employee's performance standards and appraisals. Managers are held accountable for program administration.

Natural Resource and Conservation Service (NRCS)

NRCS is updating performance plans that would tie back to the strategic goals of the agency. This includes measuring performance against results for all applicable elements of the President's Management Agenda. The Financial Management Division of NRCS will continue to emphasize the education of NRCS staff on the importance of internal controls and eliminating improper payments.

Rural Development (RD)

Within the Multi-Family Program, the national office establishes and ensures implementation of policy, including the achievement of certain loan servicing goals. The State offices oversee area offices, whose responsibility it is to monitor the performance of the multi-family portfolio. Area office staff makes property inspections, performs supervisory site visits, approves the amount of subsidy (RA) request and generally oversees all activity at the properties. The servicing goals have been modified to include as a State office goal a reduction in the error rate by property managers in the calculation and documentation support of RA. Servicing goal achievement is monitored quarterly and reported back to the States, the Rural Housing Service administrator and the Undersecretary for Rural Development. State directors report directly to the Undersecretary.

Risk Management Agency (RMA)

RMA has revised its strategic plan to provide results intended to enhance accountability. These results also ensure that procedures are in place to ensure future corrective actions are taken to address program vulnerabilities. Additionally, a strategic objective element has been placed into every employee's performance plan agreement for FY 2005.

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.

USDA has identified 11 high-risk programs in 6 USDA agencies. The issues of information systems and other infrastructure are determined at the agency level. USDA is working to complete or revise the statistical analysis of four high-risk programs. More system and infrastructure needs may be developed as more programs complete the statistical analysis. Currently, three agencies have identified information and infrastructure improvements needed to reduce improper payments.

Farm Service Agency (FSA)

Currently, the agency is reviewing business processes and automated systems associated with programs and program delivery. This project, entitled "MIDAS," is scheduled to be implemented fully by the beginning of FY 2009. The completion date is subject to the business case being approved and funding availability to support the implementation. As part of this project, the agency reviewed current business practices and the associated software.

- Infrastructure improvements needed to reduce improper payments associated specifically with loan deficiency payments included additional funding to support the existing electronic loan deficiency payments (eLDP) software and the anticipated future enhancements. If additional funds are provided to support the eLDP Web-based software, the necessary enhancements can be made to ensure better compliance reviews and enhanced eligibility validation through mainframe centralized databases. Public and field office employees have praised eLDPs. The time savings have allowed field office employees to review other program-related issues in more detail. This benefit has resulted in decrease in errors associated with other programs; and

- Web-based software (e-MILC) has been developed to validate eligibility entries and monthly payment rates. This software is designed to reduce the occurrence of improper payments to MILC applicants.

Systems also are needed to improve the collection of data-identifying improper payments. Currently the best measure the Agency has is reviewing the receivable activity and the statistical samples.

Food and Nutrition Service (FNS)

While the infrastructure already exists for the Food Stamp Program, there is nothing in place for the other FNS programs. Until such time as baseline erroneous-payment estimates are produced for NSLP, WIC and CACFP, reduction targets cannot be established.

Risk Management Agency (RMA)

RMA recently has initiated work on a planned information technology (IT) architecture that will replace USDA's current system. The new system is expected to have far more extensive and reliable edits and other controls to assist RMA in reducing errors.

VII.B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2006 budget submission to Congress to obtain the necessary information systems and infrastructure.

Farm Service Agency (FSA)

FSA has requested $2.6 million in the FY 2006 President's Budget to continue MIDAS.

Food and Nutrition Service (FNS)

In the President's Budget for FY 2005, FNS requested $7 million and 77 staff years to enhance integrity in the Food Stamp and Child Nutrition Programs. Congress did not appropriate funds for this purpose at that time. Because the FY 2005 appropriation was not signed into law until well into FY 2005, FNS did not request additional resources in the budget for FY 2006, thinking that Congress would approve the new assets for FY 2005. The resources for this activity are linked to the President's Management Agenda item #3, "Improved Financial Performance," and remain a critical factor in lowering erroneous payments. Until necessary funding is received, FNS will request resources to improve integrity in Food Stamps, School Lunch/Breakfast, WIC and CACFP.

Risk Management Agency (RMA)

RMA has requested $83 million the FY 2006 President's Budget for system improvements.

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.

Farm Service Agency (FSA)

Recoveries of improper payments are limited by the "Finality Rule." 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."

The Farm Security and Rural Investment Act of 2002, Section 1502(d)(2), provides that the Secretary shall apply the same standards as were applied in implementing the dairy program under Section 805 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. This provision precludes the agency from developing a definition of a single unit dairy operation that can be applied consistently among States.

Food and Nutrition Service (FNS)

In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. Provisions that improve access can increase the risk of improper payments. While the risks involved vary by program, some general characterizations can be made:

a. **Program administration is highly decentralized and can involve a myriad of Governmental and non-Governmental organizations.** For example, there are approximately 48,000 child and adult care centers, almost 1,000 family day care home sponsoring organizations and 158,000 family home day care providers through which benefits are distributed. Many of these simply do not have the capacity to develop robust accountability processes. This puts a special burden on Federal and State oversight and technical assistance systems.

b. **States and localities tend to focus on managing local funds, rather than Federal funds.** One hundred percent of benefit costs and a significant portion of administrative expenses incurred by State agencies are funded by Federal appropriations. Although this distribution of costs has contributed to the strength of the nutrition safety net with national eligibility standards and program access, States and localities may be expected to put a higher priority on managing programs funded with local revenues than those subsidized by the Federal Government.

c. **Proper implementation of nutrition assistance programs requires a high degree of accuracy.** This accuracy helps to ensure that benefits generally are well-targeted to those most in need, uniformity of access across the country and that benefits only can be used for food. Despite the standards, their exacting nature creates a significant number of opportunities for error.

Rural Development (RD)

The Rural Housing Service (RHS) is seeking legislation similar to that of the U.S. Housing and Urban Development. The legislation would permit access to the U.S. Health and Human Services' "New Hires" data. RHS also wants the legislation to allow borrowers and their management agents to have access to the data. Borrowers and agents collect and verify the tenant's income documentation.

APPENDIX C—TABLE OF EXHIBITS

APPENDIX D—ACRONYMS

ACC	Afghan Conservation Corps	e-LDP	Electronic Loan Deficiency Payments
AGOA	African Growth and Opportunity Act	EA	Enterprise Architecture
AGR	Adjusted Gross Revenue	EBT	Electronic Benefits Transfer
AHMS	Animal Health Monitoring and Surveillance	EFNEP	The Expanded Food and Nutrition Education Program
AMP	Asset Management Plan	EIS	Environmental Impact Statement
AMS	Agricultural Marketing Service	EMRS	Emergency Management Response System
APHIS	Animal Plant and Health Inspection Service	EONR	Economically Optimal Nitrogen Fertilizer Rate
ARMS	Agricultural Resource Management Survey	EPA	U.S. Environmental Protection Agency
ARS	Agricultural Research Service	EPP	Emerging Plant Pest
ASC	Albuquerque Service Center	ERS	Economic Research Service
AWA	Animal Welfare Act	EWP	The Emergency Watershed Protection Program
CAFTA-DR	Central American Free Trade Agreement	EWRP	The Emergency Wetlands Reserve Program
B&I	Business and Industry	E&T	Employment and Training
BFP	The Norman E. Borlaug International Science and Technology Fellows Program	EU	European Union
BRS	Biotechnology Regulatory Service	FAS	Foreign Agricultural Service
BSE	Bovine Spongiform Encephalopathy	FB4P	The Federal Biobased Products Preferred Procurement Program
CACFP	Child and Adult Care Food Program	FCIC	Federal Crop Insurance Corporation
CAP	Combined Application Demonstration Project	FDA	United States Food and Drug Administration
CATIE	Tropical Agricultural Research and Higher Education Center	FDW	Financial Data Warehouse
CCC	Commodity Credit Corporation	FFAS	Farm and Foreign Agricultural Services
CDC	U.S. Centers for Disease Control and Prevention	FFE	The McGovern-Dole International Food for Education and Child Nutrition Program
CNPP	Center for Nutrition Policy	FFMIA	The Federal Financial Management Improvement Act
CPAP	Community Programs Application Processing System	FISMA	Federal Information Security Management Act
CRP	The Conservation Reserve Program	FLP	Farm Loan Program
CSP	Conversation Security Program	FMD	Foot and Mouth Disease
CSREES	Cooperative State Research, Education and Extension Service	FMD	Financial Management Division
CWPP	Community Wildlife Protection Plans	FNS	Food Nutrition Service
DC	Disallowed Costs	FNSE	Food Stamp Nutrition Education
DHS	United States Department of Homeland Security	FRPC	Federal Real Property Council
DOI	United States Department of the Interior	FS	Forest Service
DOL	U.S. Department of Labor	FSA	Farm Service Agency

FSIS	Food Safety and Inspection Service
FSP	Food Stamp Program
FSRIA	The Farm Security Rural Investment Act of 2002
FSRIO	Food Safety Research and Information Office
FTA	Free Trade Agreement
FTAA	Free Trade Area of the Americas
FTBU	Funds to Be Put to Better Use
FY	Fiscal Year
GAO	Government Accountability Office
GEO	Genetically Engineered Organisms
GIPSA	Grain Inspection, Packers and Stockyards Administration
GIS	Geographic Information System
GLS	Guaranteed Loan System
GRIP	Group Risk Income Protection
GRP	Grassland Reserve Program
GSA	General Services Administration
HACCP	Hazard Analysis Critical Control Point
HEI	Healthy Eating Index
HFI	Healthy Forests Initiative
HFRA	Healthy Forest Restoration Act
HFRA	Healthy Forests Restoration Act of 2003
HPA	Horse Protection Act
HPP	High-Pressure Processing
HSPD	Homeland Security Presidential Directive
IP	Internet Protocol
IPIA	Improper Payments Information Act
ISSS	International Society of Soil Science
IT	Information Technology
LAN	Local Access Network
LARIS	Licensing and Registration Information System
LCMV	Lymphocytic Choriomeningitis Virus
LDP	Loan Deficiency Payment
LPAI	Low Pathogenic Avian Influenza
MBDA	Minority Business Development Agency
MCR	Management Control Review
MILC	Milk Income Loss Contract Program
MITS	Management Information Tracking System
MRP	Marketing and Regulatory Programs
NACMCF	National Advisory Committee on Microbiological Criteria for Foods

NAFTA	North American Free Trade Agreement
NAHLN	National Animal Health Laboratory Network
NAHMS	National Animal Health Monitoring System
NDB	National Data Bank
NECFE	Northeast Center for Food Entrepreneurship
NEPA	National Environmental Policy Act
NFP	National Fire Plan
NFS	National Forest System
NAHRS	National Animal Health Reporting System
NAIS	National Animal Identification System
NAL	National Agricultural Library
NASS	National Agricultural Statistics Service
NCES	National Center for Educational Statistics
NCIE	National Center for Import and Export
NHANES	National Health and Nutrition Examination Survey
NOP	National Organic Program
NRCS	Natural Resource Conservation Service
NRE	Natural Resources Environment
NSLP	National School Lunch Program
NSU	National Surveillance Unit
OCFO	The Office of the Chief Financial Officer
OCIO	The Office of the Chief Information Officer
OGC	The Office of the General Counsel
OIG	The Office of the Inspector General
OMB	The Office of Management and Budget
OPM	The Office of Personnel Management
PAR	Performance and Accountability Report
PART	Performance Assessment Rating Tool
PCR	Polymerase Chain Reaction
PHV/IIC	Senior Veterinary Medical Officer/Inspector-in-Charge
PLAS	Program Loan Accounting System
PP&E	Property, Plant and Equipment
PMA	President's Management Agenda
POINTS	Program Operations Information Tracking System
PPQ	Plant Protection and Quarantine
PRA	Pest-Risk Assessments
QC	Quality Control
RA	Amount of Subsidy
RD	Rural Development

REE	Research, Education and Economics	SRA	Standard Reinsurance Agreement
RFI	Request for Information	SRDC	Southern Rural Development Center
RHS	Rural Housing Service	SSOP	Sanitation Standard Operating Procedures
RMA	Risk Management Agency	TIGR	The Institute for Genetic Research
RME	Risk Management Education	TN	Team Nutrition
RPC	Real Property Council	TPA	Trade Promotion Authority
RTE	Ready-to-Eat	TRADE	Trade for African Enterprise and Development Initiative
RULSS	Rural Utilities Loan Servicing System	UM&R	Uniform Standards and Rules
RUS	Rural Utilities Service	USAID	United States Agency for International Development
SAML	Security Assertion Markup Language	USDA	United States Department of Agriculture
SARE	Southern-Region Sustainable Agriculture Research and Education Program	USTR	Office of the United States Trade Representative
SBP	School Breakfast Program	WAOB	World Agricultural Outlook Board
SDF	Small Disadvantaged Farmers	WEP	Water and Environmental Programs
SDLC	System Development Life Cycle	WEPS	Wind Erosion Prediction System
SEBAS	Socio-Economic Benefit Assessment System	WFP	World Food Program
SFA	School Food Authority	WIC	The Special Supplemental Nutritional Program for Women, Infants and Children
SIPP	Survey on Income and Program Participation	WTO	World Trade Organization
SPR	Surface Plasmon Resonance	WUI	Wildland-Urban Interface
SPS	Sanitary and Phytosanitary