USDA

150th Anniversary

United States Department of Agriculture

# Agency Financial Report

## Fiscal Year 2012

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USDA
Office of the Assistant Secretary for Civil Rights
1400 Independence Avenue, S.W.
Washington, D.C. 20250-9410

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*Only Federal employees participated in the preparation of the performance and financial information contained in this report.*

# About This Report

Historically, USDA has published consolidated financial and performance management reporting via the Performance and Accountability Report (PAR). Starting in fiscal year (FY) 2012, the Department will use an Agency Financial Report (AFR), an alternative approach to the PAR. The Office of Management and Budget (OMB) Circular No. A-136, “Financial Reporting Requirements,” Section II, “Performance and Accountability Report or Agency Financial Report,” describes this alternative. This circular states that agencies may choose either to produce a consolidated PAR or a separate AFR and Annual Performance Report (APR), and a Summary of Performance and Financial Information (SPFI).

**The Agency Financial Report (AFR)** is a report on the agency end-of-fiscal-year financial position that includes, but is not limited to, financial statements, notes to the financial statements, and a report of the independent auditors. The AFR also includes a performance summary. The AFR will be issued on November 15, 2012.

**The Annual Performance Report (APR)** is a detailed report on USDA's progress toward achieving the strategic goals and objectives described in the agency’s strategic plan and annual performance plan, including progress on agency priority goals. The report will be delivered to Congress on February 15, 2013.

**The Summary of Performance and Financial Information (SPFI)** includes the most relevant performance and financial information in a brief, user-friendly format that is easily understood by a reader with little technical background in these areas. This report was previously known as the Citizen’s Report. The goal of this summary is to increase accountability of agency heads and program managers. It will make the financial and performance information more transparent and accessible to Congress, the public, and other key constituencies. The report will be issued on February 15, 2013.

The AFR, APR, and SPFI will be posted on the **USDA Web site**.

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# Message from the Secretary

In fulfillment of its duty to the people, the President, and Congress, the U.S. Department of Agriculture (USDA) respectfully submits the *Fiscal Year (FY) 2012 Agency Financial Report*.

This year, we have had an opportunity to remember the rich history of the Department, which celebrated its 150th anniversary in 2012. On May 15, 1862, President Abraham Lincoln signed into law an Act of Congress establishing USDA. Two and a half years after he established the Department, in what would be his final annual message to Congress, Lincoln called USDA "The People's Department."

President Lincoln knew the importance of agriculture to our prosperity — particularly at a time when about half of all Americans lived on farms. We believe that the values shared by folks in our small towns and rural communities are at the heart of our American values.

As the United States has changed and evolved over the years, at USDA, we have not lost sight of Lincoln's vision. Through our work on food, agriculture, economic development, science, natural resource conservation, and a host of other issues, the Department has impacted the lives of generations of Americans.

Like any organization, it is an imperative that USDA to always ensure that we are serving our customers to the greatest possible extent. This fiscal year at the Department of Agriculture has been defined by the efforts of our hardworking employees to continue delivering services to Americans at a record pace — even in a time of reduced operating budgets and staffing constraints in many agencies.

This year, we had to take a hard look at the ways in which we do business — because, like any American family, or any business, USDA must ensure that we are executing our mission while balancing our checkbook. This year, the Department continues our efforts to look forward to the future, ensuring that USDA is a 21st century service provider and employer, while managing a Department of nearly 100,000 employees to deliver services to Americans across the country.

In January, USDA responded to these needs by announcing a "Blueprint for Stronger Service" that is aimed to modernize the Department, reduce red tape, improve the experience of USDA customers, and help bring the Department's operating costs within the budget and staffing constraints predicated by decreasing congressional appropriations.

Meanwhile, USDA's employees have worked hard to manage the challenges we face, always sharing a commitment to provide the best possible service for producers, communities, and American families. Our employees have achieved historic results since 2009, and this year has been no different.

USDA implements safety net programs authorized by Congress to help keep American agriculture secure from the market and weather uncertainties that our farmers and ranchers face every day. This year, the Department's response to the drought that is sweeping across much of America stands as one important example of our commitment. USDA implemented a number of administrative actions to help drought-stricken producers by expediting assistance for farmers and ranchers who were struggling.

Many of the Department's programs and policies were authorized under the Food, Conservation, and Energy Act of 2008 ("2008 Farm Bill") through September 30, 2012. A great number of these critical programs impact millions of Americans. They cover farm commodity and price support, conservation, research, nutrition, food safety, and agricultural trade. As of October 1, 2012, USDA's authority or funding to deliver many of these programs has expired. This occurrence has left the Department with far fewer tools to help strengthen American agriculture and grow a rural economy that supports 1 in 12 American jobs. Authority and funding for additional programs are set to expire in the coming months. USDA is working hard to keep producers and farm families informed regarding those programs that are no longer available to them.

Our farmers and ranchers are the leading stewards of the land and water. USDA has continued supporting their work through technical assistance and conservation programs — applying the most effective programs in the best places to achieve the best possible result. In 2012, USDA continued its work with more than 500,000 landowners around the United States, providing additional efforts for producers to enter into contracts under the Conservation Reserve Program, while reaching its 50-millionth acre enrolled under the Conservation Stewardship Program.

In America's National Forests, USDA is hard at work reducing the risk of devastating wildfire and improving soil and water quality. In April 2012, the Department finalized its new "National Forest Planning" rule to help better manage more than 193 million acres of National Forest lands — creating jobs in rural areas, while ensuring the protection of our forests for years to come.

USDA continued our record level of investment in rural America and the rural communities that millions call home by investing in community facilities, providing loans for rural small business, helping rural families buy or repair a home, and helping to ensure communities have access to critical infrastructure.

The Department is leading the way for renewable energy, supporting the infrastructure we will need in a new energy economy. And, by working directly with farmers, ranchers, and rural homeowners, USDA is helping folks save money by implementing new energy-saving technology. In 2012, for example, we reached an important goal of $250 million in Smart Grid electric investments — to help rural electric cooperatives better serve their customers.

The Department ensures a safe food supply through its network of Federal inspectors in more than 6,000 locations nationwide. In June of this year, USDA finalized rules to adopt a zero-tolerance policy for raw beef products containing 6 additional strains of *shiga-toxin* producing *E. coli* O157:H7.

In February 2011, the Government Accountability Office reported in its High-Risk Series Update that food safety agencies have not developed a Government-wide performance plan that includes results-oriented performance measures, which would be a leap forward with regard to measuring our progress in preventing foodborne illness from meat, poultry, and processed egg products. In September 2011, the Food Safety and Inspection Service (FSIS) published its strategic plan, which includes results-oriented performance measures. For example, FSIS has gone so far as to make attribution estimates of the total number of illnesses from meat, poultry, and processed egg products, and develop a key corporate performance measure of our progress toward preventing these illnesses. FSIS' strategic plan includes 30 distinct, quantifiable performance measures that support 8 larger goals. In support of this strategic plan and the core principles of the President's Food Safety Working Group, USDA-FSIS has announced several new measures to prevent foodborne illness, empower people, and strengthen infrastructure, and understand and influence the farm-to-table continuum.

USDA delivers critical nutrition assistance to Americans struggling to put food on the table by providing breakfast and lunch to nearly 32 million school children each day. This year, the Department fed these children nearly 44 million meals per day, while providing food assistance to nearly 1 in 4 Americans. FY 2012 marks the first of 3 years in which new, healthier school meals standards authorized under the Healthy, Hunger-Free Kids Act of 2010 are being implemented.

And, USDA continues to lead the way in America's agricultural research. USDA researchers have partnered with folks across the country to develop the next generation of renewable energy and find solutions to some of America's greatest scientific challenges.

The Department's Office of the Chief Financial Officer continued implementing the Financial Management Modernization Initiative (FMMI), a core financial system to replace USDA's nine general ledger systems. Of the 29 agencies and offices that form the Department, 28 have implemented FMMI.

The Department's management team continues to oversee USDA's assessment of internal control over its programs, operations, financial systems, and financial reporting. The Department's work is consistent with the provisions of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). USDA's continuous monitoring and remediation efforts allow us to provide taxpayers with reasonable assurance that this report is based on sound, accurate data.

Nevertheless, continued improvement is needed to remediate USDA's existing material weakness and financial system noncompliance. To accomplish this goal, management continues to implement corrective action plan activities. Therefore, I provide qualified assurance that, except for the areas in need of improvement as described in the Management Assurances section of this report, USDA's internal control over operations, financial systems, and financial reporting meets the objectives of FMFIA and FFMIA. The financial and performance information presented herein is complete and accurate, and is in accordance with law and Office of Management and Budget guidance.

As we commemorate 150 years of accomplishments, USDA is looking to the future. In the years to come, we will help address the changing needs of agriculture and rural America. We will continue to help provide a safe, ample food supply for our Nation and the world. As we promote innovation, we will help create jobs and support economic growth, and promote healthy families and communities, and a stronger Nation. To meet those goals, we are working to make USDA a more modern and effective service provider, and deliver the best possible results for all of the American people.

Thank you for your interest in the Department. I salute USDA employees for their outstanding work and am proud to share this information with our stakeholders. We will continue to serve the needs of the people every day and in every way.

Thomas J. Vilsack
Secretary of Agriculture

# Section 1: Management's Discussion and Analysis

## USDA Overview

The U.S. Department of Agriculture (USDA) was founded by President Abraham Lincoln in 1862, when more than half of the Nation's population lived and worked on farms. The population has increased approximately tenfold, and now exceeds 307 million people, the vast majority of whom do not live on farms or in rural areas.

Today, USDA improves the Nation's economy and quality of life by touching the lives of almost every person in America, every day. Nearly 100,000 employees deliver more than $144 billion in public services through the Department's more than 300 programs worldwide.

Because America's food and fiber producers operate in a global, technologically advanced, rapidly diversifying, and highly competitive business environment, USDA is constantly helping agricultural producers meet the needs of the Nation.

## Mission Statement

We provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.

## Vision Statement

To expand economic opportunity through innovation, helping rural America to thrive; to promote agriculture production sustainability that better nourishes Americans while also helping feed others throughout the world; and to preserve and conserve our Nation's natural resources through restored forests, improved watersheds, and healthy private working lands.

# USDA Organization Chart

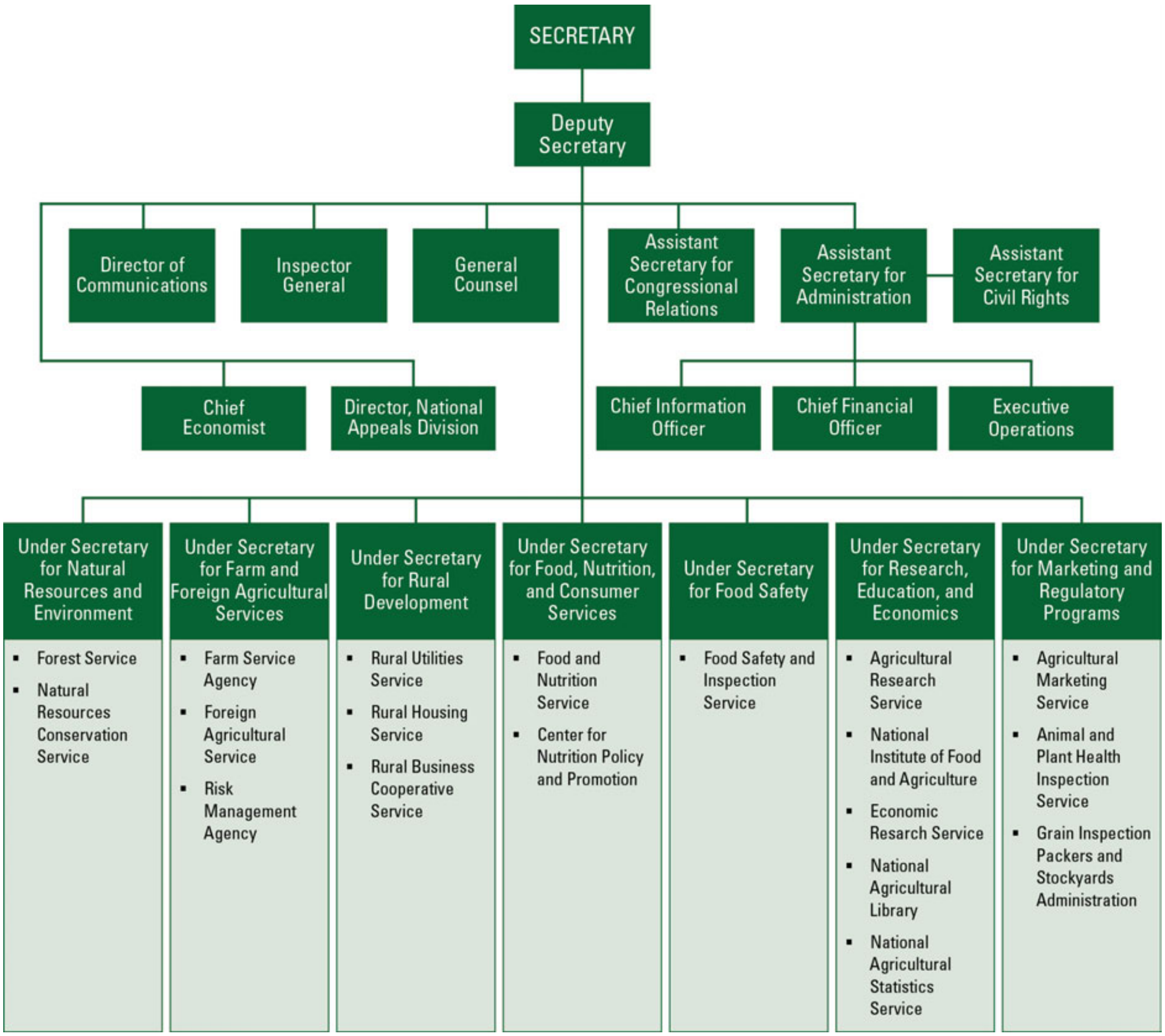



**Exhibit 1: Organization Chart**

*Source: USDA's Web site, September 29, 2012*

This image displays the U.S. Department of Agriculture's (USDA) Headquarters Organization, including the Secretary, Chief Officers, Under Secretaries, and Assistant Secretaries for various agencies within USDA. In addition to its Headquarters Organization, USDA has a network of offices, facilities, and laboratories across the country and overseas.

# Mission Areas and Departmental Management

The U.S. Department of Agriculture's (USDA) work is organized by mission areas, which are collections of agencies that work together to achieve USDA's strategic goals. Descriptions of USDA's seven mission areas and Departmental Management follow.

## Farm and Foreign Agricultural Services

The Farm and Foreign Agricultural Services (FFAS) mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers programs that support a sustainable and competitive U.S. agricultural system. This mission area is comprised of the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), and the Risk Management Agency (RMA). FSA administers and manages commodity, farm credit, conservation, and disaster programs through a network of Federal, State, and county offices. FSA provides administrative support for the Commodity Credit Corporation (CCC). The CCC is a Government-owned entity which funds most of the commodity, export, and some conservation programs of USDA. FAS works to improve international market access for U.S. products, build new markets, improve the competitive position of domestic agriculture in the global marketplace, and provide food aid and technical assistance to other countries. RMA helps producers manage their business risks through effective, market-based, risk-management solutions. In addition, RMA manages the Federal Crop Insurance Corporation to improve the economic stability of agriculture through a sound system of crop insurance.

## Food, Nutrition, and Consumer Services

The Food, Nutrition, and Consumer Services (FNCS) mission area works to harness the Nation's agricultural abundance to reduce hunger and improve health in the United States. FNCS is comprised of the Food and Nutrition Service (FNS) and the Center for Nutrition Policy and Promotion (CNPP). FNS administers USDA's 15 Federal nutrition assistance programs. CNPP works to improve the health and well-being of Americans by developing and promoting dietary guidance that links scientific research to the nutrition needs of consumers.

## Food Safety

The Food Safety mission area ensures that the Nation's commercial supply of meat, poultry, and processed egg products is safe, wholesome, and properly labeled and packaged. It also plays a key role in the President's Food Safety Working Group, a coordinated Government-wide initiative to ensure a safe food supply for the American people for the 21st century. USDA's partners in the working group include the U.S. Department of Health and Human Services, the U.S. Environmental Protection Agency, and a number of other Government agencies. The Food Safety mission area is comprised of a single agency, the Food Safety Inspection Service.

## Marketing and Regulatory Programs

The Marketing and Regulatory Programs (MRP) mission area facilitates the domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP 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). AMS administers programs that facilitate the efficient, fair marketing of U.S. agricultural products, including food, fiber, and specialty crops. APHIS provides leadership in ensuring the health and care of animals and plants. GIPSA facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products.

## Natural Resources and Environment

The Natural Resources and Environment (NRE) mission area ensures the health of the land through sustainable management. Its agencies work to prevent damage to natural resources and the environment, restore the resource base, and promote good land management. NRE consists of the Forest Service (FS) and the Natural Resources Conservation Service (NRCS). FS manages public lands in national forests and grasslands, which encompass 193 million acres. NRCS provides leadership in a partnership effort to help America's private landowners and managers conserve their soil, water, and other natural resources. Both agencies work in partnership with Tribal, Federal, State, and local Governments, and community-related groups to protect soils, watersheds, and ecosystems.

## Research, Education, and Economics

The Research, Education, and Economics (REE) mission area helps create a safe, sustainable, and competitive U.S. food and fiber system, as well as develop strong communities, families, and youth through integrated research, analysis, and education. REE is comprised of the Agricultural Research Service, the National Institute of Food and Agriculture, the Economic Research Service, the National Agricultural Statistics Service, and the National Agricultural Library.

## Rural Development

The Rural Development (RD) mission area helps improve the economy and quality of life in all of rural America. RD provides financial support for the development of essential public facilities and services such as water and sewer systems, housing, health clinics, emergency service facilities, and electric and telephone services. It also promotes economic development by providing direct loans and loan guarantees to businesses through private sector financial institutions. In addition, RD provides grants, loan guarantees, and payments to farmers, ranchers, and rural small businesses to develop renewable energy systems and make energy efficiency improvements. RD is comprised of the Rural Business-Cooperative Service, the Rural Housing Service, and the Rural Utilities Service.

## Departmental Management

Departmental Management's (DM) mission ensures that USDA administrative programs, policies, advice, and counsel meet the needs of USDA program organizations, consistent with laws and mandates, and provide safe and efficient facilities and services to customers. DM is comprised of the following offices: Office of Administrative Law Judges; Office of Advocacy and Outreach; Office of the Chief Financial Officer; Office of the Chief Information Officer; Office of the Executive Secretariat; Office of Homeland Security and Emergency Coordination; Office of Human Resources Management; Office of the Judicial Officer; Office of Operations; Office of Procurement and Property Management; and Office of Small and Disadvantaged Business Utilization.

# Performance Goals, Objectives, and Results

## Agency Priority Goals

USDA is pursuing three Agency Priority Goals for fiscal year (FY) 2012 and FY 2013. Performance data will be available at the end of the calendar year and published in the Annual Performance Report, which will be released in February 2013. A synopsis of the goals is provided below.

### Agency Priority Goal 1: Further improve payment accuracy in the Supplemental Nutrition Assistance Program (SNAP).

This program puts healthy food on the table for millions of low-income people in America every month. The program supplements their budgets by providing benefits via an electronic benefit card, which is used like a debit card at most food retailers. Through nutrition education partners, the program helps clients learn how to make healthy eating and active lifestyle choices. Finally, SNAP also provides a significant boost to local economies. For every $5 in SNAP benefit spending, $9.20 is generated in total economic activity.

In 2011, payment accuracy reached an all-time high of 96.20 percent. This reflects 2.99 percent in overpayments and 0.81 percent in underpayments for a total of 3.80 percent in improper payments. The size of the SNAP program means that even small additional improvements to payment accuracy yield substantial savings. In 2012, USDA's Food and Nutrition Service (FNS) has continued to work to improve payment accuracy through partnerships with States and by rewarding exemplary performance while holding low-performing States accountable. FNS uses an early detection system to target States that may be experiencing a higher incidence of payment errors. FNS then intervenes to address situations identified in individual States. FNS provides technical assistance and knowledge to State agencies to improve payment accuracy, as well as shares best practices among States. FNS encourages business process improvements and reengineering for SNAP administration by States. These initiatives have been shown to increase efficiency and improve program accountability.

### Agency Priority Goal 2: Expand U.S. agricultural exports to at least $150 billion by September 2013, up from a level of $137.4 billion in FY 2011.

For every $1 billion of agricultural exports, an estimated 8,400 jobs are supported and an additional $1.34 billion in economic activity is generated. USDA worked to boost agricultural exports in FY 2012 by supporting access to international markets through market development programs and trade shows, which lead to direct sales by connecting exporters with foreign buyers. USDA continues to resolve technical barriers to trade and unjustified sanitary and phytosanitary measures, and tracks the trade preserved, initiated, or restored by these efforts. Supporting negotiation of market-expanding trade agreements for U.S. agricultural products was a strong focus in 2012 with free trade agreements (FTAs) signed with South Korea, Colombia, and Panama. The South Korea FTA took effect on March 15, 2012, and will expand annual agricultural exports by an estimated $1.9 billion. The Colombia FTA took effect on May 15, 2012, and is expected to expand annual agricultural exports by more than $370 million. USDA continued to support Trans Pacific Partnership (TPP) negotiations. Invitations to join TPP were extended to Canada and Mexico, bringing the number of participating countries to eleven. Many external factors influence agricultural exports: global economic uncertainty, slower global economic growth, and the relative strength of the U.S. dollar could impact our ability to achieve this goal.

**Agency Priority Goal 3: Accelerate the protection of clean, abundant water resources by advancing USDA's capacity to measure the effectiveness of conservation investments in addressing water resource concerns.**

With 87 percent of America's surface supply of drinking water originating on land that USDA programs impact in some way, the Department has a key role in addressing water quality challenges. While the agricultural and forestry communities have made progress in contributing to improvements in water quality, challenges remain, and accelerating progress on improving water quality is critical. Better tools are needed to measure the outcome of efforts to improve water quality, identify the most effective approaches, and measure achievements. USDA is developing and implementing an interagency outcome-focused metric in two pilot watersheds to quantify water quality improvements. This metric would also subsequently be used in other regions of the country. In 2012, USDA formed a cross-agency working group, which established criteria for choosing the pilot watersheds. The group selected the St. Joseph's River watershed in Indiana and La Cienega watershed in Arizona. USDA has developed project plans for the pilots and expects to implement the pilots in FY 2013. USDA is also continuing to track a secondary goal: implementing high-impact targeted practices to improve water quality on 4 million acres within critical and/or impaired watersheds in FY 2013.

## Strategic Goals, Objectives, and Annual Performance Goals

The Performance Summary information in Exhibit 2, organized by the U.S. Department of Agriculture's strategic goals and objectives, provides a summary of the Department's performance results. Of the 42 performance measures contained in USDA's *FY 2012 Annual Performance Plan*, 38 were met or exceeded, 3 were unmet, and 1 was deferred. The Department's Annual Performance Report, to be released on February 15, 2013, will contain additional analysis of these results, including the historical performance trend data.

## Agency Strategic Goals

**Strategic Goal 1:** Assist Rural Communities to Create Prosperity So They are Self-Sustaining, Repopulating, and Economically Thriving.

**Strategic Goal 2:** Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.

**Strategic Goal 3:** Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security.

**Strategic Goal 4:** Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals.

## Exhibit 2: Performance Summary

| PERFORMANCE SUMMARY FOR FY 2012 | | | | |
|---|---|---|---|---|
| **Strategic Objectives** | | **Annual Performance Goals** | | **Result** |
| **Strategic Goal 1: Assist Rural Communities to Create Prosperity So They are Self Sustaining, Repopulating, and Economically Thriving** | | | | |
| 1.1 | Enhance Rural Prosperity | 1.1.1 | Number of jobs created or saved through USDA financing of businesses | Exceeded |
| | | 1.1.2 | Number of borrowers/subscribers receiving new or improved telecommunication services (millions) | Unmet |
| 1.2 | Create Thriving Communities | 1.2.1 | Number of borrowers/subscribers receiving new or improved service from agency-funded water facility (millions) | Exceeded |
| | | 1.2.2 | Homeownership Opportunities Provided | Met |
| | | 1.2.3 | Percentage of customers who are provided access to new and/or improved essential community facilities | |
| | | | ▪ Health Facilities | Met |
| | | | ▪ Safety Facilities | Met |
| | | | ▪ Educational Facilities | Met |
| | | 1.2.4 | Number of borrowers/subscribers receiving new and/or improved electric facilities (millions) | Met |
| 1.3 | Support a Sustainable and Competitive Agricultural System | 1.3.1 | Percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by the Farm Service Agency | Exceeded |
| | | 1.3.2 | Maintain or increase percentage of Farm Service Agency program delivery applications at USDA Service Centers that are Web enabled | Met |
| | | 1.3.3 | Value of trade preserved annually through USDA staff interventions leading to resolution of barriers created by Sanitary/Phytosanitary or Technical Barriers to Trade measures ($billions) | Exceeded |
| | | 1.3.4 | Value of Federal Crop Insurance Corporation (FCIC) risk protection coverage provided through FCIC-sponsored insurance ($billions) | Exceeded |
| | | 1.3.5 | Normalized value of FCIC risk protection coverage provided through FCIC-sponsored insurance ($billions) | Exceeded |
| | | 1.3.6 | Percent of industry compliance with the Packers and Stockyards Act | Exceeded |

| | | | |
|---|---|---|---|
| **Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources** | | | |
| 2.1 | Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands | 2.1.1 Conservation Reserve Program: Restored wetland acreage (millions of acres) | Exceeded |
| | | 2.1.2 Consevation Technical Assistance: Cropland with conservation applied to improve soil quality (millions of acres) | Met |
| | | 2.1.3 Environmental Quality Incentives Program: Cropland with conservation applied to improve soil quality (millions of acres) | Met |
| | | 2.1.4 Conservation Technical Assistance: Grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres) | Met |
| | | 2.1.5 Environmental Quality Incentives Program: Grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres) | Met |
| | | 2.1.6 Farm and Ranch Lands Protection Program: Prime, unique, or important farmland protected from conversion to non-agricultural uses by conservation easements (thousands of acres) | Met |
| | | 2.1.7 Wildlife Habitat Incentive Program: Non-Federal land with conservation applied to improve fish and wildlife habitat quality (thousands of acres) | Exceeded |
| | | 2.1.8 Environmental Quality Incentives Program: Non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres) | Exceeded |
| | | 2.1.9 Acres protected from conversion through easements and fee-simple purchases (thousands of acres) | Met |
| 2.2 | Protect and Enhance America's Water Resources | 2.2.1 Conservation Technical Assistance: Land with conservation applied to improve water quality (millions of acres) | Met |
| | | 2.2.2 Environmental Quality Incentives Program: Land with conservation applied to improve water quality (millions of acres) | Unmet |
| | | 2.2.3 Wetlands Reserve Program: Wetlands created, restored or enhanced (thousands of acres) | Met |
| 2.3 | Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape | 2.3.1 Acres of Wildland Urban Interface fuels treated to reduce the risk of catastrophic fire (millions of acres) | Met |
| | | 2.3.2 Percentage of acres treated in the Widland Urban Interface that have been identified in Community Wildfire Protection Plans | Exceeded |
| | | 2.3.3 Cumulative Acres in the National Forest System that are in a desired condition relative to fire regime (millions of acres) | Met |
| **Strategic Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security** | | | |
| 3.1 | Enhance America's Ability to Develop and Trade Agricultural Products Derived from New Technologies | 3.1.1 Cumulative number of genetically engineered plant lines reviewed by the U.S. Department of Agriculture and found safe for use in the environment | Exceeded |

| Strategic Goal 4: Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals | | | |
|---|---|---|---|
| 4.1 | Increase Access to Nutritious Foods | 4.1.1 Participation rates for the major Federal nutrition assistance programs (millions per month): Supplemental Nutrition Assistance Program | Met |
| | | 4.1.2 SNAP payment accuracy rate (percent) | Met |
| | | 4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day): | |
| | | ▪ National School Lunch Program | Met |
| | | ▪ School Breakfast Program | Met |
| | | 4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month): The Special Supplemental Nutrition Program for Women, Infants and Children (average) | Met |
| 4.2 | Promote Healthy Diet and Physical Activity Behavior | 4.2.1 Application and usage level of nutrition guidance tools (billions of pieces of nutrition guidance distributed) | Exceeded |
| 4.3 | Protect Public Health by Ensuring Food is Safe | 4.3.1 Percent of broiler plants passing the carcass *Salmonella* Verification Testing Standard | Exceeded |
| | | 4.3.2 Total illnesses from all Food Safety and Inspection Service products | Unmet |
| | | 4.3.3 Percent of establishments with a functional food defense plan | Exceeded |
| 4.4 | Protect Agricultural Health by Minimizing Major Diseases and Pests, Ensuring Access to Safe, Plentiful, and Nutritious Food | 4.4.1 Value of damage prevented and mitigated annually as a result of selected plant and animal health monitoring and surveillance efforts ($billions) | Deferred* |
| **Management Initiative VIII: Enhance the USDA Human Resources Process to Recruit and Hire Skilled, Diverse Individuals to Meet the Program Needs of USDA** | | | |
| Increasing Diversity in the USDA Workforce | | 8.1.1 Percent of all new hires who are veterans | Met |
| | | 8.1.2 Percentage of new hires who are minorities | Met |

**Fourth-quarter data are not available. Results will be reported in the Annual Performance Report to be issued on February 15, 2013.*

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

Farmers and ranchers operate in highly competitive markets, both domestically and internationally. Rapid shifts in consumer demands associated with quality, convenience, taste, and nutrition dictate that farming, ranching, and marketing infrastructures become more fluid and responsive.

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

External factors that challenge USDA's ability to achieve its goals include the following:

- Weather-related hardships and other uncontrollable events domestically and abroad;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage their debts;

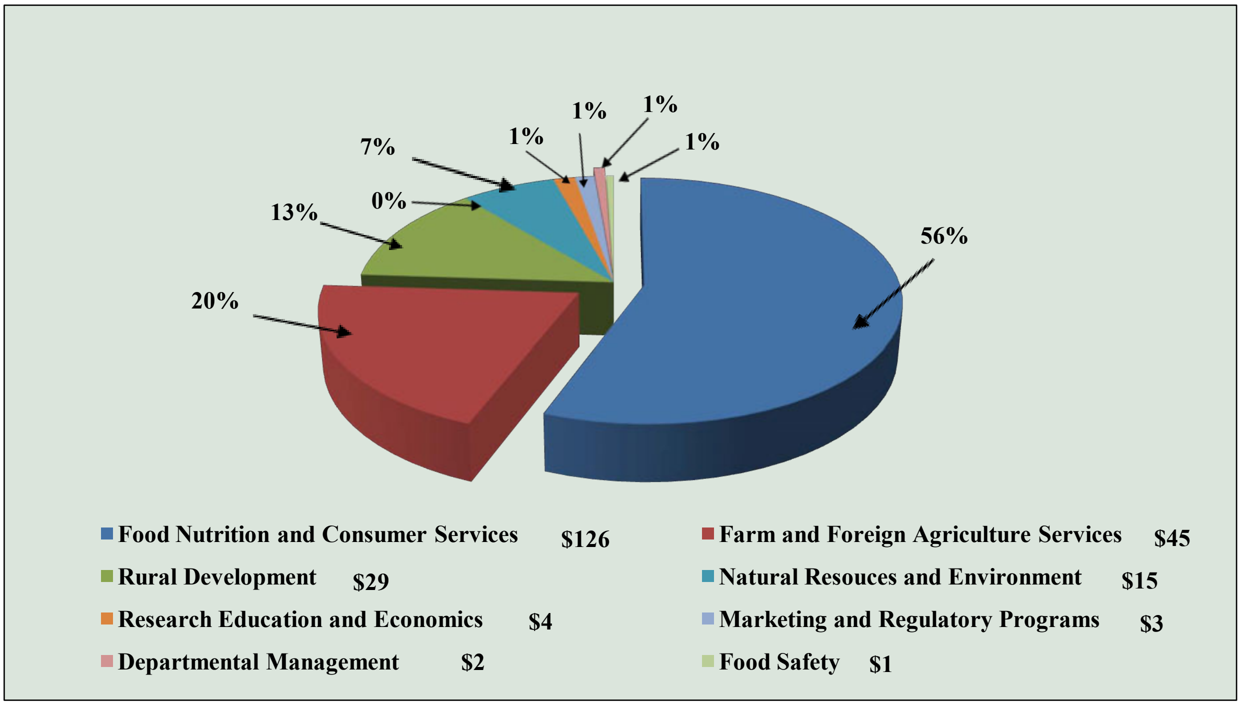
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases, such as *avian influenza* and *bovine spongiform encephalopathy,* to move quickly across domestic and international boundaries;
- Potential exposure to hazardous substances, which may threaten human health and the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts; and
- The risk of catastrophic fire, depending on weather, drought conditions, and the expanding number of communities in the wildland-urban interface.

# Financial Statement Highlights

## Budgetary Resources

The U.S. Department of Agriculture (USDA) receives most of its funding from appropriations authorized by Congress and administered by the U.S. Department of the Treasury. Total budgetary 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. The following exhibit presents fiscal year (FY) 2012 total budgetary resources by mission area.

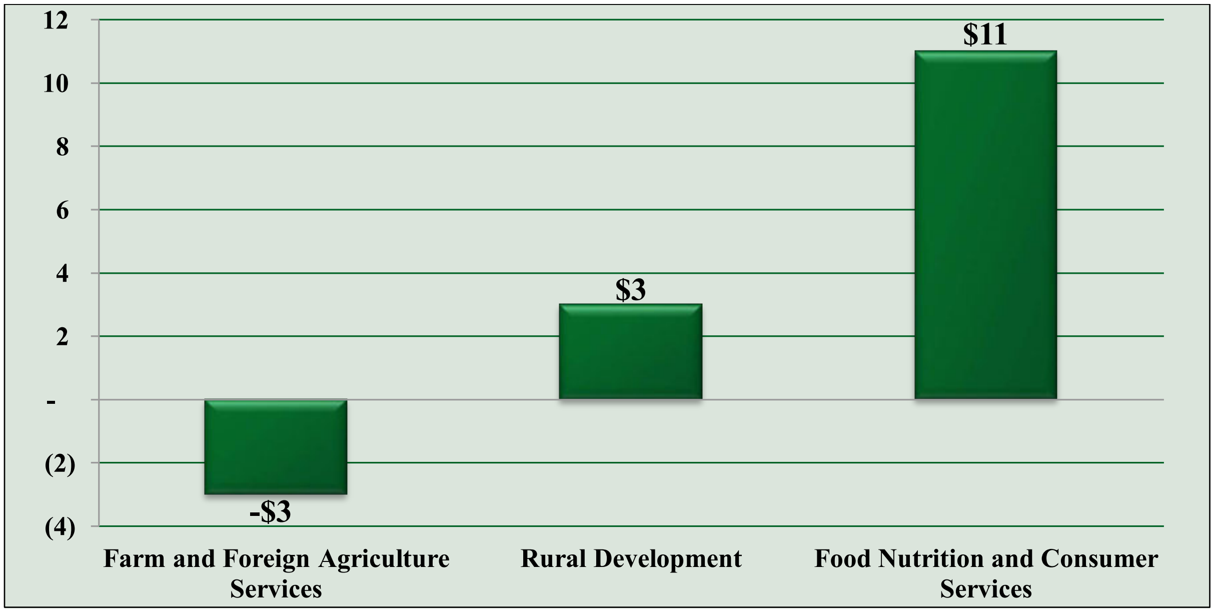
**Exhibit 3: FY 2012 Total Budgetary Resources by Mission Area ($billions)**




Total budgetary resources were $225 billion for FY 2012 compared to $214 billion in FY 2011, an increase of $11 billion, or 5 percent.

The following exhibit presents significant changes in total budgetary resources by mission area.

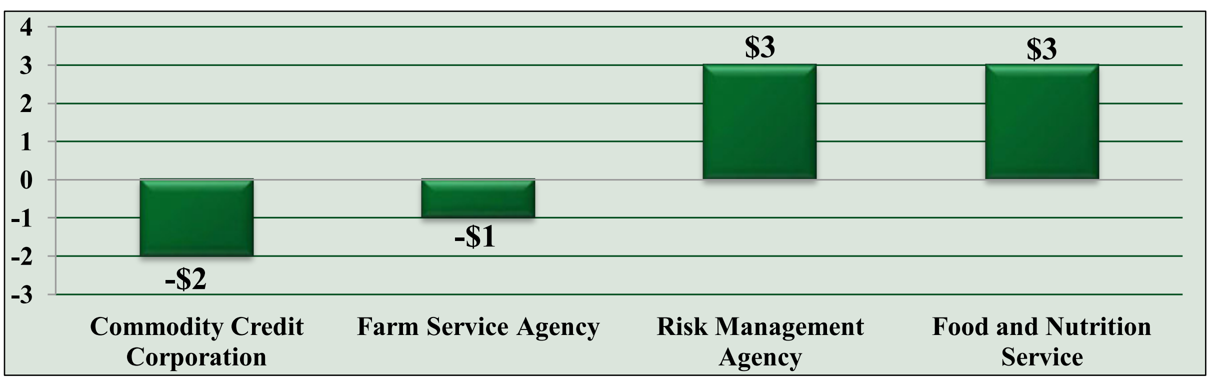
**Exhibit 4: Significant Changes in Total Budgetary Resources by Mission Area ($billions)**




## Obligations Incurred

Obligations incurred were $187 billion for FY 2012, compared to $184 billion in FY 2011, an increase of $3 billion, or 2 percent. The following exhibit presents significant changes in obligations incurred.

**Exhibit 5: Significant Changes in Obligations Incurred ($billions)**

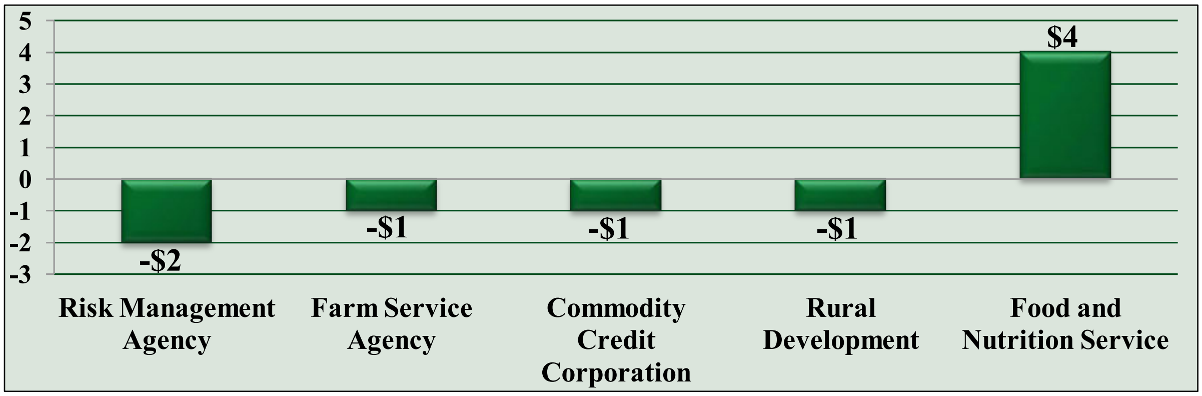



There were increases at Food and Nutrition Service (FNS) for the Supplemental Nutrition Assistance (SNAP) and at Risk Management Agency (RMA) for Crop Insurance; the increases were offset by decreases at Farm Service Agency (FSA) for Disaster Relief Trust and Farm Loans and at the Commodity Credit Corporation (CCC) for Price Support.

## Net Outlays

Net Outlays were $144 billion for FY 2012, compared to $146 billion in FY 2011, a decrease of $2 billion or -1 percent. The following exhibit presents significant changes in net outlays.

**Exhibit 6: Significant Changes in Net Outlays ($billions)**



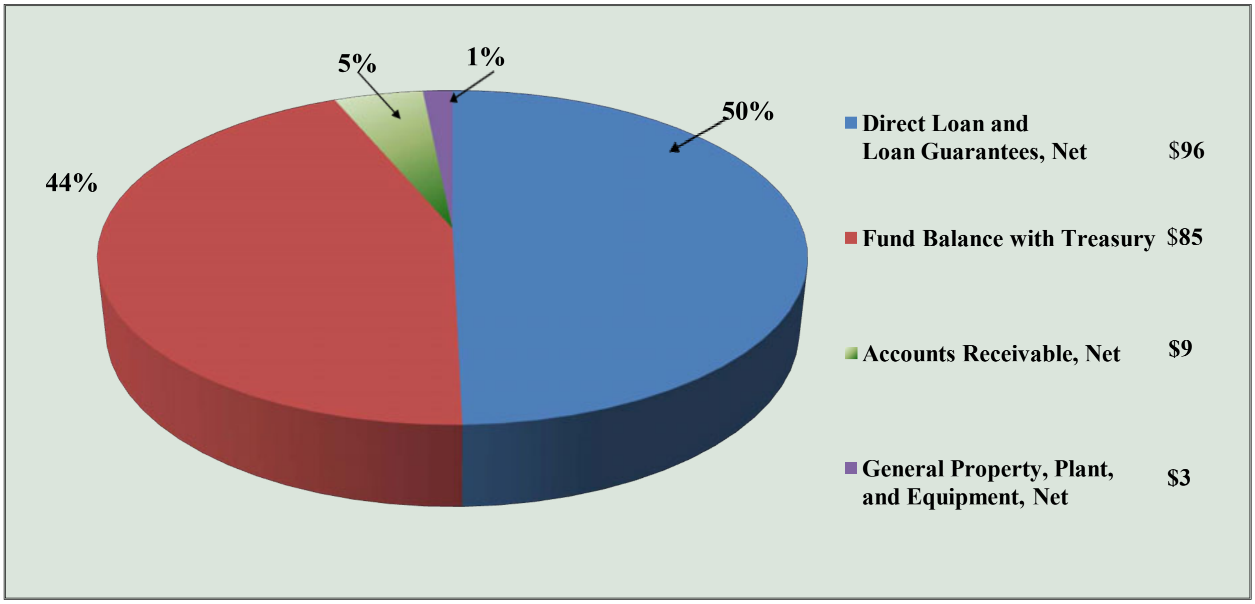

There were decreases at RMA for Crop Insurance; at FSA for Disaster Relief Trust, Salaries and Expense and Agriculture Disaster Transition Assistance; at CCC for Price Support; at Rural Development (RD) for Electric, Water, and Enviromental; these decreases were offset by an increase at FNS for SNAP.

## Balance Sheet

### Total Assets

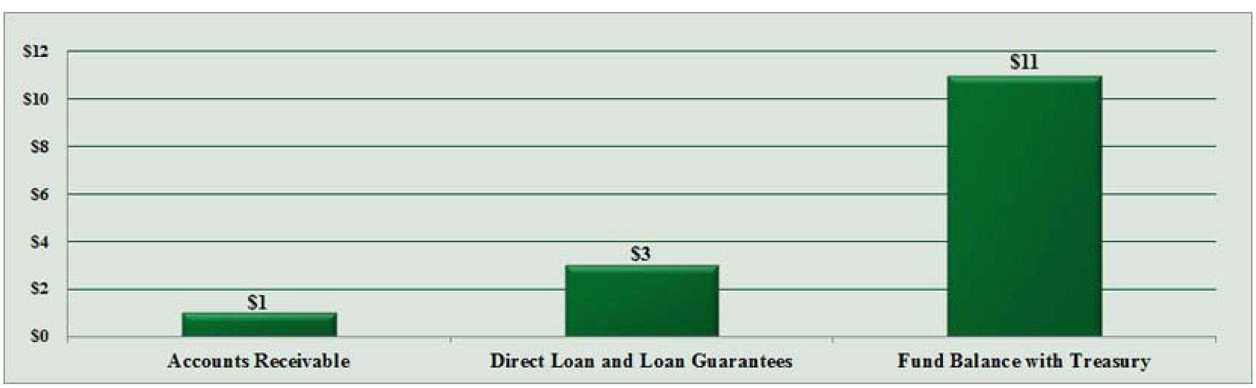
Total assets for FY 2012 were $193 billion as of September 30, 2012, compared to $178 billion for FY 2011, an increase of $15 billion, or 8 percent. The following exhibit presents FY 2012 total assets.

**Exhibit 7: Total Assets ($billions)**




Direct Loan and Loan Guarantees, Net, is the single largest asset on the USDA Balance Sheet. RD offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These products represent 87 percent of the total Department loan programs. Loan programs administered by FSA represent 8 percent of the total. FSA supports farmers who are temporarily unable to obtain private, commercial credit. The remaining 5 percent represents commodity loans and credit programs administered by the CCC. Their loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide international food assistance, expand international markets, and provide domestic low-cost financing to protect farm income and prices. The following exhibit presents significant changes in total assets.

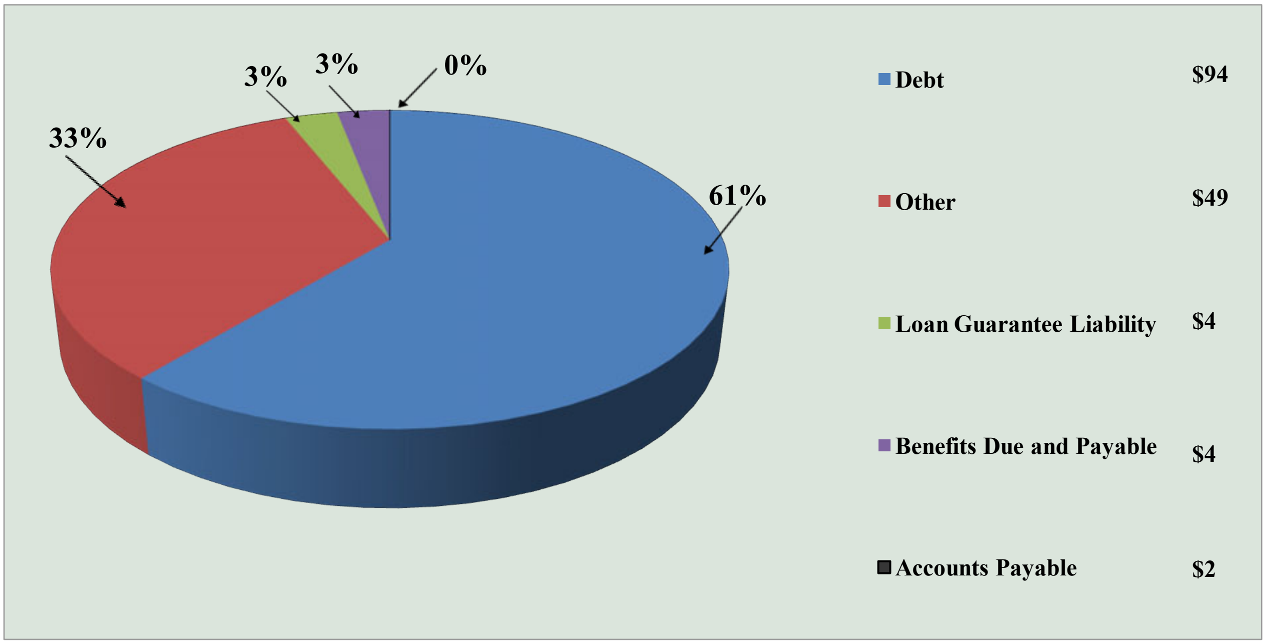
**Exhibit 8: Significant Changes in Assets ($billions)**



## Total Liabilities

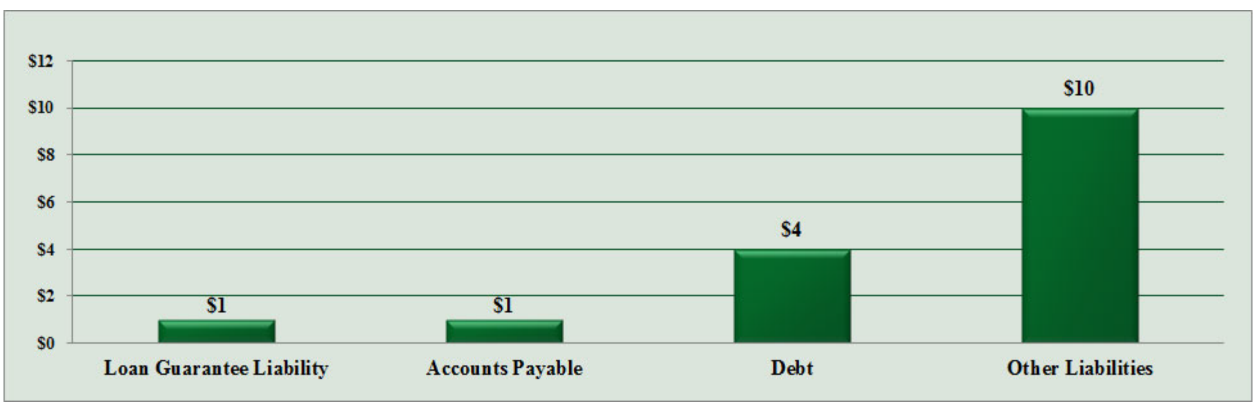
Total liabilities for FY 2012 were $153 billion as of September 30, 2012, compared to $136 billion for FY 2011, an increase of $17 billion, or 13 percent. The following exhibit presents total liabilities.

**Exhibit 9: Total Liabilities ($billions)**




Debt is the single largest liability on USDA's balance sheet. It represents amounts owed primarily to Treasury by CCC and RD. For CCC, the debt primarily represents financing to support direct and counter-cyclical, crop disaster, and loan deficiency programs. For RD, the debt primarily represents financing to support electric and housing loan programs. The following exhibit presents significant changes in total liabilities.

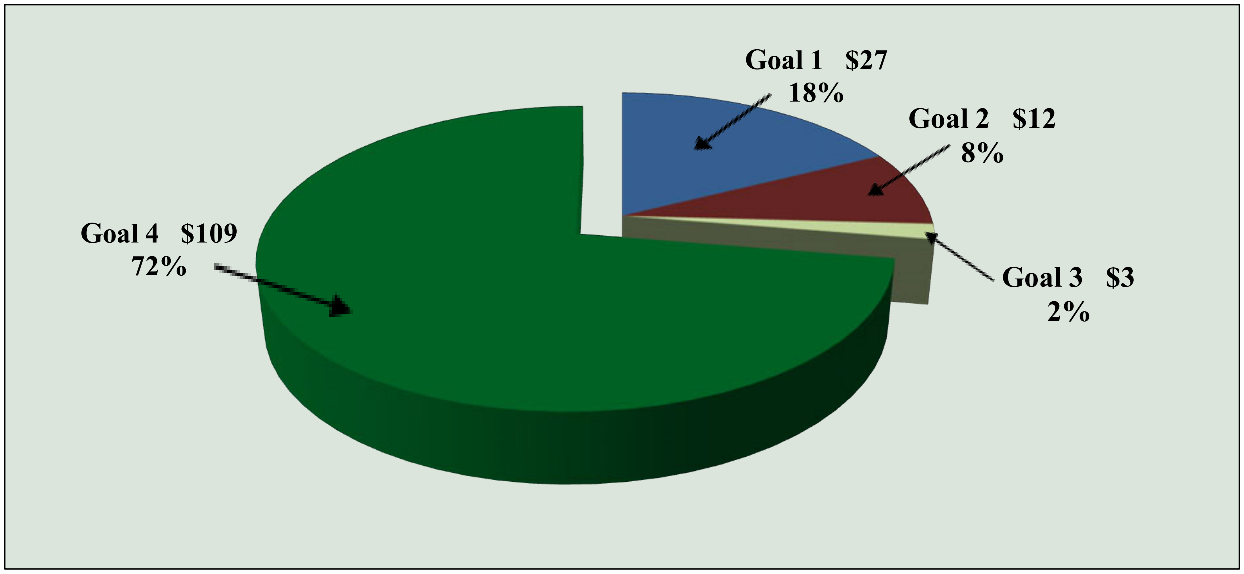
**Exhibit 10: Significant Changes in Total Liabilities ($billions)**



## Net Cost of Operations

Net cost of operations for FY 2012 was $151 billion as of September 30, 2012, compared to $149 billion for FY 2011, an increase of $2 billion, or 1 percent. The following exhibit presents net cost of operations by strategic goal.

**Exhibit 11: FY 2012 Net Cost of Operations by Strategic Goals ($billions)**




**Strategic Goal 1:** Assist Rural Communities to Create Prosperity So They are Self-Sustaining, Repopulating, and Economically Thriving.

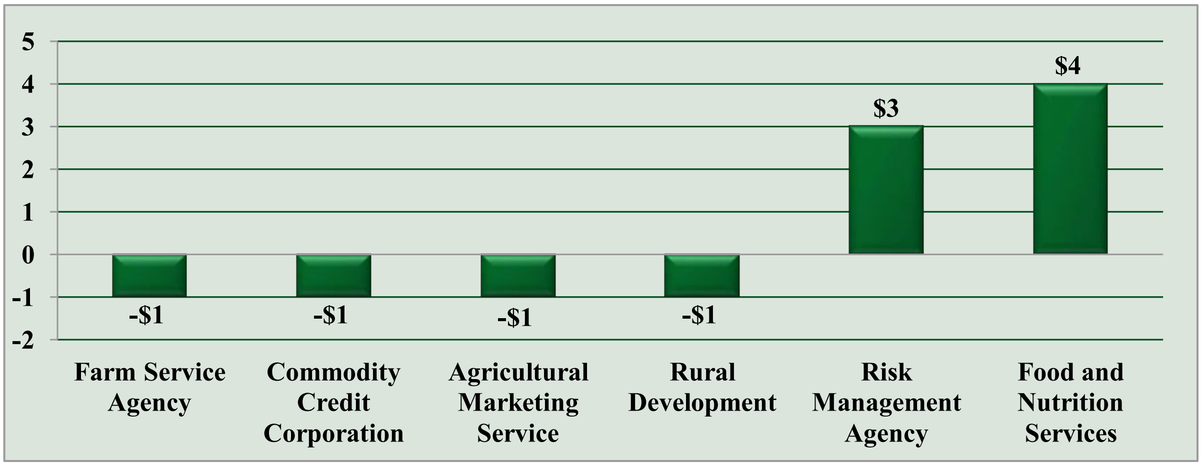
**Strategic Goal 2:** Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.

**Strategic Goal 3:** Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security.

**Strategic Goal 4:** Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals.

The following exhibit presents significant changes in net cost of operations by strategic goal.

**Exhibit 12: Significant Changes in FY 2012 Net Cost of Operations by Strategic Goals ($billions)**

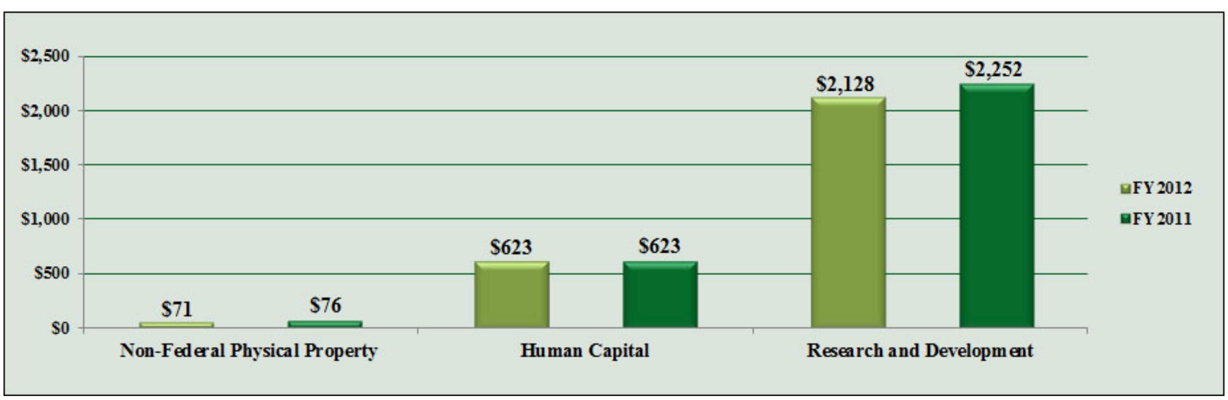



There were increases at FNS for SNAP and at RMA for Crop Insurance; these increases were offset by decreases at RD for Rural Electric; at AMS for Commodity Purchases; at CCC for Direct and Counter Cyclical Payments; at FSA for Agriculture Disaster Transition Assistance and Disaster Relief Trust.

## Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. Such investments are measured in terms of expenses incurred for non-Federal physical property, human capital, and research and development. The following exhibit presents a comparison of stewardship investments.

**Exhibit 13: Comparison of Stewardship Investments ($millions)**



# Analysis of Systems, Controls, and Legal Compliance

## Management Assurances

### Statement of Assurance

The U.S. Department of Agriculture (USDA) is providing a qualified statement of assurance that its management has established and maintained effective internal controls over financial reporting and financial management systems. These controls meet the objectives of the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA), with the exception of one material weakness in internal controls over financial reporting, one financial system non-conformance, and two noncompliances with laws and regulations. Management is providing reasonable assurance that the internal controls over operations are effective. The details of the exceptions are provided in the FMFIA, FFMIA, and Summary of Financial Statement Audit and Management Assurances sections of this report.

USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012, and financial reporting as of June 30, 2012. The assessment included the safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control."

Other than the exceptions noted, USDA financial management systems conform substantially with the objectives of FMFIA, internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2012, and (2) financial reporting as of June 30, 2012.

Thomas J. Vilsack
Secretary of Agriculture
November 15, 2012

# Federal Managers' Financial Integrity Act Report on Management Control

### Background

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

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

The U.S. Department of Agriculture (USDA) annually evaluates its internal controls over financial reporting in accordance with Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting" (OMB Circular No. A-123, Appendix A).

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular No. A-123, Appendix A, and A-127, "Financial Management Systems." All USDA managers must ensure 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 the Office of Inspector General and the Government Accountability Office, USDA's management works aggressively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

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

## Fiscal Year 2012 Results

The Department had two existing material weaknesses in Information Technology and Financial Reporting — unliquidated obligations and one system non-conformance in Funds Control Management. However, the results of various agencies' and OIG's testing of the controls for review of unliquidated obligations support a downgrade from a material weakness to a significant deficiency for the Department. We will continue to monitor remediation activities at the Natural Resources Conservation Service in FY 2013 until their material weakness is resolved. Additionally, the Forest Service identified a materially significant noncompliance with laws and regulations related to its grants-management program. The Food and Nutrition Service, the Farm Service Agency, the Risk Management Agency, the Natural Resources Conservation Service, and Rural Development reported materially significant noncompliance with laws and regulations under the Improper Payments Information Act of 2002 and the Improper Payments Elimination and Recovery Act of 2010. Thus, the Secretary's Statement of Assurance provides qualified assurance that USDA's system of internal controls complies with the Federal

Managers' Financial Integrity Act (FMFIA) objectives. For additional details on the results reported in USDA's Consolidated Financial Statements Audit Report, see the Summary of Financial Statement Audit and Management Assurances section of this report.

## Summary of Outstanding Material Weaknesses

The following exhibit provides fiscal year (FY) 2012 accomplishments and FY 2013 planned actions toward resolving the Department's outstanding material weaknesses.

**Exhibit 14: Summary of Outstanding Material Weaknesses**

<table>
<tr><th rowspan="2">Material Weakness Existing</th><th>1. USDA Information Technology (IT)</th><th>Overall Estimated Completion Date</th><th>FY 2013</th></tr>
<tr><td colspan="3">Pervasive internal control design and operating effectiveness deficiencies occurred in two areas: logical access controls/personnel security and configuration management. These deficiencies represent an overall IT material weakness. (Department)</td></tr>
<tr><th colspan="2">FY 2012 Accomplishments:</th><th colspan="2">FY 2013 Planned Actions:</th></tr>
<tr><td colspan="2">Office of the Chief Information Officer (OCIO):<ul><li>Realigned its internal structure to streamline and strengthen its organizational capability to effectively manage the overall IT security program. OCIO has created a new policy directorate to allow for an OCIO-wide view of IT policy challenges and consistency in the approach to the many IT management challenges faced by the Department. In addition, the Associate CIO for Security Operations has been designated as the Chief Information Security Officer for the Department and assumed the accreditation and authorization program responsibilities;</li><li>Continued implementation and operations of enterprise level security monitoring devices; and</li><li>Continued implementation of the Identity Credentialing and Access Management (ICAM/HSPD-12) program for logical and physical access control.</li></ul></td><td colspan="2">OCIO will:<ul><li>Revise an existing Department Regulation to reflect National Institute of Standards and Technology (NIST) SP800-37 and the current USDA process for the Risk Management Framework;</li><li>Complete revision and publication of updated (NIST-compliant) IT Security policies;</li><li>Continue implementation of ICAM/HSPD-12 and use of the personal identity verification card for logical and physical access enterprise-wide;</li><li>Develop a plan to establish a continuous monitoring program that will automate the risk assessment at the enterprise level and provide more timely and actionable information; and</li><li>Implement a new version of the Cyber Security Assessment and Management tool, which will provide enhanced monitoring and reporting capabilities of Departmental control failures.</li></ul></td></tr>
</table>

## Summary of Outstanding System Non-conformance

The following exhibit provides fiscal year (FY) 2012 accomplishments and FY 2013 planned actions toward resolving the Department's outstanding system non-conformance.

### Exhibit 15: Summary of Outstanding System Non-conformances

<table>
<tr><th rowspan="3">System Non-Conformance Existing</th><th>1. Funds Control Management</th><th>Overall Estimated Completion Date</th><th>FY 2014</th></tr>
<tr><td colspan="3">System improvements needed in recording obligations at the transactions level. (Commodity Credit Corporation (CCC))</td></tr>
<tr><td colspan="3">Noncompliance with Federal Financial Management Improvement Act of 1996. (CCC and NRCS)</td></tr>
<tr><th colspan="2">FY 2012 Accomplishments:</th><th colspan="2">FY 2013 Planned Actions:</th></tr>
<tr><td colspan="2">

**CCC:**

- Completed software modifications to most program applications to send obligation transactions to the Electronic Funds Management System (eFMS) at the transaction level; and
- Identified all material programs subject to funds control that are not currently controlled using the eFMS system.

**NRCS:**

- Converted from FFIS to FMMI to enhance internal controls at the transaction level and improve compliance with the U.S. Government Standard General Ledger;
- Hired director for corporate accounting responsible for accounting operations and financial reporting, Deputy Chief Financial Officer responsible for corporate accounting, and additional staff with experience in financial statement preparation and reporting;
- Initiated asset valuation reviews to improve property and deferred maintenance reporting;
- Improved stewardship reporting including easements;
- Began to implement a more robust internal control program;
- Implemented an agency-wide compliance review program to ensure compliance with applicable laws, regulations, and policies; and
- Performed testing and monitoring of open obligations to ensure validity.

</td><td colspan="2">

**CCC will:**

- Identify program and financial applications that are not system compliant;
- Collaborate with Information Technology Services Division and Deputy Administrator Farm Programs to develop and execute a project plan to complete software modifications for the identified program applications to send obligations transactions to eFMS at the transaction level;
- Develop and implement reconciliation policies and procedures to ensure: (1) budget authority in CCC'S Core Accounting System (CORE) agrees with budget authority in eFMS, Standard Form No. 132. Apportionment and Reapportionment Schedules and CCC/Farm Service Agency's Apportionment Control Log; and (2) unliquidated obligations (ULOs) in CORE agree with ULOs in eFMS;
- Perform clean-up of existing unliquidated obligations;
- Modify the existing quarterly review and certification of the unliquidated obligations process;
- Perform data mining and aging analysis of existing ULOs to identify and adjust invalid and/or inaccurate balances; and
- Develop and implement performance measurements/metrics for management to monitor progress in the timely deobligation of invalid ULOs.

**NRCS will:**

- Verify property data in the Corporate Property Automated Information Systems;
- Continue to perform asset valuation reviews to improve property and deferred maintenance reporting;
- Develop a comprehensive strategy for determining all needed policies and procedures;
- Continue improving stewardship land monitoring and reporting;
- Implement recommendations from a review of period 13 adjustments;
- Perform internal control testing for the financial reporting cycle; and
- Continue remediation efforts until material weakness is resolved.

</td></tr>
</table>

## Compliance with Laws and Regulations

### Background

The Department identified an agency specific deficiency in the Forest Service's (FS) Grants Management Program. Results of evaluations and audits of its program concluded that material deficiencies exist in the award and recipient management processes. Outstanding initiatives to achieve compliance are depicted in Exhibit 16. To achieve compliance, FS needs to ensure that grantees' financial systems comply with applicable standards, and that disbursements are allowable, accurate, and fully supported. Specifically, we determined that FS was not compliant with the following requirements of the Code of Federal Regulations (CFR):

- 2 CFR 225.35. Establishes principles and standards to provide a uniform approach for determining costs, and promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. "Agencies are responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units and shall issue regulations to implement the provisions of this part and its appendices;" and
- 7 CFR 3016.20. Requires agencies to:
  - I. Ensure that State grantees expand and account for grant funds in accordance with State laws and procedures for expending and accounting for its own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to:
    - a. Permit preparation of required reports; and
    - b. Permit the tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.
  - II. Ensure that the financial management systems of other (non-State) grantees and sub-grantees meet the following standards:
    - a. Financial reporting. Accurate, current, and complete disclosure of the financial results;
    - b. Accounting records. Maintain records which adequately identify source and application of funds;
    - c. Internal control. Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets;
    - d. Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant;
    - e. Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant agreements must be followed in determining allowability and allocability of costs;

f. Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records, etc.; and

g. Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used.

In addition, the Office of Inspector General (OIG) found that U.S. Department of Agriculture (USDA) agencies did not fully comply with four of seven Improper Payment Elimination and Recovery Act of 2010 (IPERA) requirements. Specifically, OIG determined that some USDA programs were not compliant with the following requirements of IPERA:

1. Publish improper payment estimates for all high-risk programs and activities;
2. Publish programmatic corrective action plans in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR);
3. Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments; and
4. Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR.

### Exhibit 16: Outstanding Initiatives to Achieve Compliance

| OUTSTANDING INITIATIVES TO ACHIEVE COMPLIANCE | | | |
|---|---|---|---|
| **Initiative** | **Section of Noncompliance** | **Agency** | **Target Completion Date** |
| **Grants Management** | 2 CFR 225.35, “Cost Principles for State, Local, and Indian Tribal Governments” | Forest Service (FS) | 12/31/2013 |
| | 7 CFR 3016.20, “Standards for Financial Management Systems” | | |
| **Improper Payments Elimination and Recovery Act of 2010** | Publish improper payment estimates for all high-risk programs and activities | Food and Nutrition Service (FNS) | 9/30/2017 |
| | Publish programmatic corrective action plans in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR) | FNS | 9/30/2012 |
| | | Farm Service Agency (FSA) | 9/30/2012 |
| | | Natural Resources Conservation Service (NRCS) | 9/30/2012 |
| | | Rural Development (RD) | 9/30/2012 |
| | | Risk Management Agency (RMA) | 9/30/2012 |
| | Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments | FNS | 9/30/2017 |
| | | FSA | 9/30/2013 |
| | | NRCS | 9/30/2012* |
| | | RD | 9/30/2013 |
| | | RMA | 9/30/2012* |
| | Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR | FNS | 9/30/2017 |

**NRCS and RMA met their reduction targets in FY 2012; however, there are more actions that they must take to continue achieving their reduction targets. These actions are described in Exhibit 17.*

The following chart provides information on the status of corrective actions already completed and FY 2013 planned corrective actions related to the deficiency.

**Exhibit 17: Summary of Corrective Actions/Noncompliance with Laws and Regulations**

| SUMMARY OF CORRECTIVE ACTIONS<br>FOR NONCOMPLIANCES WITH LAWS AND REGULATIONS | | | |
|---|---|---|---|
| **Grants Management** | **Grants Management** | **Overall Estimated Completion Date** | **FY 2014** |
| | Pre-award noncompliance issues. Forest Service (FS) | | |
| **FY 2012 Accomplishments:** | | **FY 2013 Planned Actions:** | |
| **FS:**<br>▪ Established two Grants Management Oversight Teams (GMOT): The Internal Compliance Review Team (ICRT) and the External Performance Review Team (EPRT). ICRT will ensure: (1) internal controls are operating effectively and in compliance with "Forest Service Handbook" (FSH) guidance; and (2) FSH considers all applicable laws and regulations. EPRT will (1) conduct annual performance programmatic audits over grant recipients; and (2) provide training and recommendations to recipients to ensure compliance with applicable laws and regulations;<br>▪ GMOTs reviewed three States and completed three desk audits;<br>▪ Initiated revisions for grants and agreements policy; and<br>▪ Conducted training to mitigate the deficiency and raise awareness of laws and requirements: Office of Inspector General provided training to all State recipients while FS provided training for acquisition management awareness. | | **FS will:**<br>▪ Conduct training for program managers, grants and agreement specialists, and GMOT staff;<br>▪ Develop a "Grants Management Handbook" for all recipients; and<br>▪ Continue GMOT review including 24 grant recipients and 4 regional offices. | |
| **Improper Payment Elimination and Recovery Act of 2010 (IPERA)** | **IPERA** | **Overall Estimated Completion Date** | **FY 2017** |
| | IPERA noncompliance issues. (Food and Nutrition Service (FNS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), Rural Development (RD), and Risk Management Agency (RMA)) | | |
| **FY 2012 Accomplishments:** | | **FY 2013 Planned Actions:** | |
| **FNS:**<br>▪ Included milestones or completion dates and results of past corrective actions in its corrective actions plans;<br>▪ Issued a policy memo detailing the school district's ability and responsibilities to verify National School Lunch Program (NSLP)/School Breakfast Program (SBP) applications beyond the required sample size if needed; and<br>▪ NSLP and Supplemental Nutrition Assistance Program met their FY 2012 reduction target. | | **FNS will:**<br>▪ Provide milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Obtain contract for technical assistance to States administering NSLP/SBP that need improvement in the area of direct certification, which includes sharing best State and local education agencies practices; and<br>▪ Conduct a feasibility evaluation test (Child and Adult Care Food Program Improper Payment Meal Claim Assessment) to develop an estimate of meal counting/claiming errors. | |

<table>
<tr><th colspan="4">SUMMARY OF CORRECTIVE ACTIONS<br>FOR NONCOMPLIANCES WITH LAWS AND REGULATIONS</th></tr>
<tr><th rowspan="2">Improper Payment Elimination and Recovery Act of 2010 (IPERA)</th><th>IPERA</th><th>Overall Estimated Completion Date</th><th>FY 2017</th></tr>
<tr><td colspan="3">IPERA noncompliance issues. (FNS, FSA, NRCS, RD, and RMA)</td></tr>
<tr><th colspan="2">FY 2012 Accomplishments:</th><th colspan="2">FY 2013 Planned Actions:</th></tr>
<tr><td colspan="2">FSA:<br>▪ Included measurable milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Conservation Reserve Program, Marketing Assistance Loan (MAL) Program, and Miscellaneous Diaster Program met their FY 2012 reduction targets; and<br>▪ Provided notices and conducted training on program and administrative policies and procedures.</td><td colspan="2">FSA will:<br>▪ Provide measureable milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Develop comprehensive internal control and quality assurance processes and systems as outlined in its FY 2012-2016 Strategic Plan; and<br>▪ Increase county office review efforts targeting the MAL program.</td></tr>
<tr><td colspan="2">NRCS:<br>▪ Included measurable milestones or completion dates and results of past corrective actions in its corrective actions plan; and<br>▪ Published and has met annual reduction target for its high-risk program.</td><td colspan="2">NRCS will:<br>▪ Provide milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Develop specific language regarding the prevention, identification and recovery of improper payments to be included in the FY 2013 performance plans of State Conservationists;<br>▪ Conduct programmatic quality assurance reviews to identify and correct deficiencies and provide follow up training; and<br>▪ Publish and meet annual reduction targets.</td></tr>
<tr><td colspan="2">RD:<br>▪ Included measurable milestones or completion dates and results of past corrective actions in its corrective actions plan; and<br>▪ Included testing of the payment process as part of its annual statistical sample of the Rental Assistance Program (RAP) program.</td><td colspan="2">RD will:<br>▪ Provide milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Include a performance element and standard related to IPERA performance in the performance plan of officials managing the RAP; and<br>▪ Conduct reviews of appropriate documentation from borrowers and property managers, and follow up with tenants and income verification.</td></tr>
<tr><td colspan="2">RMA:<br>▪ Included measurable milestones or completion dates and results of past corrective actions in its corrective actions plan;<br>▪ Met Federal Crop Insurance Corporation Program Fund's FY 2012 reduction target; and<br>▪ Published and has met annual reduction target for its high-risk program.</td><td colspan="2">RMA will:<br>▪ Provide milestones or completion dates and results of past corrective actions in its corrective action plans;<br>▪ Implement common land unit measurement to reduce improper payments associated with acreage errors over the next 5 years;<br>▪ Finalize a plan to implement proposed changes to the crop insurance program over the next 5 years to maintain producer historical data to reduce errors; and<br>▪ Publish and meet annual reduction targets.</td></tr>
</table>

## 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 (FFMS) requirements; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures, or practices to be substantially compliant with FFMIA. Detailed information on the status of corrective actions planned and to be completed to comply with FISMA is provided in the Response to Management Challenges section of this report, *Challenge 3: Information Technology Security Needs Continuing Improvements*. The following exhibit contains the outstanding initiatives to achieve compliance.

**Exhibit 18: Initiatives to Be Completed**

| OUTSTANDING INITIATIVES TO ACHIEVE FFMIA COMPLIANCE | | | |
|---|---|---|---|
| **Initiative** | **Section of Noncompliance** | **Agency** | **Target Completion Date** |
| Information Technology[1] | Federal Financial Management System requirements, and Information security policies, procedures, and/or practices. | Multiple | 9/30/2013 |
| Funds Control Management | Federal Financial Management System requirements, Federal Accounting Standards, and U.S. Standard General Ledger (USSGL) at the transaction level. | NRCS | 11/30/2013 |
| | USSGL at the transaction level. | CCC | 9/30/2014 |

[1] *The information technology material weakness, which is reported in the Federal Managers' Financial Integrity Act Report on Management Control, is comprised of two issues: logical access controls/personnel security and configuration management.*

### Fiscal Year 2012 Results

During fiscal year (FY) 2012, the U.S. Department of Agriculture (USDA) evaluated its financial management systems to assess substantial compliance with the act. In assessing FFMIA compliance, the Department considered auditors' opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the *FY 2011 Performance and Accountability Report*. The Department is not compliant with FFMS requirements, Federal accounting standards, and the USSGL at the transaction level. Additionally, as reported in the FMFIA section of this report, USDA continues to have weaknesses in information technology controls that result in noncompliance with the FISMA requirement. As part of its financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

The Foreign Agricultural Service (FAS) worked with the Office of the Chief Financial Officer and made great progress in improving its internal controls. Animal and Plant Health Inspection Service provided financial management operations services to FAS and completed a review of management controls under Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Financial Reporting." As a result, FAS was able to assure that its financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards as of September 30, 2012.

## Financial Management Systems Strategy

The Financial Management Modernization Initiative (FMMI) Project was initiated to modernize USDA's outdated financial system technology. FMMI is replacing the Corporate Financial Management System, including the mainframe-based Foundation Financial Information System, with Systems, Applications, and Products Enterprise Resource Planning 6.0, migrating the current distributed, multi-instance mainframe system to a Federally compliant, and consolidated, single-instance Web-based system. FMMI is operational and nearly complete.

### FMMI has the following key attributes:

- Integration with eGovernment Travel Services, ePayroll, Grants.gov, and eLoans, corporate solutions for which results must be reflected in the budgetary and general ledger accounts of the Department (e.g., asset management and procurement), and program-specific systems that support the general ledger; and
- Integration with performance management and budgeting, allowing USDA to meet management's objectives and Government Performance and Results Act requirements, and compliance with FFMIA, including Federal financial management system requirements, applicable Federal accounting standards, and USSGL.

The FMMI project addresses the need for improved financial performance through a modern financial system that provides maximum support to the mission and USDA's financial management objectives, including:

- Ensuring that financial management systems support data integrity, reliability, and consistency across the Department and for the community of direct users;
- Providing online, on-demand querying capabilities and access to reports for financial managers and, ultimately, program managers (new users);
- Ensuring that information and reports are clearly communicated and organized in a format that promotes understanding, and is directly relevant to the needs of end users;
- Providing technology that supports future growth and changes in requirements;

- Promoting USDA's credibility and trust with Congress, the Executive Office of the President, and the public by demonstrating full compliance with financial laws, regulations, and Federal financial standards, including maintaining an unqualified audit opinion;
- Ensuring that the investment advances the Department's strategic plan, including its responsiveness to the fulfillment of mandates such as Federal core financial management system requirements;
- Demonstrating the strategic use of USDA's human capital by supporting the realignment from internally focused positions to decision support or citizen-facing roles, and enhancing workplace desirability for current and future financial employees;
- Demonstrating the strategic use of the Department's information technology (IT) by leveraging IT within USDA and across the Government to facilitate streamlining and unification of services; and
- Demonstrating good stewardship of public funds by securing the best performance and highest measure of accountability in the use of taxpayer dollars.

The Office of the Chief Financial Officer (OCFO) is partnering with the Farm Service Agency (FSA) on the Modernize and Innovate the Delivery of Agriculture Systems (MIDAS) initiative. MIDAS is designed to improve the delivery of FSA farm program benefits and services through the re-engineering of farm program business processes and the adoption of enhanced and modernized information technology.

MIDAS generates customer and business transactions (such as applications, agreements, and acreage reports) via its customer relationship management component. Activities and transactions in MIDAS trigger corresponding system accounting documents, which are passed to FMMI. This handoff triggers several financial processes and transactions to occur in FMMI (such as recording of fees and invoices, disbursements, loan receivables). In turn, as related activities and transactions are conducted in FMMI, notifications and updates are regularly passed back to MIDAS. This process allows the systems to stay closely in sync. It also ensures that field employees will have visibility into key loan and producer financial standing.

# Other Management Information, Initiatives, and Issues

## Federal Financial Management System Requirements

### Commodity Credit Corporation (CCC)

CCC has completed the development of a fully integrated funds control system, the Electronic Funds Management System (eFMS), within the Farm Service Agency (FSA)/CCC core financial management system. This system is integrated with CCC's general ledger system at the transaction level. eFMS provides management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. Work continues to implement programs into eFMS for full funds control at a transaction level.

In fiscal year (FY) 2012, CCC converted additional programs into eFMS for transaction level obligations.

CCC is not in substantial compliance with Funds Control Management. The agency plans to correct the deficiency by FY 2014. Of total FSA funds obligated, 85 percent are obligated through eFMS. An additional 8 percent are electronically controlled at the payment level, not at the transactional level. The balance (7 percent) will be migrated to eFMS or administratively controlled due to the age of the systems or cost considerations.

Transactions equaling $1 billion of a total of $14.2 billion are not processed through the funds control system; they are processed through manual journal entries at period end. The following is the current condition of those programs not in eFMS (dollar estimates are approximate):

- $435 million or 44 percent of the $1 billion relates to the Conservation Reserve Program;
- $300 million or 30 percent relates to the Price Support Program;
- $147 million or 15 percent relates to the Brazilian Cotton Program; and
- The remaining 11 percent represents various programs including aspects of the Biomass Crop Assistance Program.

While significant progress has been made towards complete funds control, the lack of the financial system functionality to record all obligations at the transaction level at the time the transaction occurs increases the risk that funds could be disbursed or obligations incurred with no or insufficient budget authority to fund the expense or obligation. Although CCC implemented detective manual controls to compensate for the system's inherent limitation, the controls may be inadequate to reduce the risks of an Anti-Deficiency Act violation occurring. They also may not prevent or detect violations timely. CCC has plans to correct the deficiency by FY 2014 with the migration to the Department's enterprise solution under FMMI. Interface assessments for the program areas have begun. While the FMMI team has completed some significant tasks toward implementation, continued efforts for the system migration will require and are dependent upon additional funding to meet the current target date.

### Natural Resources Conservation Service (NRCS)

NRCS had disclosed instances where its financial management systems did not substantially comply with Federal Financial Management System (FFMS) requirements, applicable Federal accounting standards, the U.S. Standard General Ledger at the transaction level, and information security, policies, procedures, and practices.

NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA. These deficiencies were found:

- FFMS Requirements, NRCS' systems were unable to:
    - Provide timely extracts for audit purposes;
    - Allow for the authority beyond 10 years of availability; and
    - Prevent the recording of invalid upward and downward adjustments.
- Applicable Federal accounting standards: deficiencies on net position balances, current-year activity, leases, real and personal property, undelivered orders, downward

adjustments for prior year obligations, stewardship land, and advances to others were not recorded in accordance with Federal accounting standards;

- Information security policies procedures and practices: deficiencies in application access controls, configuration management support systems access, and user-access management; and
- U.S. Standard General Ledger at the transaction level: deficiencies in recoveries of prior year obligations paid and unpaid.

In FY 2012, NRCS accomplishments included:

- Reviewed and enhanced internal controls for accrued expenses;
- Installed anti-virus software on Linux servers;
- Developed and implemented a process to remediate, assign, and document critical vulnerabilities; and
- Established quarterly access review processes for Fund Manager, WebTCAS, ProTRACTS, Active Directory, and Virtual Private Network (VPN).

In FY 2013, NRCS will:

- Establish and maintain a formal procedure for account creation, modification, removal, review, and monitoring;
- Enhance security controls over user access by installing VPN clients and LincPass card readers on remote user machines; and
- Improve internal control over real and personal property.

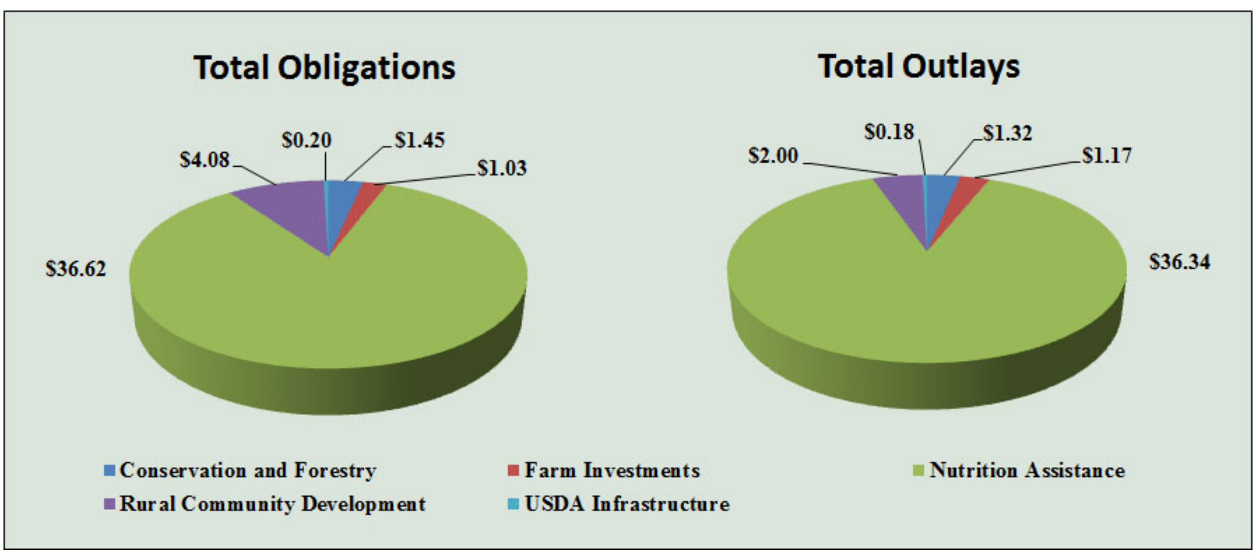
## American Recovery and Reinvestment Act Activities

The American Recovery and Reinvestment Act of 2009 (ARRA) provided funding for several U.S. Department of Agriculture (USDA) programs. As of fiscal year (FY) 2012, USDA had obligated $43.4 billion and disbursed $41 billion. Some of this funding was to entitlement programs, which are open-ended and subject to increases based on economic factors. Due to adverse economic conditions, the demand for the Supplemental Nutrition Assistance Program (SNAP) was very high. SNAP, formerly known as the Food Stamps Program, issued more than $36 billion in benefits, more than the original appropriated amount of $19.8 billion. USDA also made more than $17.5 billion in direct and guaranteed loans in rural America for rural housing, broadband, community facilities, and rural businesses (see Exhibit 19). ARRA funds have been used to:

- Combat hunger and improve the nutrition and health of children, individuals, and families;
- Rebuild the infrastructure of rural communities;
- Provide decent housing opportunities in rural areas;
- Ensure that individuals and companies in rural areas have access to the latest in technology through expanded broadband;
- Provide farmers funds to operate and mitigate losses that occur when natural disasters cause a catastrophic loss of crop production or prevent planting;
- Reduce the risk of wildfires, improve forest health, and maintain forest roads and facilities;
- Rehabilitate aging flood control structures, improve water quality, increase water supply, decrease soil erosion, and improve fish and wildlife habitat; and
- Meet critical maintenance needs of USDA facilities.

For direct access to extensive reports and data, visit: Recovery.gov

**Exhibit 19: Total ARRA Obligations and Outlays ($billions)**



## Eliminating Improper Payments

In accordance with the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and as implemented by the Office of Management and Budget (OMB) Circular No. A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," U.S. Department of Agriculture (USDA) reviews its programs susceptible to significant improper payments, and takes measures to reduce the amount and number of improper payments.

USDA first reported on improper payments in 2004 and currently has 16 programs considered at risk for significant improper payments (high-risk programs).

IPIA requires that agencies measure their improper payments annually, establish reduction targets and corrective action plans and track the results annually to ensure that the corrective actions are effective. USDA continues to make progress in accurately measuring and reporting improper payments, developing and implementing corrective actions, and reducing and recovering improper payments.

The following demonstrate that USDA improper payment rates are being reduced and progress is being made:

- The USDA improper payment rate decreased from 5.37 percent for fiscal year (FY) 2011 to 5.11 percent for FY 2012. Outlays for the high-risk programs increased $6.7 billion from FY 2011 to FY 2012, though USDA was able to decrease the improper payment rate. The increase in outlays was largely attributable to the increase in demand for food and nutrition assistance due to the economy;
- Eight USDA high-risk programs reported improper payment rates for FY 2012 that were less than the programs' improper payment rates reported for FY 2011; and
- Eight USDA high-risk programs reported improper payment rates for FY 2012 that met or were less than the programs' reduction targets for FY 2012.

Significant actions taken by USDA during FY 2012 to address improper payments include:

- Awarded a payment recapture/recovery auditing (PRRA) services contract to a private sector recovery auditing contractor and initiated a phased implementation approach to the PRRA initiative with three USDA programs; and
- Submitted the final Departmental plan to OMB for implementing the "Do Not Pay" initiative.

USDA's goal is to continue to reduce improper payments and expand the implementation of the PRRA initiative during FY 2013. In addition to meeting the requirements of the IPIA/IPERA, USDA will continue to implement the requirements of Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," and the Presidential Memorandum, "Enhancing Payment Accuracy through a 'Do Not Pay' list." IPIA/IPERA reporting details are provided in the Improper Payments section of this report.

## Debt Management

The U.S. Department of Agriculture (USDA) is one of the Federal Government's largest providers of direct loans with a receivables portfolio of approximately $117 billion. This represents about 13 percent of the non-tax debt owed to the Federal Government. In fiscal year (FY) 1996, Congress passed the Debt Collection Improvement Act. As of June 30, 2012, USDA's $4.5 billion in delinquent receivables represent a 49-percent decrease from the $8.8 billion in delinquencies reported for FY 1996. Of this $4.5 billion, only $1.7 billion is eligible for referral to the Department of the Treasury (Treasury) for collection. The remaining delinquent debt is ineligible due to such statutory or administrative requirements as bankruptcy, litigation, or debt owed by international/sovereign entities (approximately $2.3 billion of delinquent debt is international debt). As of June 30, 2012, USDA referred 99 percent of the eligible delinquent debt to the Treasury Offset Program and Cross-Servicing Program. During the 12-month period ending June 30, 2012, USDA collected $1.15 billion in delinquent debt, a 13-percent increase over the previous 12-month period.

## Limitations of the Financial Statements

The principal financial statements have been prepared to report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b), "Financial Statements of Agencies."

While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by Office of Management and Budget, the statements are in addition to the financial reports 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.

# Section 2: Financial Information

## Message from the Deputy Chief Financial Officer

As Deputy Chief Financial Officer for the U.S. Department of Agriculture (USDA), I am pleased to present our Agency Financial Report (AFR) for fiscal year (FY) 2012. This report summarizes the Department's financial management information and reflects the progress made to provide fiscally sound, cost-effective program delivery. We believe the information found here will be helpful to taxpayers who want to understand Agriculture spending.

Starting in FY 2012, the Department will communicate the effectiveness of its programs. It also will provide the high-quality financial information that fully documents financial activities through the publication of the AFR and the Annual Performance Report in lieu of the Performance and Accountability Report. With this approach, the Office of the Chief Financial Officer will be at the forefront of the U.S. Office of Management and Budget's (OMB) new requirements established in OMB Circular No. A-11, "Preparation, Submission, and Execution of the Budget," Part 6, "Preparation and Submission of Strategic Plans, Annual Performance Plans, and Annual Program Performance Reports." This circular will require agencies to prepare and submit strategic plans, annual performance plans, and annual program performance reports beginning with the FY 2015 budget submission.

The purpose of the FY 2012 AFR is to provide factual data that clearly characterizes our accomplishments in managing USDA resources with maximum efficiency. The report includes detailed information regarding:

- Management's Discussion and Analysis;
- Financial Information; and
- Other Accompanying Information.

Because we are accountable to the American taxpayer, we strive for peak performance in all facets of our work. We continually monitor our processes, and, when necessary, adjust our operations to ensure the best possible service to the American people. Through the collaborative leadership efforts of USDA managers, employees, business partners, and stakeholders, we have made significant strides in advancing the Department's impressive record of excellence in financial management during FY 2012. Highlights of this progress include:

- Received another clean financial audit opinion;
- Implemented the Financial Management Modernization Initiative, a core financial system to replace USDA's 9 general ledger systems, for 28 of the 29 agencies and offices that form the Department;
- Completed the assessment of internal control over financial reporting as required by OMB Circular No. A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting." As a result of testing, USDA identified 353 new control deficiencies, 161 related to business processes and 192 related

to general computer controls. In FY 2012, the Department also closed 31 business-process corrective action plans and 94 general computer control plans of action and milestones from prior years' assessments;

- Reduced the improper payment rate from 5.37 percent for FY 2011 to 5.11 percent for FY 2012;
- Increased the collection of delinquent debt by 13.6 percent from $1.012 billion for the 12-month period ending June 30, 2011, compared to $1.150 billion for the same period in 2012; and
- Provided cost-effective and secure payroll and other administrative services reliably and accurately Government-wide through our National Finance Center.

Though we are continually making progress in financial management, we cannot yet give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act, nor with the financial systems requirements of the Federal Financial Management Improvement Act. We will continue to focus on these efforts in the coming year.

We are proud of the accomplishments of our hard-working employees at USDA. All of us are committed to the sound management of resources under our stewardship. We remain steadfast and committed to making greater financial management improvements in FY 2013. Ultimately our efforts will result in setting the highest achievable standard of excellence in managing taxpayers' dollars.

Jon M. Holladay

Jon M. Holladay
Deputy Chief Financial Officer
November 15, 2012

# Independent Auditors Report

United States Department of Agriculture
Office of Inspector General
Washington, D.C. 20250

DATE: NOV 15 2012

AUDIT NUMBER: 50401-0003-11

TO: Jon M. Holladay
Deputy Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer

FROM: Phyllis K. Fong
Inspector General

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011

This report presents the results of our audits of the Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2012 and 2011. The report contains an unqualified opinion on the financial statements, as well as the results of our assessment of the Department's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in exhibit D.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommended actions for which management decision has not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audit fieldwork and subsequent discussions.

## Table of Contents

**Executive Summary**
**Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011 (Report 50401-0003-11)**

## Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America, the assets, liabilities, and net position, net cost, changes in net position, and combined budgetary resources; (2) the internal control objectives over financial reporting were met; (3) the Department complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements; and (4) the information in the Agency Financial Report was materially consistent with the information in the consolidated financial statements.

We conducted our audits at the financial offices of various Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer 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, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

Our consideration of the internal control over financial reporting identified three significant deficiencies. Specifically, we identified weaknesses in USDA's:

- overall financial management,
- information technology security and controls, and
- controls over financial reporting.

We determined that the first two significant deficiencies are material weaknesses.

Our consideration of compliance with laws and regulations disclosed substantial noncompliance relating to the Federal Financial Management Improvement Act of 1996.

### Key Recommendations

As discussed in its Federal Managers' Financial Integrity Act *Report on Management Control*, the Department has plans to address the majority of the items discussed in the report. Therefore, our recommendations are limited to actions needed to correct abnormal balances and ensure more timely processing of certain intragovernmental transactions.

### Agency Response

The Department concurs with the findings in the report. It generally agrees with the recommendations in the report and will develop corrective action plans with milestones to address the findings within 60 days.

### OIG Position

Management decision should be achievable upon review of the plans for corrective action.

## Independent Auditor's Report

Jon M. Holladay
Deputy Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the Department of Agriculture (USDA), as of September 30, 2012 and 2011, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2012 audit, we also considered USDA's internal control over financial reporting and tested USDA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

The following sections discuss our opinion on USDA's consolidated financial statements; our consideration of USDA's internal control over financial reporting; our tests of USDA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements; and management's, as well as our, responsibilities.

The Findings and Recommendations section presents the material weaknesses and a significant deficiency in internal control and instances of noncompliance with laws and regulations, as of and for the year ended September 30, 2012. Exhibit A of this report presents the audit reports related to the fiscal year 2012 financial statements. Exhibit B summarizes the current year status of prior year audit recommendations. Exhibit C provides an update to previously reported instances of noncompliance with laws and regulations. USDA's response is presented in its entirety in exhibit D.

### Opinion on the Consolidated Financial Statements

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, 2012 and 2011, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

USDA made certain reclassifications to prior year amounts to conform to current year presentation on the Combined Statement of Budgetary Resources. In accordance with new guidance effective for fiscal year 2012, as discussed in Note 1, the Combined Statement of Budgetary Resources was reclassified to better align with the new Standard Form 133, *Report on Budget Execution and Budgetary Resources*. Also as discussed in Note 1, USDA reclassified "Distributed Offsetting Receipts" on the Combined Statement of Budgetary Resources.

Accounting principles generally accepted in the United States of America require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information, and Required Supplementary Information sections be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Federal Accounting Standards Advisory Board which considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The information in the Other Accompanying Information section is presented for purposes of additional analysis, and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we express no opinion on it.

**Internal Control Over Financial Reporting**

Our consideration of the internal control over financial reporting was for the limited purposes described in the Responsibilities section of this report and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses.

Significant deficiencies are deficiencies, or a combination of deficiencies, in internal control that are less severe than a material weakness, yet important enough to merit attention by those charged with governance. Material weaknesses are deficiencies or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the consolidated financial statements being audited will not be prevented, or detected and corrected on a timely basis. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our fiscal year 2012 audit, we noted certain matters involving the internal control over financial reporting, and its operation, that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

- overall financial management,
- information technology (IT) security and controls, and
- controls over financial reporting.

We determined that the first two deficiencies are also material weaknesses. These deficiencies are discussed in this report in Findings and Recommendations, Sections 1 and 2.

We did not identify any material weaknesses that were not disclosed in USDA's *Federal Managers' Financial Integrity Act of 1982 (FMFIA) Report on Management Control.*

**Compliance and Other Matters**

We performed tests of USDA's compliance with selected provisions of applicable laws and regulations, as described in the Responsibilities section of this report. Our tests disclosed one instance of noncompliance with laws and regulations that is required to be reported under government auditing standards and the Office of Management and Budget (OMB) Bulletin 07-04, as amended. Specifically, the results of our tests of the Federal Financial Management Improvement Act of 1996 (FFMIA) disclosed instances, described in more detail in Finding 4 in the Findings and Recommendations section of this report, where USDA's financial management systems did not substantially comply with Federal Financial Management System Requirements, applicable Federal Accounting Standards, and the U. S. Standard General Ledger (SGL) at the transaction level.

Additionally, during fiscal year 2012, we identified instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), regarding the design of program internal controls related to reporting improper payments. A separate report will be issued with further details on the Department's compliance with IPERA.[1]

Furthermore, as noted in its MD&A, the Department reported that one agency was not compliant with certain requirements of the Code of Federal Regulations relating to the management of grants.

## Responsibilities

**Management's Responsibilities**

USDA's management is responsible for (1) preparing the consolidated financial statements in conformity with accounting principles generally accepted in the United States of America; (2) establishing, maintaining, and assessing internal control to provide reasonable assurance that the broad control objectives of the FMFIA are met; (3) ensuring that USDA's financial management systems substantially comply with FFMIA requirements; and (4) complying with applicable laws and regulations.

**Auditor's Responsibilities**

Our responsibility is to express an opinion on the fiscal years 2012 and 2011 consolidated financial statements of USDA 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 OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit

[1] IPERA amended the "Improper Payments Information Act of 2002," Public Law 107-300.

procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of USDA's internal control over financial reporting. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In planning and performing our audits, we considered USDA's internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin 07-04, as amended and government auditing standards. We did not test all internal controls as defined by FMFIA. The objective of our audit was not to provide an opinion on USDA's internal control. Consequently, we do not provide an opinion on internal control over financial reporting, nor on USDA's assertion on internal control included in its MD&A.

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws and regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin 07-04, as amended, including requirements referred to in FFMIA, except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to the provisions described in the preceding sentences 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.

USDA's response to the findings in our audit is included in its entirety in exhibit D. We did not audit the response and, accordingly, express no opinion on it.

This report is intended solely for the information of the management of USDA, OMB, the U.S. Government Accountability Office and the U.S. 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 14, 2012

## Findings and Recommendations

## Section 1: Material Weaknesses in Internal Control Over Financial Reporting

### Finding 1: Improvements are Needed in Overall Financial Management

During fiscal year 2012, USDA made further improvements in its financial management. For example, exhibit B describes actions taken by the Department relating to obligations, intradepartmental transactions, and accounting functions for one agency. Also, the Department continued implementation of its Financial Management Modernization Initiative (FMMI) to improve financial performance through a modern financial system that provides maximum support to the Department and its agencies. However, we noted areas where further improvements are needed for two component agencies.

- In fiscal year 2012, we again attempted to perform an audit of the Natural Resources Conservation Service's (NRCS) Financial Statements.[2] NRCS was again unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the NRCS consolidated financial statements, as of and for the year ended September 30, 2012. This includes beginning balances, current year activity, and associated disclosures related to accounts receivable, easements, advances, accounts payable and accruals, benefit liabilities, capital lease liability, net position, unobligated balances, budgetary transfers, and property, plant, and equipment. Our audit work identified issues related to processes and internal controls supporting key account balances and financial reports.

In its FMFIA *Report on Management Control* for 2012, the Department identified the NRCS weaknesses as a financial management system non-conformance with the objectives of FMFIA.

- We continue to report a material weakness for the Commodity Credit Corporation (CCC) relating to funds control management specific to recording obligations at the transaction level. Although CCC has made significant progress, CCC has not yet achieved full funds control and still does not record certain obligations (budgetary entries) at the transaction level. This deficiency does not allow CCC to perform an automated and real time funds control at the time contracts are fully executed (obligated).

In its FMFIA *Report on Management Control* for 2012, the Department identified CCC's funds control management as a financial management system non-conformance with the objectives of FMFIA.

Because of recommendations already made to CCC and NRCS in other audit reports, we are making no further recommendations in this report.

[2] Report 10401-0002-11, *NRCS' Financial Statements for Fiscal Year 2012* (November 2012).

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## Finding 2: Improvements are Needed in Information Technology Security and Controls

We performed an independent evaluation of the Department's IT security program and practices, as required by the Federal Information Security Management Act of 2002 (FISMA).[3] Although improvements continue to be made in the Department's IT security, our FISMA report notes that many long-standing weaknesses remain. Our fiscal year 2012 FISMA report provides details on the material weaknesses we continued to note in the design and effectiveness of the Department's overall IT security program.

We also performed a review of the control structure of the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) located in New Orleans, Louisiana.[4] OCFO/NFC sustained an unqualified opinion on its control environment.

In its FMFIA *Report on Management Control* for 2012, USDA again reported an overall IT material weakness relating to deficiencies in the internal control design and operating effectiveness for logical access controls/personnel security and configuration management. As noted in its FMFIA report, the Department indicated that 2012 accomplishments include:

- the Office of the Chief Information Officer (OCIO) realignment to streamline and strengthen its organizational capability to effectively manage the overall IT security program,
- continued implementation and operation of enterprise level security devices, and
- continued implementation of the identity credentialing and access management program for logical and physical access control.

The Department has additional corrective actions planned in fiscal year 2013.

Because of recommendations made in our FISMA audits, we are making no further recommendations in this report.

[3] Report 50501-0003-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act* (November 2012).

[4] Report 11401-0004-11, *Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center* (September 2012).

## Section 2: Significant Deficiency in Internal Control Over Financial Reporting

### Finding 3: Controls Over Financial Reporting Can Be Strengthened

During our audit, we noted that controls relating to certain financial management practices could be strengthened. Two items discussed below, unliquidated obligations (ULO) monitoring and abnormal balance reviews, were included in our audit report last year as part of the material weakness over financial reporting.

- Our review of inactive ULOs[5] disclosed that substantial improvements have been made by agencies to effectively monitor and review ULOs. In its FMFIA *Report on Management Control* for 2012, USDA downgraded its long-standing material weakness (relating to the lack of consistent review and follow-up on ULOs) to a significant deficiency. The Office of Inspector General also is downgrading the weakness in this audit report. However, opportunities to strengthen controls over reviewing ULOs remain.

We statistically selected 100 ULOs from 13 agencies and offices for which no activity had occurred for over 1 year.[6] We determined that four ULOs were invalid because no future expenditures were expected. In addition, we found one ULO balance was a valid obligation that would have been paid off in prior fiscal years if it had been properly monitored.

We also performed a review of the June 30, 2012, obligation certifications required by the Department. We determined that all three of the agencies selected for review inappropriately certified to the validity of their balances. Documentation provided to support agencies' reviews and certifications showed incomplete and inaccurate reviews were performed.

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2012-06, *2012 Yearend Closing*, dated July 5, 2012) requires an annual review of ULOs. Departmental Regulation 2230-1, *Reviews of Unliquidated Obligations*, dated April 21, 2009, further requires quarterly reviews and certifications as to the validity of ULO balances from agency Chief Financial Officers (CFO).

Ineffective monitoring and reviewing, as well as inappropriately certifying to the validity of obligation balances, resulted in invalid obligations remaining open. Invalid obligations improperly restrict the availability of funding authority. This also increases the risk of misstating obligations as of yearend.

- In fiscal year 2011, the Department issued updated guidance to USDA agencies to improve the process for reviewing, researching, and timely implementing action to correct abnormal balances. The Department further updated this bulletin on October 4, 2012. Although the

[5] An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

[6] Statistical selection from activity as of August 18, 2012.

Department continued to emphasize the process for addressing abnormal balances, we again identified abnormal balances[7] in the USDA fiscal yearend trial balance that were not fully researched and corrected. For fiscal year 2012, we noted 77 abnormal account balances, totaling about $971 million (absolute value) at yearend. We noted some of these abnormal balances were due to reimbursable activities for which appropriate expenditures had occurred, but collection was outstanding. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error. In addition, abnormal balances increase the risk of material misstatement on the financial statements.

- Our review disclosed that Intra-Governmental Payment and Collection (IPAC) transactions were not always fully processed in a timely manner.[8] As of fiscal yearend, over 3,900 IPAC bills were not fully processed, and over 2,000 bills had remained unprocessed for more than 60 days. In order for IPAC bills to fully process, all details are required from the agencies, including valid funding obligation document information. We noted that the unprocessed transactions were recorded in FMMI, but remain in suspense until the bills are able to be fully processed.

We also understand that approximately 1,500 bills continue to require research to determine if they were accurately processed. In April 2012, OCFO identified about 2,600 records that were manually noted as processed in FMMI, but were reflected as unprocessed according to the tracking tool. Because these bills are older, OCFO has assigned them a lower priority for researching, focusing on newer bills first.

We were informed that the prior IPAC tracking tool did not function with FMMI.[9] As a result, significant manual intervention was required in the reconciliation and tracking of IPAC bills.

Untimely processing of IPAC bills increases the risk of inaccurate financial reporting.

### Recommendation 1

Continue to analyze the abnormal balances to identify and implement the actions needed to correct those balances, to include providing oversight to ensure reimbursable activities are timely billed for collection.

### Recommendation 2

Continue to develop and implement effective steps to timely process IPAC transactions.

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[7] A balance that deviates from the standard balance as defined by Treasury's SGL.

[8] The primary purpose of the IPAC system is to provide a standardized interagency fund transfer mechanism for Federal program agencies. IPAC facilitates the intra-governmental transfer of funds, with descriptive data, from one Federal program agency to another.

[9] FMMI began replacing the prior financial management system in fiscal year 2010. As of the end of fiscal year 2012, one agency remains to be converted to FMMI.

## Recommendation 3

Issue detailed guidance to agencies relating to processing IPAC bills and provide training to ensure agencies fully understand their roles, as well as the detailed data requirements for successful processing.

## Section 3: Noncompliance with Laws and Regulations

### Finding 4: Lack of Substantial Compliance with FFMIA Requirements

FFMIA requires agencies to annually assess whether their financial management systems comply substantially with (1) Federal Financial Management Systems Requirements (FFMSR), (2) applicable Federal accounting standards, and (3) SGL at the transaction level. In addition, FISMA requires each agency to report significant information security deficiencies, relating to financial management systems, as a lack of substantial compliance under FFMIA. FFMIA also requires auditors to report in their CFO Act financial statement audit reports whether financial management systems substantially comply with FFMIA's system requirements.

During fiscal year 2012, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not substantially compliant with FFMSR, applicable accounting standards, SGL at the transaction level, and FISMA requirements. As noted in its MD&A, USDA continues working to meet the FFMIA and FISMA objectives.

In its FFMIA report, the Department reported noncompliance with FFMSR and FISMA for multiple agencies relating to logical access controls/personnel security and configuration management.

Additionally, in its FFMIA report, the Department noted noncompliances for two of its component agencies, described below.

1. CCC was not compliant with the SGL at the transaction level. CCC has completed the development of a fully integrated funds control system, the Electronic Funds Management System (eFMS), within the Farm Service Agency/CCC core financial management system. This system is integrated with CCC's general ledger system at the transaction level. eFMS provides management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. Work continues to implement programs into eFMS for full funds control at the transaction level. CCC plans to correct the deficiency by September 30, 2014.

2. NRCS did not comply with FFMSR, Federal accounting standards, and SGL at the transaction level. Corrective actions are scheduled for completion by November 30, 2013. In addition, deficiencies were noted in application access controls, configuration management support systems access, and management of user access.

Because of actions planned by the Department and recommendations made in other audits, we are making no further recommendations in this report.

## Abbreviations

CCC............................Commodity Credit Corporation
CFO............................Chief Financial Officer
eFMS..........................Electronic Funds Management System
FAS ............................Foreign Agricultural Service
FFMIA .......................Federal Financial Management Improvement Act of 1996
FFMSR.......................Federal Financial Management Systems Requirements
FISMA .......................Federal Information Security Management Act of 2002
FMFIA .......................Federal Managers' Financial Integrity Act of 1982
FMMI.........................Financial Management Modernization Initiative
IPAC ..........................Intra-Governmental Payment and Collection
IPERA........................Improper Payments Elimination and Recovery Act of 2010
IT...............................information technology
MD&A .......................Management's Discussion and Analysis
NFC............................National Finance Center
NRCS .........................Natural Resources Conservation Service
OCFO.........................Office of the Chief Financial Officer
OIG ............................Office of Inspector General
OMB ..........................Office of Management and Budget
RMA ..........................Risk Management Agency
SGL............................Standard General Ledger
Treasury .....................U.S. Department of Treasury
ULO ...........................Unliquidated Obligations
USDA.........................Department of Agriculture

## Exhibit A: Audit Reports Related to the Fiscal Year 2012 Financial Statements

The following is a list of reports which are related to the Office of Inspector General's audit of the Department of Agriculture's fiscal year 2012 financial statements.

| Audit Number | Audit Title | Release Date |
|---|---|---|
| 05401-0002-11 | Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2012 and 2011 | November 2012 |
| 06401-0002-11 | Commodity Credit Corporation's Financial Statements for Fiscal Years 2012 and 2011 | November 2012 |
| 08401-0002-11 | Forest Service's Financial Statements for Fiscal Years 2012 and 2011 | November 2012 |
| 10401-0002-11 | Natural Resources Conservation Service's Financial Statements for Fiscal Year 2012 | November 2012 |
| 11401-0004-11 | Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center | September 2012 |
| 27401-0002-21 | Food and Nutrition Service's Financial Statements for Fiscal Years 2012 and 2011 | November 2012 |
| 50501-0003-12 | Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act | November 2012 |
| 85401-0002-11 | Rural Development's Financial Statements for Fiscal Years 2012 and 2011 | November 2012 |
| 88401-0001-11 | Review of Selected Controls at the National Information Technology Center | September 2012 |

## Exhibit B: Summary of Prior Year Recommendations

**Report 50401-0001-11,** *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010,* dated November 15, 2011.

### Finding 1: Improvements are Needed In Overall Financial Management

#### Recommendation 1

Provide additional oversight of the accounting functions at the Foreign Agricultural Service (FAS) to ensure that the objectives of internal control over financial reporting are maintained.

#### Departmental Status

As of October 24, 2012, the Department considers that the corrective actions related to this recommendation have been completed. During fiscal year 2012, the Department met regularly with FAS to discuss the status of deliverables for Federal Managers' Financial Integrity Act of 1982 (FMFIA), as well as for the Office of Inspector General's (OIG) financial statement audit. The Department also reviewed FAS' FMFIA assurance statement and corrective action plans.

#### OIG Results

Closed. OIG did not report as a control weakness for fiscal year 2012.

#### Recommendation 2

Provide additional oversight and training to ensure agencies are following Departmental policy in identifying and reconciling intradepartmental transactions.

#### Departmental Status

In September 2012, the Office of the Chief Financial Officer (OCFO) provided a draft bulletin on the reconciliation of intradepartmental transactions and discussed it with agency accountants. OCFO is in the process of issuing the guidance in final and then will close this recommendation.

#### OIG Results

Closed. OIG did not report as a control weakness for fiscal year 2012.

## Exhibit B: Summary of Prior Year Recommendations

**Report 50401-70-FM,** *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2010 and 2009*, dated November 15, 2010.

### Finding 1: Improvements Are Needed In Overall Financial Management

#### Recommendation 1

Provide additional oversight to ensure that agencies are properly reviewing, researching, and timely implementing action to correct abnormal balances.

#### Departmental Status

During fiscal year 2011, the Department issued the OCFO Bulletin 11-02, *Controls Over Abnormal Balances*, to update Departmental guidance to its agencies to improve the process for reviewing, researching, and timely implementing action to correct abnormal balances. This bulletin was updated on October 4, 2012. The Department's estimated completion date for this recommendation is November 30, 2012.

#### OIG Results

The weakness continues to exist, as discussed in Finding 3. OIG downgraded to a significant deficiency.

**Report 50401-67-FM,** *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2009 and 2008*, dated November 16, 2009.

### Finding 1: Improvements Are Needed In Overall Financial Management

#### Recommendation 1

Provide additional oversight to ensure agencies (1) properly monitor and review obligation balances, (2) provide valid certifications based on complete and accurate reviews as required by Departmental Regulation 2230-001, and (3) understand the importance of responding to requests for bills or additional information in a timely manner.

#### Departmental Status

During fiscal year 2012, the Department worked with agencies to complete cleanup of obligations recorded in the Foundation Financial Information System and the Financial Management Modernization Initiative. In addition, the Department continued to monitor obligations via monthly corrective actions status reports. The Department estimates that all corrective actions will be completed in fiscal year 2013.

## Exhibit B: Summary of Prior Year Recommendations

### OIG Results

This weakness continues to exist, as discussed in Finding 3. However, OIG downgraded to a significant deficiency.

**Report 50401-65-FM,** *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2008 and 2007*, dated November 14, 2008.

### Finding 1: Improvements Are Needed In Overall Financial Management

### Recommendation 1

Provide additional oversight to ensure that general ledgers reflect valid obligations and that agencies perform the required reviews timely and effectively.

### Departmental Status

See Departmental status for Recommendation 1 of Report 50401-67-FM, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2009 and 2008*, dated November 16, 2009.

### OIG Results

The weakness continues to exist, as discussed in Finding 3. OIG downgraded to a significant deficiency.

## Exhibit C: Status of Prior Year Noncompliance Findings

**Report 50401-0001-11**, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010*, dated November 15, 2011.

### Finding 3: Lack of Substantial Compliance with Federal Financial Management Improvement Act of 1996 (FFMIA) Requirements

#### Reported Noncompliance

The Department reported a lack of substantial compliance with the FFMIA requirements. The Department reported that it was not substantially compliant with the Federal Financial Management Systems Requirements (FFMSR), applicable accounting standards, the U.S. Government Standard General Ledger (SGL) at the transaction level, and the Federal Information Security Management Act (FISMA) of 2002 requirements.

#### Status

In fiscal year 2012, the Department continued to report substantial noncompliance with FFMSR, applicable standards, SGL at the transaction level, and FISMA requirements, as discussed in Finding 4.

# Agency Response to Auditors Report

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW
Washington, DC
20250

NOV 14 2012

TO: Phyllis K. Fong
Inspector General
Office of Inspector General

FROM: Jon M. Holladay
Deputy Chief Financial Officer
Office of the Chief Financial Officer

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011, Audit Report No. 50401-3-11

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2012 and 2011.

We concur with the findings in the report. We generally agree with the recommendations in the report and will develop corrective action plans with milestones to address the findings within 60 days.

We recognize the achievement of an unqualified opinion was accomplished through the joint efforts of your staff, contract auditors, and the financial staffs of the Department and agencies.

I would like to express my appreciation for the cooperation and professionalism displayed by your staff and your contract auditors during the course of your audit.

# Consolidated Balance Sheet

## As of September 30, 2012 and 2011
## (In Millions)

| | 2012 | 2011 |
|---|---|---|
| **Assets (Note 2):** | | |
| Intragovernmental: | | |
| Fund Balance with Treasury (Note 3) | $ 84,670 | $ 74,126 |
| Investments (Note 5) | 143 | 138 |
| Accounts Receivable, Net (Note 6) | 309 | 224 |
| Other (Note 11) | - | 2 |
| Total Intragovernmental | 85,122 | 74,490 |
| Cash and Other Monetary Assets (Note 4) | 183 | 248 |
| Investments (Note 5) | 3 | 3 |
| Accounts Receivable, Net (Note 6) | 8,660 | 8,001 |
| Direct Loan and Loan Guarantees, Net (Note 7) | 95,513 | 92,042 |
| Inventory and Related Property, Net (Note 8) | 14 | 51 |
| General Property, Plant, and Equipment, Net (Note 9) | 3,037 | 3,050 |
| Other (Note 11) | 197 | 243 |
| **Total Assets** | 192,729 | 178,128 |
| Stewardship PP&E (Note 10) | | |
| **Liabilities (Note 12):** | | |
| Intragovernmental: | | |
| Accounts Payable | 25 | 21 |
| Debt (Note 13) | 93,880 | 89,583 |
| Other (Note 15) | 12,434 | 11,052 |
| Total Intragovernmental | 106,339 | 100,656 |
| Accounts Payable | 1,978 | 709 |
| Loan Guarantee Liability (Note 7) | 4,471 | 3,621 |
| Federal Employee and Veteran Benefits | 944 | 904 |
| Environmental and Disposal Liabilities (Note 14) | 10 | 9 |
| Benefits Due and Payable | 3,837 | 3,500 |
| Other (Notes 15 & 16) | 35,555 | 26,853 |
| **Total Liabilities** | 153,134 | 136,252 |
| Commitments and Contingencies (Note 17) | | |
| **Net Position:** | | |
| Unexpended Appropriations - Earmarked Funds (Note 18) | 97 | 74 |
| Unexpended Appropriations - Other Funds | 34,925 | 30,395 |
| Cumulative Results of Operations - Earmarked Funds (Note 18) | 944 | 1,730 |
| Cumulative Results of Operations - Other Funds | 3,629 | 9,677 |
| **Total Net Position** | 39,595 | 41,876 |
| **Total Liabilities and Net Position** | $ 192,729 | $ 178,128 |

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Net Cost

## For the Years Ended September 30, 2012 and 2011
## (In Millions)

| | 2012 | 2011 |
|---|---|---|
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | |
| Gross Costs | $ 37,192 | $ 36,398 |
| Less: Earned Revenue | 10,500 | 8,450 |
| Net Costs | 26,692 | 27,948 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | |
| Gross Costs | 13,480 | 12,997 |
| Less: Earned Revenue | 1,006 | 869 |
| Net Costs | 12,474 | 12,128 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | |
| Gross Costs | 3,188 | 3,397 |
| Less: Earned Revenue | 618 | 294 |
| Net Costs | 2,570 | 3,103 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | |
| Gross Costs | 110,148 | 106,551 |
| Less: Earned Revenue | 938 | 883 |
| Net Costs | 109,210 | 105,668 |
| Total Gross Costs | 164,008 | 159,343 |
| Less: Total Earned Revenue | 13,062 | 10,496 |
| **Net Cost of Operations (Note 19)** | $ 150,946 | $ 148,847 |

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Changes in Net Position

## For The Year Ended September 30, 2012
## (In Millions)

| | Earmarked Funds (Note 18) | All Other Funds | Eliminations | Consolidated Total |
|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | |
| Beginning Balances | $ 1,730 | $ 9,677 | $ - | $ 11,407 |
| Budgetary Financing Sources: | | | | |
| Other Adjustments (recissions, etc.) | - | (155) | - | (155) |
| Appropriations Used | (11) | 137,216 | - | 137,205 |
| Non-exchange Revenue | - | (7) | - | (7) |
| Donations and Forfeitures of Cash and Equivalents | 1 | - | - | 1 |
| Transfers In (Out) without Reimbursement | 223 | 7,161 | - | 7,384 |
| Other Financing Sources (Non-Exchange): | | | | |
| Transfers In (Out) without Reimbursement | (18) | 104 | - | 86 |
| Imputed Financing | 50 | 3,019 | (2,156) | 913 |
| Other | 77 | (1,392) | - | (1,315) |
| Total Financing Sources | 322 | 145,946 | (2,156) | 144,112 |
| Net Cost of Operations | (1,108) | (151,994) | 2,156 | (150,946) |
| Net Change | (786) | (6,048) | - | (6,834) |
| **Cumulative Results of Operations** | 944 | 3,629 | - | 4,573 |
| **Unexpended Appropriations:** | | | | |
| Beginning Balances | 74 | 30,395 | - | 30,469 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received | 12 | 152,099 | - | 152,111 |
| Appropriations Transferred In (Out) | - | 25 | - | 25 |
| Other Adjustments | - | (10,378) | - | (10,378) |
| Appropriations Used | 11 | (137,216) | - | (137,205) |
| Total Budgetary Financing Sources | 23 | 4,530 | - | 4,553 |
| **Unexpended Appropriations** | 97 | 34,925 | - | 35,022 |
| **Net Position** | $ 1,041 | $ 38,554 | $ - | $ 39,595 |

The accompanying notes are an integral part of these statements.

# Consolidated Statement of Changes in Net Position

## For The Year Ended September 30, 2011
## (In Millions)

| | Earmarked Funds (Note 18) | All Other Funds | Eliminations | Consolidated Total |
|---|---|---|---|---|
| **Cumulative Results of Operations:** | | | | |
| Beginning Balances | $ 1,795 | $ 9,428 | $ - | $ 11,223 |
| Budgetary Financing Sources: | | | | |
| Other Adjustments (recissions, etc.) | - | (205) | - | (205) |
| Appropriations Used | 312 | 139,266 | - | 139,578 |
| Non-exchange Revenue | - | 21 | - | 21 |
| Donations and Forfeitures of Cash and Equivalents | 1 | - | - | 1 |
| Transfers In (Out) without Reimbursement | 1,834 | 7,067 | - | 8,901 |
| Other Financing Sources (Non-Exchange): | | | | |
| Transfers In (Out) without Reimbursement | (67) | 212 | - | 145 |
| Imputed Financing | 59 | 4,409 | (2,744) | 1,724 |
| Other | 65 | (1,199) | - | (1,134) |
| Total Financing Sources | 2,204 | 149,571 | (2,744) | 149,031 |
| Net Cost of Operations | (2,269) | (149,322) | 2,744 | (148,847) |
| Net Change | (65) | 249 | - | 184 |
| **Cumulative Results of Operations** | 1,730 | 9,677 | - | 11,407 |
| **Unexpended Appropriations:** | | | | |
| Beginning Balances | 375 | 35,886 | - | 36,261 |
| Budgetary Financing Sources: | | | | |
| Appropriations Received | 11 | 142,475 | - | 142,486 |
| Appropriations Transferred In (Out) | - | 10 | - | 10 |
| Other Adjustments | - | (8,710) | - | (8,710) |
| Appropriations Used | (312) | (139,266) | - | (139,578) |
| Total Budgetary Financing Sources | (301) | (5,491) | - | (5,792) |
| **Unexpended Appropriations** | 74 | 30,395 | - | 30,469 |
| **Net Position** | $ 1,804 | $ 40,072 | $ - | $ 41,876 |

The accompanying notes are an integral part of these statements.

# Combined Statement of Budgetary Resources

## For The Years Ended September 30, 2012 and 2011
## (In Millions)

| | 2012 | | 2011 | |
|---|---|---|---|---|
| | Budgetary | Non-Budgetary Credit Reform Financing Accounts | Budgetary | Non-Budgetary Credit Reform Financing Accounts |
| **Budgetary Resources:** | | | | |
| Unobligated balance, brought forward, October 1: | $ 25,238 | $ 5,604 | $ 28,420 | $ 8,297 |
| Recoveries of prior year unpaid obligations | 3,533 | 1,819 | 4,036 | 964 |
| Other changes in unobligated balance (+ or -) | (3,593) | (4,442) | (5,443) | (6,124) |
| Unobligated balance from prior year budget authority, net | 25,178 | 2,981 | 27,013 | 3,137 |
| Appropriations (discretionary and mandatory) | 149,916 | - | 136,591 | 2 |
| Borrowing authority (discretionary and mandatory) | 11,667 | 11,631 | 11,593 | 10,927 |
| Spending authority from offsetting collections (discretionary and mandatory) | 16,502 | 7,107 | 16,992 | 8,217 |
| Total budgetary resources | 203,263 | 21,719 | 192,189 | 22,283 |
| **Status of Budgetary Resources:** | | | | |
| Obligations Incurred (Note 23) | 169,937 | 16,565 | 166,951 | 16,679 |
| Unobligated balance, end of year: | | | | |
| Apportioned | 9,978 | 2,334 | 9,935 | 4,596 |
| Exempt from apportionment | 1,124 | 5 | 1,736 | 9 |
| Unapportioned | 22,224 | 2,815 | 13,567 | 999 |
| Total unobligated balance, end of year | 33,326 | 5,154 | 25,238 | 5,604 |
| Total budgetary resources | 203,263 | 21,719 | 192,189 | 22,283 |
| **Change in Obligated Balances:** | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 36,637 | 28,532 | 37,540 | 30,194 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (2,019) | (947) | (1,730) | (1,083) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 34,618 | 27,585 | 35,810 | 29,111 |
| Obligations incurred | 169,937 | 16,565 | 166,951 | 16,679 |
| Outlays (gross) (-) | (163,225) | (17,007) | (163,818) | (17,377) |
| Change in uncollected customer payments from Federal sources (+ or -) | (557) | (129) | (290) | 136 |
| Recoveries of prior year unpaid obligations (-) | (3,533) | (1,819) | (4,036) | (964) |
| Obligated balance, end of year: | | | | |
| Unpaid obligations, end of year (gross) | 39,816 | 26,270 | 36,637 | 28,532 |
| Uncollected customer payments from Federal sources, end of year (-) | (2,576) | (1,075) | (2,019) | (947) |
| Obligated balance, end of year (net) | 37,240 | 25,195 | 34,618 | 27,585 |
| **Budget Authority and Outlays, Net:** | | | | |
| Budget authority, gross (discretionary and mandatory) | 178,085 | 18,738 | 165,176 | 19,146 |
| Actual offsetting collections (discretionary and mandatory) (-) | (21,481) | (12,665) | (22,336) | (11,315) |
| Change in uncollected customer payments from Federal sources (discretionary and mandatory) (+ or -) | (557) | (129) | (290) | 136 |
| Budget authority, net (discretionary and mandatory) | 156,047 | 5,944 | 142,550 | 7,967 |
| Outlays, gross (discretionary and mandatory) | 163,225 | 17,007 | 163,818 | 17,377 |
| Actual offsetting collections (discretionary and mandatory) (-) | (21,481) | (12,665) | (22,336) | (11,315) |
| Outlays, net (discretionary and mandatory) | 141,744 | 4,342 | 141,482 | 6,062 |
| Distributed offsetting receipts (-) | (723) | (1,310) | (686) | (1,353) |
| Agency outlays, net (discretionary and mandatory) | $ 141,021 | $ 3,032 | $ 140,796 | $ 4,709 |

The accompanying notes are an integral part of these statements.

# Notes to the Consolidated Financial Statements

**As of September 30, 2012 and 2011**

**(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 their agencies that execute these missions.

Listed below are the missions and the agencies within each mission including three 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)
- National Institute of Food and Agriculture (NIFA)
- Economic Research Service (ERS)

- National Agricultural Statistics Service (NASS)

### Rural Development

- Rural Development (RD)
    - Alternative Agricultural Research and Commercialization Corporation (AARC)

### Consolidation

The financial statements consolidate all the agencies' results. The effects of intradepartmental activity and balances are eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis. The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government.

### Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation.

In accordance with new guidance, the Combined Statement of Budgetary Resources was reclassified to better align with the new SF-133, Report on Budget Execution and Budgetary Resources.

RD and FSA reclassified distributed offsetting receipts of $1,128 million from the budgetary column to the non-budgetary column on the Combined Statement of Budgetary Resources to conform with credit reform guidance.

In FY 2011, RMA reclassified the FCIC from earmarked funds to other funds, absent explicit authority to retain revenues and other financing sources not used in the current period for future use, consistent with the change in accounting principle made in FY 2010. The Balance Sheet, Statement of Changes in Net Position, and related Earmarked Funds note reflects this change. RMA also reclassified liabilities covered by budgetary resources of $3,920 million to liabilities not covered by budgetary resources as a result of this change.

In FY 2011, CCC reclassified other financing sources of $250 million on the Statement of Changes in Net Position and related Reconciliation of Budgetary Resources Obligated to Net Cost of Operations note to comply with Treasury General Fund Receipt Account Guide, Scenario 6 - Collection of Downward Reestimate of Subsidy Expense.

### 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 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. Barter Delivery Obligations (BDO) are valued at the net sales proceeds. BDO are exchanged for food products to be utilized in domestic and export food programs.

### 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. There are no restrictions on the use or convertibility of PP&E.

### Pension and Other Retirement Benefits

Pension and other retirement benefits (primarily retirement health care benefits) expense is recognized at the time the employees' services are rendered. The expense is equal to the actuarial present value of benefits attributed by the pension plan's benefit formula, less the amount contributed by the employees. An imputed cost is recognized for the difference between the expense and contributions made by and for employees.

### Other Post-employment Benefits

Other post-employment benefits expense for former or inactive (but not retired) employees is recognized when a future outflow or other sacrifice of resources is probable and measurable on the basis of events occurring on or before the reporting date. The liability for long-term other post-employment benefits is the present value of future payments.

### Earmarked Funds

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, the Department has reported the earmarked funds for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

### 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.

### Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account (allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

The Department allocates funds, as the parent, to the Department of Transportation, Department of the Interior, Department of Defense, Department of Housing and Urban Development, U.S. Agency for International Development and the Small Business Administration. The Department receives allocation transfers, as the child, from the Department of Labor, Department of Transportation, Department of the Interior, Economic Development Administration, Appalachian Regional Commission and the Delta Regional Authority.

### Inter-Entity Costs

Each entity's full cost should incorporate the full cost of goods and services that it receives from other entities. The entity providing the goods or services has the responsibility to provide the receiving entity with information on the full cost of such goods or services either through billing or other advice.

Recognition of inter-entity costs that are not fully reimbursed is limited to material items that (1) are significant to the receiving entity, (2) form an integral or necessary part of the receiving entity's output, and (3) can be identified or matched to the receiving entity with reasonable precision. Broad and general support services provided by an entity to all or most other entities should not be recognized unless such services form a vital and integral part of the operations or output of the receiving entity.

### Fiduciary Activities

Fiduciary activities are the collection or receipt, and the management, protection, accounting, investment and disposition by the Federal Government of cash or other assets in which non-Federal individuals or entities have an ownership interest that the Federal Government must uphold. Fiduciary assets are not assets of the Federal Government and are not recognized on the balance sheet.

## Note 2. Non-Entity Assets

Non-entity assets include proceeds from the sale of timber payable to Treasury, timber contract performance bonds, employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center, rural housing escrow, interest, fines and penalties.

| | FY 2012 | FY 2011 |
|---|---|---|
| Intragovernmental: | | |
| Fund balance with Treasury | $ 121 | $ 176 |
| Accounts Receivable | 20 | 23 |
| Subtotal Intragovernmental | 141 | 199 |
| With the Public: | | |
| Accounts receivable | 96 | 73 |
| Subtotal With the Public | 96 | 73 |
| Total non-entity assets | 237 | 272 |
| Total entity assets | 192,492 | 177,856 |
| Total Assets | $ 192,729 | $ 178,128 |

## Note 3. Fund Balance with Treasury

Other Fund Types include deposit and clearing accounts. 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. Non-Budgetary Fund Balance with Treasury includes special fund receipt accounts; and clearing and suspense account balances awaiting disposition or reclassification. Unprocessed Intragovernmental Payment and Collection (IPAC) transactions were not reported to Treasury at the end of FY 2012 and FY 2011 because the proper Treasury Account Symbol was unknown which reduced Fund Balance with Treasury by $50 million and $52 million, respectively.

| | FY 2012 | FY 2011 |
|---|---|---|
| Fund Balances: | | |
| Trust Funds | $ 439 | $ 550 |
| Special Funds | 18,786 | 17,777 |
| Revolving Funds | 16,371 | 12,397 |
| General Funds | 48,961 | 43,294 |
| Other Fund Types | 113 | 108 |
| Total | 84,670 | 74,126 |
| | | |
| Status of Fund Balance with Treasury: | | |
| Unobligated Balance: | | |
| Available | 13,441 | 16,276 |
| Unavailable | 25,039 | 14,690 |
| Obligated Balance not yet Disbursed | 62,252 | 61,956 |
| Borrowing Authority not yet Converted to Fund Balance | (33,832) | (35,133) |
| Non-Budgetary Fund Balance with Treasury | 17,770 | 16,337 |
| Total | $ 84,670 | $ 74,126 |

## Note 4. Cash and Other Monetary Assets

In FY 2012 and FY 2011, cash mostly consists of Federal crop insurance escrow amounts of $183 million and $247 million respectively.

| | FY 2012 | FY 2011 |
|---|---|---|
| Cash | $ 183 | $ 248 |

# Note 5. Investments

FY 2012

| | Amortization Method | Cost | Amortized (Premium) Discount | Interest Receivable | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Intragovernmental: | | | | | | |
| Non-marketable | | | | | | |
| Par value | | $ - | $ - | $ - | $ - | $ - |
| Market-based | Straight Line | 143 | (1) | 1 | 143 | 143 |
| Total | | $ 143 | $ (1) | $ 1 | $ 143 | $ 143 |
| With the Public: | | | | | | |
| AARC | | $ 3 | $ - | $ - | $ 3 | $ 3 |
| Total | | $ 3 | $ - | $ - | $ 3 | $ 3 |

FY 2011

| | Amortization Method | Cost | Amortized (Premium) Discount | Interest Receivable | Investments, Net | Market Value Disclosure |
|---|---|---|---|---|---|---|
| Intragovernmental: | | | | | | |
| Non-marketable | | | | | | |
| Par value | | $ - | $ - | $ - | $ - | $ - |
| Market-based | Straight Line | 135 | (1) | 4 | 138 | 138 |
| Total | | $ 135 | $ (1) | $ 4 | $ 138 | $ 138 |
| With the Public: | | | | | | |
| AARC | | $ 3 | $ - | $ - | $ 3 | $ 3 |
| Total | | $ 3 | $ - | $ - | $ 3 | $ 3 |

# Note 6. Accounts Receivable, Net

FY 2012

| | Accounts Receivable, Gross | Allowance for Uncollectible Accounts | Accounts Receivable, Net |
|---|---|---|---|
| Intragovernmental | $ 309 | $ - | $ 309 |
| With the Public | 8,727 | (67) | 8,660 |
| Total | $ 9,036 | $ (67) | $ 8,969 |

FY 2011

| | Accounts Receivable, Gross | Allowance for Uncollectible Accounts | Accounts Receivable, Net |
|---|---|---|---|
| Intragovernmental | $ 224 | $ - | $ 224 |
| With the Public | 8,049 | (48) | 8,001 |
| Total | $ 8,273 | $ (48) | $ 8,225 |

# Note 7. Direct Loans and Guarantees, Non-Federal Borrowers

## Direct Loans

Direct loan obligations 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 Direct Loan and Loan Guarantees, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Direct Loan and Loan Guarantees, Net at the end of FY 2012 was $95,513 million compared to $92,042 million at the end of FY 2011. Loans exempt from the Federal Credit Reform Act of 1990 represent $400 million of the total compared to $338 million in FY 2011. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2012 and FY 2011.

For the first time since the inception of the Rural Utilities Cushion of Credit (CoC) program, advance payments have surpassed the loans receivable balance in the liquidating fund. The Rural Electrification Act of 1936 authorized the accumulation of CoC in the liquidating fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt; however, the funds must remain in the liquidating fund. This year, due to the increased volume of advance payments, the liquidating fund loans receivable shows a negative value of assets in Table 1.

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 throughout the year. The subsidy cost allowance moved from $6,017 million to $6,118 million during FY 2012, an increase of $101 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2011 to FY 2012.

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 2012 was $237 million compared to $539 million in FY 2011. Table 3 illustrates the breakdown of total subsidy expense for FY 2012 and FY 2011 by program.

Direct loan volume decreased from $11,147 million in FY 2011 to $11,071 million in FY 2012. 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 2012 were $103,587 million in outstanding principal and $92,667 million in outstanding principal guaranteed, compared to $89,317 million and $79,858 million, respectively at the end of FY 2011. 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 $3,621 million to $4,471 million during FY 2012, an increase of $850 million. Table 7 shows the reconciliation of 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 2012 was $926 million compared to $721 million in FY 2011. Table 8 illustrates the breakdown of total subsidy expense for FY 2012 and FY 2011 by program.

Guaranteed loan volume increased from $23,664 million in FY 2011 to $27,170 million in FY 2012. Volume distribution between mission area and program is shown in Table 9.

### 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 2012 and FY 2011 are shown in Table 10.

### Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2012 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.

### 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 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 credit guarantee 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 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.

CCC also provides loans for Farm and Sugar Storage Facilities (FSFL). FSFL provides low-interest financing for producers to build or upgrade farm storage and handling facilities. The 2008 Farm Bill added hay and renewable biomass as eligible FSFL commodities, extended the maximum loan term to 12 years and increased the maximum loan amount to $500,000.

### Farm and Foreign Agricultural Service List of Programs

| Farm Service Agency | Commodity Credit Corporation |
|---|---|
| Direct Farm Ownership | General Sales Manager Guarantee Credit Program |
| Direct Farm Operating | Facility Program Guarantee |
| Direct Emergency Loans | P.L. 480 Title 1 Program |
| Direct Indian Land Acquisition | Direct Farm Storage Facility |
| Direct Boll Weevil Eradication | Direct Sugar Storage Facilities |
| Direct Seed Loans to Producers | |
| Direct Conservation | |
| Guaranteed Farm Operating Subsidized/Unsubsidized | |
| Agricultural Resource Demonstration Fund | |
| Bureau of Reclamation Loan Fund | |
| Guaranteed Farm Ownership Unsubsidized | |
| Guaranteed Conservation | |
| American Recovery and Reinvestment Fund | |

### The Rural Development 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 |
|---|---|---|
| Single Family Housing Direct Loans | Business and Industry Direct Loans | Water and Environmental Direct Loans |
| Single Family Housing Guaranteed Loans | Business and Industry Guaranteed Loans | Water and Environmental Guaranteed Loans |
| Self Help Housing Direct Loans | Intermediary Relending Program Direct Loans | Electric Direct Loans |
| Single Family Housing Credit Sales | Rural Economic Development Direct Loans | Electric Guaranteed Loans |
| Farm Labor Housing Direct Loans | Biorefinery Guaranteed Loans | Telecommunications Direct Loans |
| Multi-Family Housing Direct Loans | Renewable Energy Guaranteed Loans | Federal Financing Bank-Electric |
| Multi-Family Housing Guaranteed Loans | Rural Microenterprise Direct Loans | Federal Financing Bank-Telephone |
| Multi-Family Housing-Credit Sales | | Distance Learning and Telemedicine Direct |
| Multi-Family Housing Relending Program | | Broadband Telecommunications Services |
| Multi-Family Housing Revitalization Program | | |
| Community Facilities Direct Loans | | |
| Community Facilities Guaranteed Loans | | |

### Events and Changes Having a Significant and Measurable Effect on Subsidy Rates, Subsidy Expense, and Subsidy Reestimates

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.

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2012 reestimate process resulted in a $72 million decrease in the post 1991 estimated cost of the direct loan portfolio and a $914 million increase in the post 1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs:

### Direct Loans

The Water and Environmental Program had a downward reestimate of $256 million due to a slight increase in the difference between the weighted average borrower rates and Treasury rates.

The Housing Programs had an overall net upward reestimate of $324 million. The majority of the $324 million upward reestimate related to a reduced assumption for future prepayments, and the related assumptions for payment assistance recapture. Unlike the guaranteed housing program, the payment assistance provided under the direct housing programs mitigates the traditional incentive to refinance mortgage loans in a declining interest rate environment. The direct loan program's historical experience includes a significant number of cash out refinances rather than interest rate refinances, which have declined following the housing crisis and are not expected to rebound in the near future. The Community Facility Program is one of RD's fastest growing programs. The

Community Facility Program had a downward reestimate of $152 million, which reflected two year's worth of revisions in projected cash flows, as the program did not calculate a reestimate in FY 2011. The majority of the adjustment was caused by a higher interest rate differential.

The Electric Programs had an overall net upward reestimate of $102 million. The Federal Financing Bank (FFB) Electric Program lent funds to Electric utilities at reduced rates through borrowings provided by the FFB. The difference between the weighted average loan rate and the FFB debt costs increased slightly, resulting in lower projected costs for the program and a net downward reestimate of $88 million. The Electric Underwriting Program developed subsidy rates for specific projects due to unique project attributes. This program had a $188 million upward reestimate because of lower discount rates.

### Guaranteed Loans

The Single Family Housing Guaranteed Programs had a sizeable upward reestimate of $761 million because of an increase in forecasted loss settlements, caused by the housing crisis. Actual loss settlements for FY 2012 were $220 million higher than previously forecasted. RD management made manual adjustments to the default assumptions, which better indicate expected performance in the continuing wake of the crisis.

Business and Industry Programs had total upward reestimate of $128 million because of continued high levels of loss settlements due to current economic conditions.

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 Governmentwide interest rate projections provided by the OMB in order to do its calculations and analysis.

In accordance with the General Fund Receipt Account Guide, a liability for non-entity assets is accrued for downward reestimate of subsidy. When more subsidy was collected than is necessary to fund future net cash outflows, the financing fund must transfer the excess subsidy, with interest, to a designated general fund receipt account in the following year.

### Loan Modifications

A modification is any Government action different from the baseline assumptions that affects the subsidy cost, such as a change in the terms of the loan contract. The cost of a modification is the difference between the present value of the cash flows before and after the modification.

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2012. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

In 2011, the Home Affordable Modification Program (HAMP) and the Helping Families Save Their Homes Act of 2009 were initiated as a joint effort of Rural Development and the U. S. Department of

Treasury. These enactments will assist the Agency in preventing the destructive impact of foreclosures on families, communities, and the national economy. As a part of this legislation, the Rural Housing Service (RHS) is amending its regulations to add new servicing options to the Single Family Housing Guaranteed Loan program. Lenders may utilize these servicing options while still maintaining the loan guarantee. Additionally, the Agency will allow lenders to extend loans for up to 40 years from the date of modification. The Agency will also allow lenders to advance funds, on behalf of borrowers, in the amounts necessary to bring defaulted loans current. These advances can be up to 30 percent of the loan's unpaid principal balance. The intended effect is to allow new servicing options so that Guaranteed Single Family Housing borrowers can better afford their loan payments resulting in reduced mortgage foreclosures.

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. With one exception, 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. The $21 million increase in adjusted loan modifications in FY 2012 is due to a receipt of subsidy from the Treasury for bilateral implementation of Democratic Republic of Congo 100% debt cancelation.

### 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, 2012 and 2011, foreclosed property consisted of 1,375 and 1,253 rural single-family housing dwellings, with an average holding period of 15 months and 16 months, respectively. As of September 30, 2012 and 2011, FSA-Farm Loan Program properties consist primarily of 77 and 67 farms, respectively. The average holding period for these properties in inventory for FY 2012 and FY 2011 was 44 and 51 months, respectively. Certain properties can be leased to eligible individuals.

### Other Information

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.

Approximately $18,600 million and $19,100 million of RHS unpaid loan principal as of September 30, 2012, and 2011 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 $935 million and $963 million higher for FY 2012 and FY 2011 respectively.

At the end of FY 2012 and FY 2011, the RD portfolio contained approximately 67,900 and 69,500 restructured loans with an outstanding unpaid principal balance of $2,700 million and $2,600 million, respectively . At the end of FY 2012 and FY 2011, the farm loan portfolio contained approximately

19,123 and 19,959 restructured loans with an outstanding unpaid principal balance of $1,143 million and $1,177 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2012 and 2011, were $2,203 million and $2,667 million, respectively.

## Table 1. Direct Loan and Loan Guarantees, Net

| FY 2012 Direct Loans | Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Present Value Allowance | Value of Assets Related to Loans |
|---|---|---|---|---|---|
| Obligated Pre-1992 | | | | | |
| Farm | $ 692 | $ 47 | $ 12 | $ (48) | $ 703 |
| Export | - | - | - | - | - |
| Food Aid | 3,167 | 824 | - | (2,362) | 1,629 |
| Housing | 8,619 | 78 | 32 | (3,831) | 4,898 |
| Electric | 459 | 157 | - | (1,087) | (471) |
| Telecommunications | 221 | 1 | - | (1) | 221 |
| Water and Environmental | 845 | 7 | - | (40) | 812 |
| Business and Industry | - | - | - | - | - |
| Economic Development | 25 | - | - | (8) | 17 |
| Pre-1992 Total | 14,028 | 1,114 | 44 | (7,377) | 7,809 |
| Obligated Post-1991 | | | | | |
| Farm | 7,982 | 193 | 10 | (472) | 7,713 |
| Export | - | - | - | - | - |
| Food Aid | 1,302 | 62 | - | (521) | 843 |
| Housing | 22,401 | 189 | 62 | (2,945) | 19,707 |
| Electric | 42,896 | 253 | - | (759) | 42,390 |
| Telecommunications | 4,374 | 4 | - | 99 | 4,477 |
| Water and Environmental | 11,280 | 97 | - | (551) | 10,826 |
| Business and Industry | 32 | - | - | 30 | 62 |
| Economic Development | 542 | 2 | - | (144) | 400 |
| Post-1991 Total | 90,809 | 800 | 72 | (5,263) | 86,418 |
| Total Direct Loan Program Receivables | 104,837 | 1,914 | 116 | (12,640) | 94,227 |
| Defaulted Guarantee Loans | | | | | |
| Pre-1992 | | | | | |
| Farm | - | - | - | - | - |
| Export | 109 | 207 | - | (264) | 52 |
| Food Aid | - | - | - | - | - |
| Housing | - | - | - | - | - |
| Electric | - | - | - | - | - |
| Telecommunications | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - |
| Business and Industry | 1 | - | - | - | 1 |
| Economic Development | - | - | - | - | - |
| Pre-1992 Total | 110 | 207 | - | (264) | 53 |
| Post-1991 | | | | | |
| Farm | 137 | - | - | (136) | 1 |
| Export | 814 | 20 | - | (266) | 568 |
| Food Aid | - | - | - | - | - |
| Housing | 443 | - | - | (416) | 27 |
| Electric | - | - | - | - | - |
| Telecommunications | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - |
| Business and Industry | 269 | 4 | - | (36) | 237 |
| Economic Development | - | - | - | - | - |
| Post-1991 Total | 1,663 | 24 | - | (854) | 833 |
| Total Defaulted Guarantee Loans | 1,773 | 231 | - | (1,118) | 886 |
| Loans Exempt from Credit Reform Act: | | | | | |
| Commodity Loans | 397 | 3 | - | - | 400 |
| Other Foreign Receivables | - | - | - | - | - |
| Total Loans Exempt | 397 | 3 | - | - | 400 |
| Total Direct Loan and Loan Guarantees, Net | | | | | $ 95,513 |

## Table 1. Direct Loan and Loan Guarantees, Net (cont'd)

| FY 2011 Direct Loans | Loans Receivable, Gross | Interest Receivable | Foreclosed Property | Present Value Allowance | Value of Assets Related to Loans |
|---|---|---|---|---|---|
| Obligated Pre-1992 | | | | | |
| Farm | $ 855 | $ 58 | $ 13 | $ (51) | $ 875 |
| Export | - | - | - | - | - |
| Food Aid | 3,820 | 11 | - | (2,026) | 1,805 |
| Housing | 9,036 | 78 | 33 | (4,284) | 4,863 |
| Electric | 2,178 | 41 | - | (1,467) | 752 |
| Telecommunications | 420 | 1 | - | (21) | 400 |
| Water and Environmental | 1,000 | 9 | - | (111) | 898 |
| Business and Industry | - | - | - | - | - |
| Economic Development | 27 | - | - | (12) | 15 |
| Pre-1992 Total | 17,336 | 198 | 46 | (7,972) | 9,608 |
| Obligated Post-1991 | | | | | |
| Farm | 7,664 | 194 | 9 | (471) | 7,396 |
| Export | - | - | - | - | - |
| Food Aid | 1,387 | - | - | (478) | 909 |
| Housing | 21,485 | 134 | 56 | (2,939) | 18,736 |
| Electric | 40,071 | 28 | - | (672) | 39,427 |
| Telecommunications | 4,031 | 2 | - | 59 | 4,092 |
| Water and Environmental | 10,871 | 105 | - | (731) | 10,245 |
| Business and Industry | 33 | - | - | (11) | 22 |
| Economic Development | 550 | 2 | - | (154) | 398 |
| Post-1991 Total | 86,092 | 465 | 65 | (5,397) | 81,225 |
| Total Direct Loan Program Receivables | 103,428 | 663 | 111 | (13,369) | 90,833 |
| Defaulted Guarantee Loans | | | | | |
| Pre-1992 | | | | | |
| Farm | - | - | - | - | - |
| Export | 124 | 1 | - | (75) | 50 |
| Food Aid | - | - | - | - | - |
| Housing | - | - | - | - | - |
| Electric | - | - | - | - | - |
| Telecommunications | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - |
| Business and Industry | 1 | - | - | - | 1 |
| Economic Development | - | - | - | - | - |
| Pre-1992 Total | 125 | 1 | - | (75) | 51 |
| Post-1991 | | | | | |
| Farm | 115 | - | - | (113) | 2 |
| Export | 870 | 7 | - | (286) | 591 |
| Food Aid | - | - | - | - | - |
| Housing | 192 | - | - | (177) | 15 |
| Electric | - | - | - | - | - |
| Telecommunications | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - |
| Business and Industry | 255 | - | - | (43) | 212 |
| Economic Development | - | - | - | - | - |
| Post-1991 Total | 1,432 | 7 | - | (619) | 820 |
| Total Defaulted Guarantee Loans | 1,557 | 8 | - | (694) | 871 |
| Loans Exempt from Credit Reform Act: | | | | | |
| Commodity Loans | 337 | 1 | - | - | 338 |
| Other Foreign Receivables | - | - | - | - | - |
| Total Loans Exempt | 337 | 1 | - | - | 338 |
| Total Direct Loan and Loan Guarantees, Net | | | | | $ 92,042 |

# Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

| | FY 2012 | FY 2011 |
|---|---|---|
| Beginning balance of the subsidy cost allowance | $ 6,017 | $ 5,576 |
| Add: Subsidy expense for direct loans disbursed during the year by component | | |
| Interest rate differential costs | 142 | 93 |
| Default costs (net of recoveries) | 196 | 208 |
| Fees and other collections | (18) | (8) |
| Other subsidy costs | (36) | 58 |
| Total subsidy expense prior to adjustments and reestimates | 284 | 351 |
| Adjustments | | |
| Loan modifications | 25 | 11 |
| Fees received | 48 | 54 |
| Loans written off | (1,136) | (464) |
| Subsidy allowance amortization | (112) | (141) |
| Other | 1,064 | 453 |
| Total subsidy cost allowance before reestimates | 6,190 | 5,840 |
| Add or subtract subsidy reestimates by component | | |
| Interest rate reestimate | 51 | (412) |
| Technical/default reestimate | (123) | 589 |
| Total reestimates | (72) | 177 |
| Ending balance of the subsidy cost allowance | $ 6,118 | $ 6,017 |

## Table 3. Subsidy Expense for Direct Loans by Program and Component

FY 2012

| | Interest Differential | Defaults | Fees and Other Collections | Other | Subtotal Subsidy | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total Subsidy Expense |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct Loan Programs | | | | | | | | | | |
| Farm | $ 18 | $ 89 | $ (1) | $ (17) | $ 89 | $ - | $ (91) | $ 43 | $ (48) | $ 41 |
| Export | - | - | - | - | - | 21 | - | 10 | 10 | 31 |
| Food Aid | - | - | - | - | - | - | - | - | - | - |
| Housing | 43 | 54 | - | 14 | 111 | 4 | 58 | 114 | 172 | 287 |
| Electric | (56) | 21 | (17) | (19) | (71) | - | 147 | (45) | 102 | 31 |
| Telecommunications | (1) | 26 | - | (7) | 18 | - | (20) | 11 | (9) | 9 |
| Water and Environmental | 127 | 6 | - | (7) | 126 | - | (142) | (115) | (257) | (131) |
| Business and Industry | 1 | - | - | - | 1 | - | (18) | (20) | (38) | (37) |
| Economic Development | 10 | - | - | - | 10 | - | 117 | (121) | (4) | 6 |
| Total Direct Loan Subsidy Expense | $ 142 | $ 196 | $ (18) | $ (36) | $ 284 | $ 25 | $ 51 | $ (123) | $ (72) | $ 237 |

FY 2011

| | Interest Differential | Defaults | Fees and Other Collections | Other | Subtotal Subsidy | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total Subsidy Expense |
|---|---|---|---|---|---|---|---|---|---|---|
| Direct Loan Programs | | | | | | | | | | |
| Farm | $ 3 | $ 106 | $ (1) | $ (10) | $ 98 | $ - | $ (60) | $ 126 | $ 66 | $ 164 |
| Export | - | - | - | - | - | - | 8 | 5 | 13 | 13 |
| Food Aid | - | - | - | - | - | - | - | - | - | - |
| Housing | 5 | 58 | (1) | 93 | 155 | 11 | 135 | 192 | 327 | 493 |
| Electric | (60) | 19 | (6) | (16) | (63) | - | (268) | 160 | (108) | (171) |
| Telecommunications | (3) | 18 | - | (4) | 11 | - | (22) | 13 | (9) | 2 |
| Water and Environmental | 136 | 7 | - | (5) | 138 | - | (81) | (30) | (111) | 27 |
| Business and Industry | 1 | - | - | - | 1 | - | 4 | 4 | 8 | 9 |
| Economic Development | 11 | - | - | - | 11 | - | (128) | 119 | (9) | 2 |
| Total Direct Loan Subsidy Expense | $ 93 | $ 208 | $ (8) | $ 58 | $ 351 | $ 11 | $ (412) | $ 589 | $ 177 | $ 539 |

## Table 4. Total Amount of Direct Loans Disbursed (Post-1991)

| | FY 2012 | FY 2011 |
|---|---|---|
| Direct Loan Programs | | |
| Farm | $ 1,921 | $ 1,929 |
| Export | - | - |
| Food Aid | - | - |
| Housing | 1,914 | 2,138 |
| Electric | 5,144 | 4,967 |
| Telecommunications | 780 | 749 |
| Water and Environmental | 1,264 | 1,311 |
| Business and Industry | 7 | 8 |
| Economic Development | 41 | 45 |
| Total Direct Loans Disbursed | $ 11,071 | $ 11,147 |

## Table 5. Guaranteed Loans Outstanding

| FY 2012 | 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 | $ 13 | $ 12,903 | $ 12,916 | $ 12 | $ 11,613 | $ 11,625 |
| Export | - | 6,195 | 6,195 | - | 6,071 | 6,071 |
| Food Aid | - | - | - | - | - | - |
| Housing | 2 | 76,995 | 76,997 | 2 | 69,284 | 69,286 |
| Electric | 96 | 193 | 289 | 96 | 193 | 289 |
| Telecommunications | - | - | - | - | - | - |
| Water and Environmental | - | 85 | 85 | - | 74 | 74 |
| Business and Industry | 5 | 7,100 | 7,105 | 3 | 5,319 | 5,322 |
| Economic Development | - | - | - | - | - | - |
| Total Guarantees Disbursed | $ 116 | $ 103,471 | $ 103,587 | $ 113 | $ 92,554 | $ 92,667 |

| FY 2011 | 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 | $ 17 | $ 12,484 | $ 12,501 | $ 15 | $ 11,230 | $ 11,245 |
| Export | - | 6,115 | 6,115 | - | 5,992 | 5,992 |
| Food Aid | - | - | - | - | - | - |
| Housing | 3 | 63,275 | 63,278 | 3 | 56,923 | 56,926 |
| Electric | 132 | 199 | 331 | 132 | 199 | 331 |
| Telecommunications | - | - | - | - | - | - |
| Water and Environmental | 7 | 62 | 69 | 6 | 54 | 60 |
| Business and Industry | 2 | 7,021 | 7,023 | 1 | 5,303 | 5,304 |
| Economic Development | - | - | - | - | - | - |
| Total Guarantees Disbursed | $ 161 | $ 89,156 | $ 89,317 | $ 157 | $ 79,701 | $ 79,858 |

## Table 6. Liability for Loan Guarantees (Present Value Method for Pre-1992 Guarantees)

| FY 2012 | 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 | $ - | $ 183 | $ 183 |
| Export | - | 174 | 174 |
| Food Aid | - | - | - |
| Housing | - | 3,201 | 3,201 |
| Electric | - | - | - |
| Telecommunications | - | - | - |
| Water and Environmental | - | - | - |
| Business and Industry | - | 913 | 913 |
| Economic Development | - | - | - |
| Total Liability for Loan Guarantees | $ - | $ 4,471 | $ 4,471 |

| FY 2011 | 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 | $ - | $ 209 | $ 209 |
| Export | - | 115 | 115 |
| Food Aid | - | - | - |
| Housing | - | 2,452 | 2,452 |
| Electric | - | - | - |
| Telecommunications | - | - | - |
| Water and Environmental | - | - | - |
| Business and Industry | 1 | 844 | 845 |
| Economic Development | - | - | - |
| Total Liability for Loan Guarantees | $ 1 | $ 3,620 | $ 3,621 |

# Table 7. Schedule for Reconciling Loan Guarantee Liability

| | FY 2012 | FY 2011 |
|---|---|---|
| Beginning balance of the loan guarantee liability | $ 3,620 | $ 2,857 |
| Add:Subsidy expense for guaranteed loans disbursed during the year by component | | |
| Interest supplement costs | (9) | 4 |
| Default costs (net of recoveries) | 95 | 665 |
| Fees and other collections | (75) | (531) |
| Other subsidy costs | 1 | 3 |
| Total of the above subsidy expense components | 12 | 141 |
| | | |
| Adjustments | | |
| Loan guarantee modifications | - | (8) |
| Fees received | 515 | 608 |
| Interest supplements paid | (26) | (29) |
| Claim payments to lenders | (129) | (275) |
| Interest accumulation on the liability balance | 85 | 66 |
| Other | (520) | (328) |
| Ending balance of the subsidy cost allowance before reestimates | 3,557 | 3,032 |
| | | |
| Add or subtract subsidy reestimates by component: | | |
| Interest rate reestimate | 181 | 110 |
| Technical/default reestimate | 733 | 478 |
| Total of the above reestimate components | 914 | 588 |
| Ending balance of the loan guarantee liability | $ 4,471 | $ 3,620 |

# Table 8. Subsidy Expense for Loan Guarantees by Program and Component

FY 2012

| Loan Guarantee Programs | Interest Supplement | Defaults | Fees and Other Collections | Other | Subtotal | Total Modifications | Interest Rate Reestimates | Technical Reestimates | Total Reestimates | Total Subsidy Expense |
|---|---|---|---|---|---|---|---|---|---|---|
| Farm | $ - | $ 25 | $ (11) | $ - | $ 14 | $ - | $ 5 | $ (26) | $ (21) | $ (7) |
| Export | - | - | - | - | - | - | (4) | 35 | 31 | 31 |
| Food Aid | - | - | - | - | - | - | - | - | - | - |
| Housing | (9) | 40 | (60) | - | (29) | - | 169 | 607 | 776 | 747 |
| Electric | - | - | - | - | - | - | - | - | - | - |
| Telecommunications | - | - | - | - | - | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - | - | - | - | - | - |
| Business and Industry | - | 30 | (4) | 1 | 27 | - | 11 | 117 | 128 | 155 |
| Economic Development | - | - | - | - | - | - | - | - | - | - |
| Total Loan Guarantee Subsidy Expense | $ (9) | $ 95 | $ (75) | $ 1 | $ 12 | $ - | $ 181 | $ 733 | $ 914 | $ 926 |

FY 2011

| 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 | $ 7 | $ 63 | $ (27) | $ - | $ 43 | $ - | $ (9) | $ (70) | $ (79) | $ (36) |
| Export | - | (1) | 1 | - | - | - | 14 | 48 | 62 | 62 |
| Food Aid | - | - | - | - | - | - | - | - | - | - |
| Housing | (3) | 448 | (463) | - | (18) | (8) | 62 | 308 | 370 | 344 |
| Electric | - | - | - | - | - | - | - | - | - | - |
| Telecommunications | - | - | - | - | - | - | - | - | - | - |
| Water and Environmental | - | - | - | - | - | - | - | - | - | - |
| Business and Industry | - | 155 | (42) | 3 | 116 | - | 43 | 192 | 235 | 351 |
| Economic Development | - | - | - | - | - | - | - | - | - | - |
| Total Loan Guarantee Subsidy Expense | $ 4 | $ 665 | $ (531) | $ 3 | $ 141 | $ (8) | $ 110 | $ 478 | $ 588 | $ 721 |

## Table 9. Guaranteed Loans Disbursed

| | FY 2012 | | FY 2011 | |
|---|---|---|---|---|
| | Principal, Face Value Disbursed | Principal, Guaranteed Disbursed | Principal, Face Value Disbursed | Principal, Guaranteed Disbursed |
| Loan Guarantee Programs | | | | |
| Farm | $ 2,649 | $ 2,384 | $ 3,060 | $ 2,753 |
| Export | 4,399 | 4,306 | 3,497 | 3,427 |
| Food Aid | - | - | - | - |
| Housing | 19,042 | 17,133 | 15,283 | 13,750 |
| Electric | - | - | - | - |
| Telecommunications | - | - | - | - |
| Water and Environmental | 26 | 23 | 4 | 3 |
| Business and Industry | 1,054 | 820 | 1,820 | 1,439 |
| Economic Development | - | - | - | - |
| Total Guaranteed Loans Disbursed | $ 27,170 | $ 24,666 | $ 23,664 | $ 21,372 |

## Table 10. Administrative Expenses

| | FY 2012 | FY 2011 |
|---|---|---|
| Direct Loan Programs | $ 489 | $ 535 |
| Guaranteed Loan Programs | 417 | 432 |
| Total Administrative Expenses | $ 906 | $ 967 |

# Table 11. Subsidy Rates for Direct Loans (percentage)

| FY 2012 | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| Direct Loan Programs | | | | | |
| Farm Ownership | 2.14 | 4.92 | - | (2.26) | 4.80 |
| Farm Operating | 0.97 | 5.09 | - | (0.44) | 5.62 |
| Emergency Disaster | (3.62) | 8.84 | - | (0.21) | 5.01 |
| Indian Tribe Land Acquisition | (13.89) | - | - | - | (13.89) |
| Boll Weevil Eradication | (1.81) | 0.02 | - | (0.37) | (2.16) |
| Indian Highly Fractionated Land | (8.78) | 11.42 | - | (0.71) | 1.93 |
| Farm Storage Facility Loan Program | (1.97) | 0.02 | (0.27) | (0.08) | (2.30) |
| Sugar Storage Facility Loan Program | (0.20) | 0.02 | - | (0.16) | (0.34) |
| Multi-Family Housing Relending Demo | 36.84 | - | - | - | 36.84 |
| Multi-Family Housing Revitalization Seconds | 61.66 | 0.11 | - | (0.03) | 61.74 |
| Multi-Family Housing Revitalization Zero | 54.28 | 0.10 | - | (0.09) | 54.29 |
| Community Facility Loans | (4.13) | 2.13 | - | (1.04) | (3.04) |
| Section 502 Single-Family Housing | 1.69 | 3.89 | - | (0.85) | 4.73 |
| Section 515 Multi-Family Housing | 35.29 | 0.17 | - | (1.34) | 34.12 |
| Section 504 Housing Repair | 19.79 | (0.06) | - | (5.53) | 14.20 |
| Section 514 Farm Labor Housing | 34.80 | 0.11 | - | (0.76) | 34.15 |
| Section 523 Self-Help Housing | (1.01) | - | - | - | (1.01) |
| Single-Family Housing Credit Sales | (22.70) | 3.47 | - | 2.37 | (16.86) |
| Intermediary Relending Program | 34.60 | 0.21 | - | (0.93) | 33.88 |
| Rural Economic Development Loans | 13.03 | 0.01 | - | (0.05) | 12.99 |
| Water and Waste Disposal Loans | 11.60 | 0.10 | - | (2.12) | 9.58 |
| Electric Hardship Loans | (15.52) | 0.03 | - | 1.10 | (14.39) |
| FFB Electric Loans | (2.01) | 0.09 | - | (2.08) | (4.00) |
| Telecommunication Hardship Loans | (14.23) | 0.04 | - | 0.41 | (13.78) |
| Treasury Telecommunication Loans | - | 0.37 | - | (1.55) | (1.18) |
| FFB Telecommunications Loans | 3.08 | 0.15 | - | (6.87) | (3.64) |
| FFB Guaranteed Underwriting | (3.38) | 1.40 | (4.35) | - | (6.33) |
| Broadband Treasury Loans | - | 4.48 | - | (0.94) | 3.54 |

# Table 12. Subsidy Rates for Loan Guarantees (percentage)

| FY 2012 | Interest Differential | Defaults | Fees and Other Collections | Other | Total |
|---|---|---|---|---|---|
| Guaranteed Loan Programs | | | | | |
| Farm Ownership—Unsubsidized | - | 1.31 | (1.32) | - | (0.01) |
| Farm Operating—Unsubsidized | - | 3.09 | (1.35) | - | 1.74 |
| Conservation—Guaranteed | - | 1.31 | (1.32) | - | (0.01) |
| GSM 102 | - | 0.06 | (0.74) | - | (0.68) |
| Export Guarantee Program—Facilities | - | 0.15 | (4.78) | - | (4.63) |
| Community Facility Loan Guarantees | - | 5.61 | (0.87) | - | 4.74 |
| Guaranteed 538 Multi-Family Housing | - | 6.97 | (7.03) | - | (0.06) |
| Guaranteed 502 Single-Family Housing | - | 3.68 | (3.71) | - | (0.03) |
| Business and Industry Loan Guarantees | - | 8.74 | (3.16) | - | 5.58 |
| Renewable Energy Loan Guarantees | - | 27.31 | (1.11) | - | 26.20 |
| Section 9003 Loan Guarantees | - | 28.31 | (2.80) | 1.29 | 26.80 |
| Water and Waste Disposal Loans | - | 2.43 | (0.85) | - | 1.58 |

# 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.

| | | FY 2012 Beginning Inventory | | Acquisitions | | Sales | | Donations | | Other | | FY 2012 Ending Inventory | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Commodities:** | **Unit of Measure** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** |
| Corn Meal | Pounds | - | $ - | 103 | $ 23 | - | $ - | (103) | $ (23) | - | $ - | - | $ - |
| Blended Foods | Pounds | 16 | 5 | 177 | 57 | - | - | (190) | (61) | - | - | 2 | 1 |
| Dry Edible Beans | Cwt. | - | 3 | - | 13 | - | - | - | (16) | - | - | - | - |
| Dry Whole Peas | Cwt. | - | 9 | 2 | 64 | - | - | (2) | (73) | - | - | - | - |
| Emergency Food Ration Bars | Pounds | 2 | 4 | 3 | 6 | - | - | (4) | (7) | - | - | 1 | 3 |
| Grain Sorghum | Bushels | 1 | 5 | 14 | 105 | - | - | (14) | (110) | - | - | - | - |
| Lentils Dry | Cwt. | - | - | 1 | 20 | - | - | (1) | (20) | - | - | - | - |
| Nonfat Dry Milk | Pounds | - | - | - | - | - | - | (1) | (1) | 1 | 1 | - | - |
| Rice Products | Cwt., Pounds | - | - | 3 | 81 | - | - | (3) | (79) | - | - | - | 2 |
| Meat | Pounds | - | - | - | - | - | - | - | - | - | - | - | - |
| Vegetable Oil | Pounds | 33 | 24 | 210 | 150 | - | - | (232) | (166) | - | - | 12 | 8 |
| Wheat Products | Bushels, Pounds | - | - | 225 | 263 | - | - | (225) | (263) | - | - | - | - |
| Other | Various | - | - | 94 | 31 | - | - | (95) | (32) | 1 | 1 | - | - |
| Total Commodities | | XXXX | $ 50 | XXXX | $ 813 | XXXX | $ - | XXXX | $ (851) | XXXX | $ 2 | XXXX | $ 14 |
| Allowance for losses | | | | | | | | | | | | | - |
| Barter Delivery Obligations (BDO) | | | | | | | | | | | | | - |
| Total Inventory and Related Property, Net | | | | | | | | | | | | | $ 14 |

| | | FY 2011 Beginning Inventory | | Acquisitions | | Sales | | Donations | | Other | | FY 2011 Ending Inventory | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Commodities:** | **Unit of Measure** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** | **Quantity** | **Value** |
| Corn Meal | Pounds | 2 | $ - | 142 | $ 26 | - | $ - | (144) | $ (26) | - | $ - | - | $ - |
| Blended Foods | Pounds | 16 | 4 | 100 | 12 | - | - | (100) | (11) | 1 | - | 16 | 5 |
| Dry Edible Beans | Cwt. | - | 2 | - | 7 | - | - | - | (6) | - | - | - | 3 |
| Dry Whole Peas | Cwt. | - | - | 3 | 47 | - | - | (3) | (38) | - | - | - | 9 |
| Emergency Food Ration Bars | Pounds | - | - | - | - | - | - | 2 | 4 | - | - | 2 | 4 |
| Grain Sorghum | Bushels | - | - | 10 | 45 | - | - | (9) | (40) | - | - | 1 | 5 |
| Lentils Dry | Cwt. | - | - | - | 4 | - | - | - | (4) | - | - | - | - |
| Nonfat Dry Milk | Pounds | 7 | 6 | - | - | - | - | (6) | (9) | - | 3 | - | - |
| Rice Products | Cwt., Pounds | - | 5 | 2 | 45 | - | - | (2) | (51) | - | 1 | - | - |
| Meat | Pounds | - | - | 34 | 78 | - | - | (34) | (78) | - | - | - | - |
| Vegetable Oil | Pounds | 5 | 3 | 333 | 150 | - | - | (309) | (132) | 4 | 3 | 33 | 24 |
| Wheat Products | Bushels, Pounds | 12 | 2 | 288 | 167 | - | - | (312) | (172) | 13 | 3 | - | - |
| Other | Various | - | - | 231 | 162 | - | - | (1,210) | (179) | 979 | 17 | - | - |
| Total Commodities | | XXXX | $ 22 | XXXX | $ 743 | XXXX | $ - | XXXX | $ (742) | XXXX | $ 27 | XXXX | $ 50 |
| Allowance for losses | | | | | | | | | | | | | (2) |
| Barter Delivery Obligations (BDO) | | | | | | | | | | | | | 3 |
| Total Inventory and Related Property, Net | | | | | | | | | | | | | $ 51 |

## Note 9. General Property, Plant, and Equipment, Net

During FY 2012, ARS transferred $696 million from construction-in-progress to buildings and other structures.

| FY 2012<br>Category | Useful Life (Years) | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|---|
| Land and Land Rights | | $ 77 | $ - | $ 77 |
| Improvements to Land | 10 - 50 | 751 | (668) | 83 |
| Construction-in-Progress | | 330 | - | 330 |
| Buildings, Improvements and Renovations | 15 - 30 | 2,796 | (1,548) | 1,248 |
| Other Structures and Facilities | 15 - 50 | 1,816 | (1,472) | 344 |
| Equipment | 5 - 20 | 1,617 | (1,219) | 398 |
| Assets Under Capital Lease | 3 - 20 | 64 | (44) | 20 |
| Leasehold Improvements | 10 | 75 | (57) | 18 |
| Internal-Use Software | 5 - 8 | 650 | (501) | 149 |
| Internal-Use Software in Development | | 370 | - | 370 |
| Total | | $ 8,546 | $ (5,509) | $ 3,037 |

| FY 2011<br>Category | Useful Life (Years) | Cost | Accumulated Depreciation | Net Book Value |
|---|---|---|---|---|
| Land and Land Rights | | $ 77 | $ - | $ 77 |
| Improvements to Land | 10 - 50 | 738 | (650) | 88 |
| Construction-in-Progress | | 1,045 | - | 1,045 |
| Buildings, Improvements and Renovations | 15 - 30 | 2,039 | (1,377) | 662 |
| Other Structures and Facilities | 15 - 50 | 1,789 | (1,436) | 353 |
| Equipment | 5 - 20 | 1,630 | (1,248) | 382 |
| Assets Under Capital Lease | 3 - 20 | 69 | (45) | 24 |
| Leasehold Improvements | 10 | 69 | (48) | 21 |
| Internal-Use Software | 5 - 8 | 618 | (436) | 182 |
| Internal-Use Software in Development | | 216 | - | 216 |
| Total | | $ 8,290 | $ (5,240) | $ 3,050 |

## Note 10. Stewardship PP&E

Stewardship PP&E consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E include heritage assets and stewardship land.

### Heritage Assets

Heritage assets are unique and are generally expected to be preserved indefinitely. Heritage assets may be unique because they have historical or natural significance, are of cultural, educational or artistic importance, or have significant architectural characteristics. The assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No amounts are shown on the balance sheet for heritage assets, except for multi-use heritage assets in which the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of multi-use heritage assets is capitalized as general PP&E and depreciated. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use is considered an expense in the period incurred when determining the net cost of operations. Heritage assets consist of collection type, such as objects gathered and maintained for exhibition, for example library collections; and non-collection-type, such as memorials, monuments and buildings.

**National Forests, National Grasslands and Other Sites**—FS manages its heritage assets by site. Sites include National Forests, National Grasslands, other Forest Service-managed sites, and non Forest Service- managed sites such as museums and university laboratories. The mission of the FS is to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The FS strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.

Heritage Asset categories can include the following:

Priority Heritage Assets (PHA): Heritage assets of distinct public value that are, or should be, actively maintained, and meet one or more of the following criteria:

- The property is recognized through an official designation; such as a listing on the National Register of Historic Places, State register, etc.
- The property is recognized through prior investment in preservation, interpretation, and use. Any improvement to a PHA that meets real property designation criteria is considered real property.
- The property is recognized in an agency-approved management plan.
- The property exhibits critical deferred maintenance needs, and those needs have been documented.

Other Heritage Assets: Assets that may have potential important historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein.

**Research Centers**—ARS conducts research at centers nationwide to develop and transfer solutions to agricultural problems of high national priority and provides 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. NRCS currently owns one heritage asset, the Tucson Plant Materials Center (TPMC) which is included in general PP&E as a multi-use asset. It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development (RC&D) groups, conservation districts, Federal, State, and Tribal agencies, and private landowners through the greater Southwest. Research centers are considered heritage assets because one or more buildings or structures at these centers is on the National Register of Historic Places or have been identified as eligible for inclusion on the National Register.

**Library Collections**—The National Agricultural Library (NAL) as a whole is the largest collection of materials devoted to agriculture in the world. The collections are in constant use to support the research activities of USDA, departmental operations and to answer citizen inquiries. NAL houses and provides access to millions of books and periodicals. The overwhelming number of these items were published more than 25 years ago and almost all of them are out-of-print and unavailable for purchase. By statute, NAL is the primary depository of publications and information concerning the research and other activities of USDA. Included in the collection are government documents and many items that are unique and irreplaceable. NAL collects, preserves and provides access to manuscripts, rare books, photographs, posters, oral histories and other unique materials. Collection concentrations include the fields of agriculture, horticulture, entomology, poultry sciences, botany, natural history and agricultural history. Although focused primarily on American agriculture and related sciences, NAL holds numerous items of international origin.

**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 may be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total.

### Stewardship Land

Stewardship land is land and land rights not acquired for or in connection with items of general PP&E. Land is defined as the solid surface of the earth, excluding natural resources. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states, and counties. These assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No asset amount is shown on the balance sheet for stewardship land. The acquisition cost of stewardship land is considered an expense in the period acquired when determining the net cost of operations. Stewardship land consists primarily of the national forests and grasslands owned by the FS and conservation easements purchased by NRCS.

**National Forests**—National forests are formally established and permanently set aside and reserved for national forest purposes, including National Wilderness, National Primitive, National Wild and Scenic River, National Recreation, National Scenic Research, National Game Refuges and Wildlife Preserve, and National Monument areas.

**National Grasslands**—National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

**Research and Experimental Areas**—Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a national forest or national grassland.

**National Preserves and Other Areas**—National preserves are units established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural and recreational values; and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the FS that are not included in one of the above groups.

**Conservation Easements**— NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land.

NRCS's objectives in managing, monitoring and enforcing the terms and conditions of easement deeds are to ensure that: (1) taxpayer investments are properly used in accordance with the intent of the program; (2) the agency is a good steward of the land; and (3) the land is properly maintained. The specific uses for the land are identified under each program. Landowners are not allowed to withdraw from the program; however termination or expiration may occur.

Stewardship resources involve substantial investment in order to gain long-term benefits for the American public and help the Agency satisfy its mission. The purpose of purchasing easements is to restore or enhance wetlands, protect farmland, restore and protect grassland, restore and protect forest ecosystems, and restore, protect, maintain, and enhance the functions of floodplains.

NRCS, on behalf of USDA, administers and owns conservation easements on private lands through five different programs. For the purpose of stewardship asset reporting, all easements where NRCS is the grantee of the easement are included as stewardship land. Also included are easements that are administered by NRCS on behalf of other USDA agencies.

**Acquisition and Withdrawal of Stewardship Lands**— The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the FS NFS. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values, as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

| | FY 2012 | Additions | Withdrawals | FY 2011 |
|---|---|---|---|---|
| Heritage Assets | | | | |
| National Forests | 154 | - | (1) | 155 |
| National Grasslands | 20 | - | - | 20 |
| Other Sites | 168 | 19 | (18) | 167 |
| Research Centers | 36 | - | - | 36 |
| Library Collections | 1 | - | - | 1 |
| Total | 379 | 19 | (19) | 379 |
| Stewardship Land | | | | |
| National Forests | 154 | - | (1) | 155 |
| National Grasslands | 20 | - | - | 20 |
| Research and Experimental Areas | 3 | - | - | 3 |
| National Preserves and Other Areas | 3 | - | - | 3 |
| Conservation Easements | 14,736 | 759 | - | 13,977 |
| Total | 14,916 | 759 | (1) | 14,158 |

| | FY 2011 | Additions | Withdrawals | FY 2010 |
|---|---|---|---|---|
| Heritage Assets | | | | |
| National Forests | 155 | - | - | 155 |
| National Grasslands | 20 | - | - | 20 |
| Other Sites | 167 | 18 | (6) | 155 |
| Research Centers | 36 | - | - | 36 |
| Library Collections | 1 | - | - | 1 |
| Total | 379 | 18 | (6) | 367 |
| Stewardship Land | | | | |
| National Forests | 155 | - | - | 155 |
| National Grasslands | 20 | - | - | 20 |
| Research and Experimental Areas | 3 | - | - | 3 |
| National Preserves and Other Areas | 3 | - | - | 3 |
| Conservation Easements | 13,977 | 2,892 | - | 11,085 |
| Total | 14,158 | 2,892 | - | 11,266 |

## Note 11. Other Assets

In FY 2012 and FY 2011, other assets include investments in trust for loan asset sales of $35 million.

| | FY 2012 | FY 2011 |
|---|---|---|
| Intragovernmental: | | |
| Advances to Others | $ - | $ 2 |
| Subtotal Intragovernmental | - | 2 |
| With the Public: | | |
| Advances to Others | 160 | 206 |
| Other Assets | 37 | 37 |
| Total Other Assets | $ 197 | $ 245 |

## Note 12. Liabilities Not Covered By Budgetary Resources

In FY 2012 and FY 2011, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $167 million and $167 million, contract disputes claims payable to Treasury's Judgment Fund of $23 million and $20 million, unemployment compensation of $25 million and $24 million, and custodial of $3 million and $5 million, respectively. In FY 2011, deposit funds and clearing accounts was $41 million.

In FY 2012 and FY 2011, other liabilities with the public not covered by budgetary resources include, Tobacco Transition Payment Program of $1,906 million and $2,857 million, future funded indemnity costs of $18,193 million and $9,284 million, unfunded leave of $615 million and $640 million, Payments to States $346 million and $357 million, contingent liabilities of $74 million and $1,162 million, and estimated program delivery costs to reinsurer of $92 million and $54 million, respectively. In FY 2012, Black Farmer Discrimination Lawsuit, also known as Pigford II was $50 million, and unapplied collections were $16 million. In FY 2011, underwriting gain on crop insurance was $1,007 million and deposit funds and clearing accounts was $16 million.

| | FY 2012 | FY 2011 |
|---|---|---|
| Intragovernmental: | | |
| Other | $ 218 | $ 257 |
| Subtotal Intragovernmental | 218 | 257 |
| With the Public: | | |
| Accounts Payable | - | 2 |
| Federal employee and veterans' benefits | 944 | 904 |
| Environmental and disposal liabilities | 8 | 8 |
| Other | 21,291 | 15,376 |
| Subtotal With the Public | 22,243 | 16,290 |
| Total liabilities not covered by budgetary resources | 22,461 | 16,547 |
| Total liabilities covered by budgetary resources | 130,673 | 119,705 |
| Total Liabilities | $ 153,134 | $ 136,252 |

## Note 13. Debt

| FY 2012 | Beginning Balance | Net Borrowing | Ending Balance |
|---|---|---|---|
| Intragovernmental | | | |
| Debt to the Treasury | $ 55,357 | $ 431 | $ 55,788 |
| Debt to the Federal Financing Bank | 34,226 | 3,866 | 38,092 |
| Total Intragovernmental | 89,583 | 4,297 | 93,880 |
| Agency Debt: | | | |
| Held by the Public | - | - | - |
| Total Debt | $ 89,583 | $ 4,297 | $ 93,880 |

| FY 2011 | Beginning Balance | Net Borrowing | Ending Balance |
|---|---|---|---|
| Intragovernmental | | | |
| Debt to the Treasury | $ 56,599 | $ (1,242) | $ 55,357 |
| Debt to the Federal Financing Bank | 31,316 | 2,910 | 34,226 |
| Total Intragovernmental | 87,915 | 1,668 | 89,583 |
| Agency Debt: | | | |
| Held by the Public | - | - | - |
| Total Debt | $ 87,915 | $ 1,668 | $ 89,583 |

## Note 14. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. In FY 2012, CCC and FS estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $8 million and $2 million, respectively, based on actual cleanup costs at similar sites. In FY 2011, the liability was $8 million and $1 million, respectively. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

## Note 15. Other Liabilities

In FY 2012, other liabilities with the public include estimated losses on crop insurance claims of $17,068 million, estimated underwriting gains on crop insurance of $1,666 million, crop insurance premium subsidy deficiency reserve of $1,126 million, *Pigford II* of $1,200 million, Payments to States of $346 million, estimated program delivery cost to reinsurer of $92 million, credit reform programs of $18 million, unapplied collections of $16 million, loans paid in advance for multi-family housing of $12 million, and purchaser road credits of $1 million.

In FY 2011, other liabilities with the public include estimated losses on crop insurance claims of $8,034 million, estimated underwriting gains on crop insurance of $1,007 million, crop insurance premium subsidy deficiency reserve of $1,250 million, Payments to States of $357 million, Brazilian Cotton Industry of $146 million, estimated program delivery cost to reinsurer of $54 million, credit reform programs of $14 million, loans paid in advance for multi-family housing of $11 million, and purchaser road credits of $1 million.

| FY 2012 | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental: | | | |
| Other Accrued Liabilities | $ 21 | $ 72 | $ 93 |
| Employer Contributions and Payroll Taxes | - | 108 | 108 |
| Unfunded FECA Liability | - | 167 | 167 |
| Other Unfunded Employment Related Liability | - | 25 | 25 |
| Advances from Others | - | 87 | 87 |
| Liability for Deposit Funds, Clearing Accounts | - | (14) | (14) |
| Liability for Subsidy Related to Undisbursed Loans | - | 64 | 64 |
| Resources Payable to Treasury | - | 11,845 | 11,845 |
| Custodial Liability | - | 57 | 57 |
| Other Liabilities | - | 2 | 2 |
| Subtotal Intragovernmental | 21 | 12,413 | 12,434 |
| With the Public: | | | |
| Other Accrued Liabilities | - | 11,817 | 11,817 |
| Accrued Funded Payroll and Leave | - | 465 | 465 |
| Unfunded Leave | - | 615 | 615 |
| Advances from Others | - | 137 | 137 |
| Deferred Credits | - | 741 | 741 |
| Liability for Deposit Funds, Clearing Accounts | - | 138 | 138 |
| Contingent Liabilities | - | 74 | 74 |
| Capital Lease Liability | 16 | 6 | 22 |
| Custodial Liability | - | - | - |
| Other Liabilities | 22 | 21,524 | 21,546 |
| Subtotal With the Public | 38 | 35,517 | 35,555 |
| Total Other Liabilities | $ 59 | $ 47,930 | $ 47,989 |

| FY 2011 | Non-Current | Current | Total |
|---|---|---|---|
| Intragovernmental: | | | |
| Other Accrued Liabilities | $ 20 | $ 56 | $ 76 |
| Employer Contributions and Payroll Taxes | - | 109 | 109 |
| Unfunded FECA Liability | - | 167 | 167 |
| Other Unfunded Employment Related Liability | - | 24 | 24 |
| Advances from Others | - | 80 | 80 |
| Liability for Deposit Funds, Clearing Accounts | - | (32) | (32) |
| Liability for Subsidy Related to Undisbursed Loans | - | 44 | 44 |
| Resources Payable to Treasury | - | 10,516 | 10,516 |
| Custodial Liability | - | 64 | 64 |
| Other Liabilities | - | 4 | 4 |
| Subtotal Intragovernmental | 20 | 11,032 | 11,052 |
| With the Public: | | | |
| Other Accrued Liabilities | - | 12,453 | 12,453 |
| Accrued Funded Payroll and Leave | - | 500 | 500 |
| Unfunded Leave | - | 640 | 640 |
| Advances from Others | - | 117 | 117 |
| Deferred Credits | - | 821 | 821 |
| Liability for Deposit Funds, Clearing Accounts | - | 175 | 175 |
| Contingent Liabilities | - | 1,237 | 1,237 |
| Capital Lease Liability | 19 | 8 | 27 |
| Custodial Liability | - | (1) | (1) |
| Other Liabilities | 22 | 10,862 | 10,884 |
| Subtotal With the Public | 41 | 26,812 | 26,853 |
| Total Other Liabilities | $ 61 | $ 37,844 | $ 37,905 |

## Note 16. Leases

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, and South Building) 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.

At current market rate, the estimated yearly rental payment for the above mentioned space would be $64 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 2012 | |
| Capital Leases: | |
| Summary of Assets Under Capital Leases | |
| Land and Building | $ 64 |
| Machinery and Equipment | - |
| Accumulated Amortization | (44) |
| Future Payments Due: | |
| | Land & Buildings |
| Fiscal Year | |
| 2013 | 11 |
| 2014 | 10 |
| 2015 | 9 |
| 2016 | 8 |
| 2017 | 6 |
| After 5 Years | 21 |
| Total Future Lease Payments | 65 |
| Less: Imputed Interest | 30 |
| Less: Executory Costs | 13 |
| Less: Lease Renewal Options | - |
| Net Capital Lease Liability | 22 |
| Lease liabilities covered by budgetary resources | 22 |

Operating Leases:
Future Payments Due:

| Fiscal Year | Land & Buildings | Machinery & Equipment | Other | Totals |
|---|---|---|---|---|
| 2013 | 125 | 1 | 1 | 127 |
| 2014 | 109 | - | 1 | 110 |
| 2015 | 98 | - | - | 98 |
| 2016 | 85 | - | - | 85 |
| 2017 | 76 | - | - | 76 |
| After 5 Years | 325 | - | 1 | 326 |
| Total Future Lease Payments | $ 818 | $ 1 | $ 3 | $ 822 |

FY 2011

Capital Leases:

Summary of Assets Under Capital Leases

| | |
|---|---|
| Land and Building | $ 69 |
| Machinery and Equipment | - |
| Accumulated Amortization | (45) |

Future Payments Due:

| Fiscal Year | Land & Buildings |
|---|---|
| 2012 | 12 |
| 2013 | 11 |
| 2014 | 10 |
| 2015 | 9 |
| 2016 | 8 |
| After 5 Years | 27 |
| Total Future Lease Payments | 77 |
| Less: Imputed Interest | 34 |
| Less: Executory Costs | 16 |
| Less: Lease Renewal Options | - |
| Net Capital Lease Liability | 27 |
| | |
| Lease liabilities covered by budgetary resources | 27 |

Operating Leases:

Future Payments Due:

| Fiscal Year | Land & Buildings | Machinery & Equipment | Other | Totals |
|---|---|---|---|---|
| 2012 | 119 | 1 | 1 | 121 |
| 2013 | 102 | - | 1 | 103 |
| 2014 | 91 | - | 1 | 92 |
| 2015 | 81 | - | - | 81 |
| 2016 | 72 | - | - | 72 |
| After 5 Years | 339 | - | 1 | 340 |
| Total Future Lease Payments | $ 804 | $ 1 | $ 4 | $ 809 |

## Note 17. Commitments and Contingencies

The Department is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $74 million and $1,237 million has been accrued in the financial statements as of September 30, 2012 and 2011, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $734 million to $1,544 million as of September 30, 2012, compared to $747 million to $1,493 million as of September 30, 2011.

CRP rental payments are estimated to be $1,800 million annually through FY 2016. Commitments to extend loan guarantees are estimated to be $5,983 million and $5,949 million in FY 2012 and FY 2011, respectively.

## Note 18. Earmarked Funds

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues.

Financial information for all significant earmarked funds follows the descriptions of each fund's purpose shown below.

### 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 and 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).

### Animal Plant Health Inspection Service

#### *Agricultural Quarantine Inspection User Fee Account*

This fund is used to record and report 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).

### 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 Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds 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 Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25.0 percent of all monies received from the national forests and deposited into the National Forest Fund during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid 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 Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343), provides stabilized education and road maintenance funding through predictable payments to counties, job creation in those counties, and other opportunities associated with the restoration, maintenance, and stewardship of Federal lands.

### *State, Private, and International Forestry, Land and Water Conservation Fund*

The Fiscal Year 2004 Department of the Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of the 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 no real property will be procured or constructed.

### *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).

### *Restoration of Forest Lands and Improvements*

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) states any monies 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 monies 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*

Payments to Counties, Title III, Bankhead-Jones Farm Tenant Act (Act) authorizes national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act. At the end of each calendar year twenty-five 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 in lieu of taxes. Receipts from the Act designated as either national grasslands or land utilization projects are to be credited to a special account.

### *Acquisition of Lands to Complete Land Exchanges*

As authorized by 7 statutes, this program is funded annually by congressional appropriation action, with forest revenues generated by the occupancy of public land or from the sale of natural resources other than minerals. All funds appropriated that remain unobligated at the end of the fiscal year are returned to the receipts of the affected national forests. These funds are used to purchase land and for related expenditures such as title search, escrow, recording, and personnel costs when the purchase is considered necessary to minimize soil erosion and flood damage. This appropriation is available for land acquisition within the exterior boundaries of the national forests.

## National Institute of Food and Agriculture (NIFA)

### *Native American Institutions Endowment Fund*

The Native American Institutions Endowment Fund was authorized by Public Law 103-382, and provided an initial installment to establish an endowment to benefit the 1994 land grant institutions. The public law states that “This program will enhance educational opportunities for Native Americans by building educational capacity at these institutions in the areas of student recruitment and retention, curricula development, faculty preparation, instruction delivery systems, and scientific instrumentation for teaching.” While the principal (corpus) of the fund cannot be used, the interest that is earned on the endowment fund investments in Treasury instruments can be used for the purposes described above. After the close of a fiscal year, the income is distributed after making adjustments for the cost of administering the fund.

## Farm Service Agency

### *Agricultural Disaster Assistance Transition – Recovery Act and Agricultural Disaster Relief Trust Fund*

The Agricultural Disaster Assistance Transition – Recovery Act and the Agricultural Disaster Relief Trust Fund shall make amounts available for the purpose of expenditures to meet the obligations of the United States incurred under section 901 or section 531 of the Federal Crop Insurance Act. The trust funds will be used to make payments to farmers and ranchers under seven disaster assistance programs: (1) Supplemental Revenue Assistance Payments (SURE) Program, (2) Livestock Feed Program (LFP), (3) Livestock Indemnity Program (LIP), (4) Tree Assistance Program (TAP), (5) Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP), (6) Recovery Act for the Supplemental Revenue Assistance Payments Program, and (7) Recovery Act for the Tree Assistance Program. The funds are appropriated an amount equivalent to 3.08 percent of the amounts received in the general fund of the Treasury of the United States during fiscal years 2008 through 2011 attributable to the duties collected on articles entered, or withdrawn from warehouse, for consumption under the Harmonized Tariff Schedule of the United States.

## Other

Financial information is summarized for all other earmarked funds with total assets less than $50 million listed below.

### *Agricultural Marketing Service*

Perishable Agricultural Commodities Act
Wool Research, Development and Promotion Trust Fund

### *Animal Plant Health Inspection Service*

Miscellaneous Contributed Funds

### *Forest Service*

National Forest Fund Receipts
Roads and Trails for States, National Forest Fund
Reforestation Trust Fund
Timber Sales Pipeline Restoration Fund
Operation and Maintenance of Forest Service Quarters
Timber Roads, Purchaser Elections
Expenses, Brush Disposal
Range Betterment Fund
Acquisition of Lands for National Forests, Special Acts
Construction of Facilities or Land Acquisition
Recreation Fees for Collection Costs
Payment to Minnesota (Cook, Lake and Saint Louis Counties)
Licensee Program
Tongass Timber Supply Fund
Resource Management Timber Receipts
Quinault Special Management Area
MNP Rental Fee Account
Midewin National Tallgrass Prairie Restoration Fund
Land Between the Lakes Management Fund
Administration of Rights-of-Way and Other Land Uses Fund
Valles Caldera Fund
Hardwood Technology Transfer and Applied Research Fund
Stewardship Contracting Product Sales
Mount Saint Helens Highway
Gifts, Donations and Bequests for Forest and Rangeland Research
Land Between the Lakes Trust Fund
Timber Salvage Sales
Gifts and Bequests

### *Natural Resources Conservation Service*

Miscellaneous Contributed Funds

### *Agricultural Research Service*

Concessions Fees and Volunteer Services
Gifts and Bequests
Miscellaneous Contributed Funds

### *Rural Development*

Alternative Agricultural Research and Commercialization Revolving Fund

### *Foreign Agricultural Service*

Miscellaneous Contributed Funds
Gifts and Bequests

### *Grain Inspection, Packers and Stockyards Administration*

Inspection and Weighing Services

### *Food Safety and Inspection Service*

Expenses and Refunds, Inspection of Farm Products

### *Office of the Inspector General*

Inspector General Assets Forfeiture, Department of Justice
Inspector General Assets Forfeiture, Department of Treasury

### *National Agricultural Statistics Service*

Miscellaneous Contributed Funds

### *Economic Research Service*

Miscellaneous Contributed Funds

### *Departmental Offices*

Gifts and Bequests

Earmarked Funds

| **Balance Sheet As of September 30, 2012** | AMS<br>Funds for Strengthening Markets, Income, and Supply | AMS<br>Expenses and Refunds, Inspection and Grading of Farm Products | APHIS<br>Agricultural Quarantine Inspection User Fee Account | FS<br>Cooperative Work | FS<br>Land Acquisition | FS<br>Payments to States, National Forests Fund | FS<br>State, Private, and International Forestry, Land and Water Conservation Fund |
|---|---|---|---|---|---|---|---|
| Fund Balance with Treasury | $ 247 | $ 94 | $ 141 | $ 213 | $ 14 | $ 186 | $ 130 |
| Investments | - | - | - | - | - | - | - |
| Other Assets | 429 | 26 | 136 | 19 | 46 | 3 | 1 |
| Total Assets | 676 | 120 | 277 | 232 | 60 | 189 | 131 |
| Other Liabilities | 2 | 65 | 85 | 85 | 1 | 319 | 31 |
| Total Liabilities | 2 | 65 | 85 | 85 | 1 | 319 | 31 |
| Unexpended Appropriations | - | - | - | - | - | - | - |
| Cumulative Results of Operations | 674 | 55 | 192 | 147 | 59 | (130) | 100 |
| Total Liabilities and Net Position | 676 | 120 | 277 | 232 | 60 | 189 | 131 |
| **Statement of Net Cost For the Period Ended September 30, 2012** | | | | | | | |
| Gross program costs | 696 | 188 | 189 | 98 | 48 | 114 | 47 |
| Less Earned Revenue | - | 152 | 555 | 92 | - | 107 | - |
| Net Cost of Operations | 696 | 36 | (366) | 6 | 48 | 7 | 47 |
| **Statement of Changes in Net Position For the period Ended September 30, 2012** | | | | | | | |
| Net Position Beginning of Period | 569 | 53 | 175 | 313 | 74 | (123) | 94 |
| Other Financing Sources | 801 | 38 | (349) | (160) | 33 | - | 53 |
| Net Cost of Operations | (696) | (36) | 366 | (6) | (48) | (7) | (47) |
| Change in Net Position | 105 | 2 | 17 | (166) | (15) | (7) | 6 |
| Net Position End of Period | $ 674 | $ 55 | $ 192 | $ 147 | $ 59 | $ (130) | $ 100 |

Earmarked Funds

| Balance Sheet As of September 30, 2012 | FS<br>Recreation Fee Demonstration Program | FS<br>Restoration of Forest Lands and Improvements | FS<br>Payments to Counties, National Grasslands | FS<br>Acquisition of Lands to Complete Land Exchanges | NIFA<br>Native American Institutions Endowment Fund | FSA<br>Agricultural Disaster Relief Trust Fund | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Fund Balance with Treasury | $ 68 | $ 135 | $ 138 | $ 36 | $ 19 | $ 193 | $ 328 | $ 1,942 |
| Investments | - | - | - | - | 143 | - | 3 | 146 |
| Other Assets | 5 | 2 | - | 41 | - | 8 | 42 | 758 |
| Total Assets | 73 | 137 | 138 | 77 | 162 | 201 | 373 | 2,846 |
| Other Liabilities | 5 | 1 | (1) | 1 | - | 1,096 | 115 | 1,805 |
| Total Liabilities | 5 | 1 | (1) | 1 | - | 1,096 | 115 | 1,805 |
| Unexpended Appropriations | - | - | - | - | 96 | - | 1 | 97 |
| Cumulative Results of Operations | 68 | 136 | 139 | 76 | 66 | (895) | 257 | 944 |
| Total Liabilities and Net Position | 73 | 137 | 138 | 77 | 162 | 201 | 373 | 2,846 |
| **Statement of Net Cost For the Period Ended September 30, 2012** | | | | | | | | |
| Gross program costs | 71 | 18 | - | 5 | - | 678 | 275 | 2,427 |
| Less Earned Revenue | 67 | 64 | (1) | 5 | 2 | - | 276 | 1,319 |
| Net Cost of Operations | 4 | (46) | 1 | - | (2) | 678 | (1) | 1,108 |
| **Statement of Changes in Net Position For the period Ended September 30, 2012** | | | | | | | | |
| Net Position Beginning of Period | 72 | 170 | 62 | 76 | 148 | (203) | 324 | 1,804 |
| Other Financing Sources | - | (80) | 78 | - | 12 | (14) | (67) | 345 |
| Net Cost of Operations | (4) | 46 | (1) | - | 2 | (678) | 1 | (1,108) |
| Change in Net Position | (4) | (34) | 77 | - | 14 | (692) | (66) | (763) |
| Net Position End of Period | $ 68 | $ 136 | $ 139 | $ 76 | $ 162 | $ (895) | $ 258 | $ 1,041 |

Earmarked Funds

| | AMS | AMS | APHIS | FS | FS | FS | FS | FS |
|---|---|---|---|---|---|---|---|---|
| **Balance Sheet As of September 30, 2011** | Funds for Strengthening Markets, Income, and Supply | Expenses and Refunds, Inspection and Grading of Farm Products | Agricultural Quarantine Inspection User Fee Account | Cooperative Work | Land Acquisition | Payments to States, National Forests Fund | Timber Salvage Sales | State, Private, and International Forestry, Land and Water Conservation Fund |
| Fund Balance with Treasury | $ 283 | $ 101 | $ 128 | $ 376 | $ 29 | $ 207 | $ 51 | $ 123 |
| Investments | - | - | - | - | - | - | - | - |
| Other Assets | 288 | 16 | 126 | 18 | 46 | 3 | 2 | - |
| Total Assets | 571 | 117 | 254 | 394 | 75 | 210 | 53 | 123 |
| Other Liabilities | 2 | 64 | 79 | 81 | 1 | 333 | 4 | 29 |
| Total Liabilities | 2 | 64 | 79 | 81 | 1 | 333 | 4 | 29 |
| Unexpended Appropriations | - | - | - | - | - | - | - | - |
| Cumulative Results of Operations | 569 | 53 | 175 | 313 | 74 | (123) | 49 | 94 |
| Total Liabilities and Net Position | 571 | 117 | 254 | 394 | 75 | 210 | 53 | 123 |
| **Statement of Net Cost For the Period Ended September 30, 2011** | | | | | | | | |
| Gross program costs | 1,184 | 194 | 177 | 101 | 39 | 48 | 24 | 42 |
| Less Earned Revenue | 1 | 150 | 537 | 88 | - | 116 | 26 | - |
| Net Cost of Operations | 1,183 | 44 | (360) | 13 | 39 | (68) | (2) | 42 |
| **Statement of Changes in Net Position For the period Ended September 30, 2011** | | | | | | | | |
| Net Position Beginning of Period | 623 | 53 | 134 | 326 | 80 | (191) | 47 | 83 |
| Other Financing Sources | 1,129 | 44 | (319) | - | 33 | - | - | 53 |
| Net Cost of Operations | (1,183) | (44) | 360 | (13) | (39) | 68 | 2 | (42) |
| Change in Net Position | (54) | - | 41 | (13) | (6) | 68 | 2 | 11 |
| Net Position End of Period | $ 569 | $ 53 | $ 175 | $ 313 | $ 74 | $ (123) | $ 49 | $ 94 |

Earmarked Funds

| Balance Sheet As of September 30, 2011 | FS Recreation Fee Demonstration Program | FS Restoration of Forest Lands and Improvements | FS Payments to Counties, National Grasslands | FS Acquisition of Lands to Complete Land Exchanges | NIFA Native American Institutions Endowment Fund | FSA Agricultural Disaster Relief Trust Fund | Other | Total |
|---|---|---|---|---|---|---|---|---|
| Fund Balance with Treasury | $ 72 | $ 170 | $ 62 | $ 37 | $ 9 | $ 500 | $ 334 | $ 2,482 |
| Investments | - | - | - | - | 139 | - | 3 | 142 |
| Other Assets | 6 | 2 | - | 39 | - | 3 | 31 | 580 |
| Total Assets | 78 | 172 | 62 | 76 | 148 | 503 | 368 | 3,204 |
| Other Liabilities | 6 | 2 | - | - | - | 706 | 93 | 1,400 |
| Total Liabilities | 6 | 2 | - | - | - | 706 | 93 | 1,400 |
| Unexpended Appropriations | - | - | - | - | 74 | - | - | 74 |
| Cumulative Results of Operations | 72 | 170 | 62 | 76 | 74 | (203) | 275 | 1,730 |
| Total Liabilities and Net Position | 78 | 172 | 62 | 76 | 148 | 503 | 368 | 3,204 |
| **Statement of Net Cost For the Period Ended September 30, 2011** | | | | | | | | |
| Gross program costs | 91 | 19 | - | 8 | 10 | 1,125 | 425 | 3,487 |
| Less Earned Revenue | 66 | 19 | 2 | 9 | 5 | - | 199 | 1,218 |
| Net Cost of Operations | 25 | - | (2) | (1) | 5 | 1,125 | 226 | 2,269 |
| **Statement of Changes in Net Position For the period Ended September 30, 2011** | | | | | | | | |
| Net Position Beginning of Period | 97 | 171 | 41 | 75 | 140 | (16) | 507 | 2,170 |
| Other Financing Sources | - | (1) | 19 | - | 13 | 938 | (6) | 1,903 |
| Net Cost of Operations | (25) | - | 2 | 1 | (5) | (1,125) | (226) | (2,269) |
| Change in Net Position | (25) | (1) | 21 | 1 | 8 | (187) | (232) | (366) |
| Net Position End of Period | $ 72 | $ 170 | $ 62 | $ 76 | $ 148 | $ (203) | $ 275 | $ 1,804 |

# Note 19. Suborganization Program Costs/Program Costs by Segment

| FY 2012 | FSA | | CCC | | FAS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 926 | $ 1,551 | $ 993 | $ 4,919 | $ 224 | $ 177 |
| Less: Earned Revenue | 186 | 213 | 10 | 102 | 89 | (3) |
| Net Costs | 740 | 1,338 | 983 | 4,817 | 135 | 180 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | 112 | 187 | 460 | 1,694 | - | - |
| Less: Earned Revenue | 22 | 26 | 36 | 2 | - | - |
| Net Costs | 90 | 161 | 424 | 1,692 | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 132 | 2,379 | 64 | 50 |
| Less: Earned Revenue | - | - | 298 | 404 | 25 | (1) |
| Net Costs | - | - | (166) | 1,975 | 39 | 51 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | - | - | - | - |
| Less: Earned Revenue | - | - | - | - | - | - |
| Net Costs | - | - | - | - | - | - |
| **Total Gross Costs** | 1,038 | 1,738 | 1,585 | 8,992 | 288 | 227 |
| **Less: Total Earned Revenue** | 208 | 239 | 344 | 508 | 114 | (4) |
| **Net Cost of Operations** | $ 830 | $ 1,499 | $ 1,241 | $ 8,484 | $ 174 | $ 231 |

| FY 2012 | RMA | | FNS | | FSIS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 73 | $ 19,907 | $ - | $ - | $ - | $ - |
| Less: Earned Revenue | - | 5,909 | - | - | - | - |
| Net Costs | 73 | 13,998 | - | - | - | - |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | - | - | - | - |
| Less: Earned Revenue | - | - | - | - | - | - |
| Net Costs | - | - | - | - | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | - | - | - | - |
| Less: Earned Revenue | - | - | - | - | - | - |
| Net Costs | - | - | - | - | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | 528 | 106,125 | 380 | 901 |
| Less: Earned Revenue | - | - | 2 | 67 | 3 | 180 |
| Net Costs | - | - | 526 | 106,058 | 377 | 721 |
| **Total Gross Costs** | 73 | 19,907 | 528 | 106,125 | 380 | 901 |
| **Less: Total Earned Revenue** | - | 5,909 | 2 | 67 | 3 | 180 |
| **Net Cost of Operations** | $ 73 | $ 13,998 | $ 526 | $ 106,058 | $ 377 | $ 721 |

| FY 2012 | AMS | | APHIS | | GIPSA | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 25 | $ 517 | $ 48 | $ 140 | $ 33 | $ 62 |
| Less: Earned Revenue | 1 | 104 | 9 | 84 | 1 | 39 |
| Net Costs | 24 | 413 | 39 | 56 | 32 | 23 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | 22 | 66 | - | - |
| Less: Earned Revenue | - | - | 4 | 40 | - | - |
| Net Costs | - | - | 18 | 26 | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 21 | 61 | - | - |
| Less: Earned Revenue | - | - | 4 | 37 | - | - |
| Net Costs | - | - | 17 | 24 | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | 25 | 510 | 266 | 780 | - | - |
| Less: Earned Revenue | 1 | 103 | 49 | 471 | - | - |
| Net Costs | 24 | 407 | 217 | 309 | - | - |
| **Total Gross Costs** | 50 | 1,027 | 357 | 1,047 | 33 | 62 |
| **Less: Total Earned Revenue** | 2 | 207 | 66 | 632 | 1 | 39 |
| **Net Cost of Operations** | $ 48 | $ 820 | $ 291 | $ 415 | $ 32 | $ 23 |

| FY 2012 | FS | | NRCS | | ARS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ - | $ - | $ - | $ - | $ 82 | $ 340 |
| Less: Earned Revenue | - | - | - | - | 23 | 13 |
| Net Costs | - | - | - | - | 59 | 327 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | 1,411 | 5,530 | 638 | 3,592 | 51 | 211 |
| Less: Earned Revenue | 132 | 708 | 163 | - | 14 | 8 |
| Net Costs | 1,279 | 4,822 | 475 | 3,592 | 37 | 203 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | - | - | 37 | 156 |
| Less: Earned Revenue | - | - | - | - | 10 | 6 |
| Net Costs | - | - | - | - | 27 | 150 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | - | - | 124 | 515 |
| Less: Earned Revenue | - | - | - | - | 34 | 19 |
| Net Costs | - | - | - | - | 90 | 496 |
| **Total Gross Costs** | 1,411 | 5,530 | 638 | 3,592 | 294 | 1,222 |
| **Less: Total Earned Revenue** | 132 | 708 | 163 | - | 81 | 46 |
| **Net Cost of Operations** | $ 1,279 | $ 4,822 | $ 475 | $ 3,592 | $ 213 | $ 1,176 |

| FY 2012 | NIFA | | ERS | | NASS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 27 | $ 730 | $ 16 | $ 20 | $ 67 | $ 127 |
| Less: Earned Revenue | 16 | - | 1 | - | 19 | (5) |
| Net Costs | 11 | 730 | 15 | 20 | 48 | 132 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | 7 | 185 | 6 | 8 | - | 1 |
| Less: Earned Revenue | 4 | - | - | - | - | - |
| Net Costs | 3 | 185 | 6 | 8 | - | 1 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | 12 | 331 | 11 | 14 | - | - |
| Less: Earned Revenue | 7 | - | 1 | - | - | - |
| Net Costs | 5 | 331 | 10 | 14 | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | 6 | 165 | 11 | 14 | 2 | 4 |
| Less: Earned Revenue | 4 | - | 1 | - | 1 | - |
| Net Costs | 2 | 165 | 10 | 14 | 1 | 4 |
| **Total Gross Costs** | 52 | 1,411 | 44 | 56 | 69 | 132 |
| **Less: Total Earned Revenue** | 31 | - | 3 | - | 20 | (5) |
| **Net Cost of Operations** | $ 21 | $ 1,411 | $ 41 | $ 56 | $ 49 | $ 137 |

| FY 2012 | RD | | DO | | Total | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 4,088 | $ 3,241 | $ 187 | $ 327 | $ 6,789 | $ 32,058 |
| Less: Earned Revenue | 431 | 3,432 | 314 | 2 | 1,100 | 9,890 |
| Net Costs | 3,657 | (191) | (127) | 325 | 5,689 | 22,168 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | 126 | 219 | 2,833 | 11,693 |
| Less: Earned Revenue | - | - | 211 | 2 | 586 | 786 |
| Net Costs | - | - | (85) | 217 | 2,247 | 10,907 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 13 | 23 | 290 | 3,014 |
| Less: Earned Revenue | - | - | 22 | - | 367 | 446 |
| Net Costs | - | - | (9) | 23 | (77) | 2,568 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | 169 | 297 | 1,511 | 109,311 |
| Less: Earned Revenue | - | - | 284 | 2 | 379 | 842 |
| Net Costs | - | - | (115) | 295 | 1,132 | 108,469 |
| **Total Gross Costs** | 4,088 | 3,241 | 495 | 866 | 11,423 | 156,076 |
| **Less: Total Earned Revenue** | 431 | 3,432 | 831 | 6 | 2,432 | 11,964 |
| **Net Cost of Operations** | $ 3,657 | $ (191) | $ (336) | $ 860 | $ 8,991 | $ 144,112 |

| FY 2012 | Intradepartmental Eliminations | Grand Total |
|---|---|---|
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | |
| Gross Costs | $ (1,655) | $ 37,192 |
| Less: Earned Revenue | (490) | 10,500 |
| Net Costs | (1,165) | 26,692 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | |
| Gross Costs | (1,046) | 13,480 |
| Less: Earned Revenue | (366) | 1,006 |
| Net Costs | (680) | 12,474 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | |
| Gross Costs | (116) | 3,188 |
| Less: Earned Revenue | (195) | 618 |
| Net Costs | 79 | 2,570 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | |
| Gross Costs | (674) | 110,148 |
| Less: Earned Revenue | (283) | 938 |
| Net Costs | (391) | 109,210 |
| **Total Gross Costs** | (3,491) | 164,008 |
| **Less: Total Earned Revenue** | (1,334) | 13,062 |
| **Net Cost of Operations** | $ (2,157) | $ 150,946 |

| FY 2011 | FSA | | | | CCC | | | | FAS | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Intragovernmental | | With the Public | | Intragovernmental | | With the Public | | Intragovernmental | | With the Public | |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | | | | | | | |
| Gross Costs | $ | 1,603 | $ | 2,241 | $ | 1,110 | $ | 5,466 | $ | 256 | $ | 169 |
| Less: Earned Revenue | | 173 | | 222 | | 15 | | 121 | | 85 | | 1 |
| Net Costs | | 1,430 | | 2,019 | | 1,095 | | 5,345 | | 171 | | 168 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | | | | | | | |
| Gross Costs | | 203 | | 284 | | 467 | | 1,907 | | - | | - |
| Less: Earned Revenue | | 22 | | 28 | | 39 | | 1 | | - | | - |
| Net Costs | | 181 | | 256 | | 428 | | 1,906 | | - | | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | | | | | | | |
| Gross Costs | | - | | - | | 79 | | 2,815 | | 65 | | 43 |
| Less: Earned Revenue | | - | | - | | 192 | | 167 | | 22 | | - |
| Net Costs | | - | | - | | (113) | | 2,648 | | 43 | | 43 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | | | | | | | |
| Gross Costs | | - | | - | | - | | - | | - | | - |
| Less: Earned Revenue | | - | | - | | - | | - | | - | | - |
| Net Costs | | - | | - | | - | | - | | - | | - |
| **Total Gross Costs** | | 1,806 | | 2,525 | | 1,656 | | 10,188 | | 321 | | 212 |
| **Less: Total Earned Revenue** | | 195 | | 250 | | 246 | | 289 | | 107 | | 1 |
| **Net Cost of Operations** | $ | 1,611 | $ | 2,275 | $ | 1,410 | $ | 9,899 | $ | 214 | $ | 211 |

| FY 2011 | RMA | | FNS | | FSIS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 68 | $ 14,888 | $ - | $ - | $ - | $ - |
| Less: Earned Revenue | - | 3,660 | - | - | - | - |
| Net Costs | 68 | 11,228 | - | - | - | - |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | - | - | - | - |
| Less: Earned Revenue | - | - | - | - | - | - |
| Net Costs | - | - | - | - | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | - | - | - | - |
| Less: Earned Revenue | - | - | - | - | - | - |
| Net Costs | - | - | - | - | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | 856 | 102,385 | 383 | 956 |
| Less: Earned Revenue | - | - | 1 | 56 | 2 | 169 |
| Net Costs | - | - | 855 | 102,329 | 381 | 787 |
| **Total Gross Costs** | 68 | 14,888 | 856 | 102,385 | 383 | 956 |
| **Less: Total Earned Revenue** | - | 3,660 | 1 | 56 | 2 | 169 |
| **Net Cost of Operations** | $ 68 | $ 11,228 | $ 855 | $ 102,329 | $ 381 | $ 787 |

| FY 2011 | AMS | | APHIS | | GIPSA | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 123 | $ 922 | $ 48 | $ 126 | $ 36 | $ 66 |
| Less: Earned Revenue | 2 | 148 | 5 | 77 | 1 | 49 |
| Net Costs | 121 | 774 | 43 | 49 | 35 | 17 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | 33 | 86 | - | - |
| Less: Earned Revenue | - | - | 3 | 53 | - | - |
| Net Costs | - | - | 30 | 33 | - | - |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 20 | 52 | - | - |
| Less: Earned Revenue | - | - | 2 | 32 | - | - |
| Net Costs | - | - | 18 | 20 | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | 60 | 449 | 303 | 792 | - | - |
| Less: Earned Revenue | 1 | 72 | 32 | 487 | - | - |
| Net Costs | 59 | 377 | 271 | 305 | - | - |
| **Total Gross Costs** | 183 | 1,371 | 404 | 1,056 | 36 | 66 |
| **Less: Total Earned Revenue** | 3 | 220 | 42 | 649 | 1 | 49 |
| **Net Cost of Operations** | $ 180 | $ 1,151 | $ 362 | $ 407 | $ 35 | $ 17 |

| FY 2011 | FS | | NRCS | | ARS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 269 | $ 1,068 | $ 11 | $ 62 | $ 91 | $ 336 |
| Less: Earned Revenue | 23 | 133 | 3 | - | 23 | 12 |
| Net Costs | 246 | 935 | 8 | 62 | 68 | 324 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | 1,172 | 4,651 | 664 | 3,744 | 57 | 213 |
| Less: Earned Revenue | 100 | 577 | 171 | 3 | 14 | 7 |
| Net Costs | 1,072 | 4,074 | 493 | 3,741 | 43 | 206 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 1 | 5 | 42 | 155 |
| Less: Earned Revenue | - | - | - | - | 10 | 5 |
| Net Costs | - | - | 1 | 5 | 32 | 150 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | - | - | 136 | 506 |
| Less: Earned Revenue | - | - | - | - | 34 | 18 |
| Net Costs | - | - | - | - | 102 | 488 |
| **Total Gross Costs** | 1,441 | 5,719 | 676 | 3,811 | 326 | 1,210 |
| **Less: Total Earned Revenue** | 123 | 710 | 174 | 3 | 81 | 42 |
| **Net Cost of Operations** | $ 1,318 | $ 5,009 | $ 502 | $ 3,808 | $ 245 | $ 1,168 |

| FY 2011 | NIFA | | ERS | | NASS | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 29 | $ 740 | $ 16 | $ 21 | $ 60 | $ 140 |
| Less: Earned Revenue | 24 | - | - | - | 23 | 2 |
| Net Costs | 5 | 740 | 16 | 21 | 37 | 138 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | 7 | 174 | 6 | 8 | - | 1 |
| Less: Earned Revenue | 6 | - | - | - | - | - |
| Net Costs | 1 | 174 | 6 | 8 | - | 1 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | 6 | 153 | 11 | 14 | - | - |
| Less: Earned Revenue | 5 | - | - | - | - | - |
| Net Costs | 1 | 153 | 11 | 14 | - | - |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | 8 | 205 | 11 | 15 | 3 | 8 |
| Less: Earned Revenue | 7 | - | - | - | 1 | - |
| Net Costs | 1 | 205 | 11 | 15 | 2 | 8 |
| **Total Gross Costs** | 50 | 1,272 | 44 | 58 | 63 | 149 |
| **Less: Total Earned Revenue** | 42 | - | - | - | 24 | 2 |
| **Net Cost of Operations** | $ 8 | $ 1,272 | $ 44 | $ 58 | $ 39 | $ 147 |

| FY 2011 | RD | | DO | | Total | |
|---|---|---|---|---|---|---|
| | Intragovernmental | With the Public | Intragovernmental | With the Public | Intragovernmental | With the Public |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | | | | | |
| Gross Costs | $ 4,053 | $ 3,654 | $ 201 | $ 375 | $ 7,974 | $ 30,274 |
| Less: Earned Revenue | 460 | 3,300 | 324 | 6 | 1,161 | 7,731 |
| Net Costs | 3,593 | 354 | (123) | 369 | 6,813 | 22,543 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | | | | | |
| Gross Costs | - | - | 118 | 219 | 2,727 | 11,287 |
| Less: Earned Revenue | - | - | 190 | 5 | 545 | 674 |
| Net Costs | - | - | (72) | 214 | 2,182 | 10,613 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | | | | | |
| Gross Costs | - | - | 11 | 19 | 235 | 3,256 |
| Less: Earned Revenue | - | - | 17 | 1 | 248 | 205 |
| Net Costs | - | - | (6) | 18 | (13) | 3,051 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | | | | | |
| Gross Costs | - | - | 169 | 315 | 1,929 | 105,631 |
| Less: Earned Revenue | - | - | 272 | 5 | 350 | 807 |
| Net Costs | - | - | (103) | 310 | 1,579 | 104,824 |
| **Total Gross Costs** | 4,053 | 3,654 | 499 | 928 | 12,865 | 150,448 |
| **Less: Total Earned Revenue** | 460 | 3,300 | 803 | 17 | 2,304 | 9,417 |
| **Net Cost of Operations** | $ 3,593 | $ 354 | $ (304) | $ 911 | $ 10,561 | $ 141,031 |

| FY 2011 | Intradepartmental Eliminations | Grand Total |
|---|---|---|
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | |
| Gross Costs | $ (1,850) | $ 36,398 |
| Less: Earned Revenue | (442) | 8,450 |
| Net Costs | (1,408) | 27,948 |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | |
| Gross Costs | (1,017) | 12,997 |
| Less: Earned Revenue | (350) | 869 |
| Net Costs | (667) | 12,128 |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | |
| Gross Costs | (94) | 3,397 |
| Less: Earned Revenue | (159) | 294 |
| Net Costs | 65 | 3,103 |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | |
| Gross Costs | (1,009) | 106,551 |
| Less: Earned Revenue | (274) | 883 |
| Net Costs | (735) | 105,668 |
| **Total Gross Costs** | (3,970) | 159,343 |
| **Less: Total Earned Revenue** | (1,225) | 10,496 |
| **Net Cost of Operations** | $ (2,745) | $ 148,847 |

## Note 20. Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2012 and FY 2011 was $521 million and $678 million, respectively.

## Note 21. 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 bearing 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) 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 are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer are 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 22. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2012 and 2011 was $33,693 million and $35,016 million, respectively.

## Note 23. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

FY 2012

| | Direct | Reimbursable | Total |
|---|---|---|---|
| Apportionment by Fiscal Quarter | $ 41,597 | $ 2,372 | $ 43,969 |
| Apportionment for Special Activities | 122,359 | 19,330 | 141,689 |
| Exempt from Apportionment | 843 | 1 | 844 |
| Total Obligations Incurred | $ 164,799 | $ 21,703 | $ 186,502 |

FY 2011

| | Direct | Reimbursable | Total |
|---|---|---|---|
| Apportionment by Fiscal Quarter | $ 36,418 | $ 2,456 | $ 38,874 |
| Apportionment for Special Activities | 122,306 | 21,444 | 143,750 |
| Exempt from Apportionment | 1,005 | 1 | 1,006 |
| Total Obligations Incurred | $ 159,729 | $ 23,901 | $ 183,630 |

## Note 24. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2012 and 2011 was $49,077 million and $51,654 million, respectively.

## Note 25. Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, 3) certain commodity program costs and 4) 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 commodity program costs is used to encourage the exportation of agricultural commodities and products, to encourage domestic consumption of agricultural products by diverting them, and to reestablish farmers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

The permanent indefinite appropriation for FS programs is used to fund Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

## Note 26. Legal Arrangements Affecting Use of Unobligated Balances

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

## Note 27. Explanation of Differences Between the SBR and the Budget of the US Government

The differences between the FY 2011 Statement of Budgetary Resources and the FY 2011 actual numbers presented in the FY 2013 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations.

Adjustments were made prior to the Budget submission as follows:

CCC excluded distributed offsetting receipts for Export Guaranteed Financing and Farm Storage Facility Direct Loan Financing accounts.

FSA included upward and downward adjustments on obligated balances transferred from the child to the parent account for Disaster Assistance.

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.

| FY 2011 | Budgetary Resources | Obligations Incurred | Distributed Offsetting Receipts | Net Outlays |
|---|---|---|---|---|
| Combined Statement of Budgetary Resources | $ 214,472 | $ 183,630 | $ 2,039 | $ 147,544 |
| Reconciling items: | | | | |
| Expired accounts | (10,223) | (1,190) | - | - |
| CCC Export Guaranteed Financing and | | | | |
| Farm Storage Facility Direct Loan Finanacing | - | - | 41 | - |
| FSA Disaster Assistance | (184) | (184) | - | - |
| Milk Market Orders Fund | 53 | 53 | - | - |
| Other | 11 | 13 | 5 | (5) |
| Budget of the United States Government | $ 204,129 | $ 182,322 | $ 2,085 | $ 147,539 |

A comparison between the FY 2012 Statement of Budgetary Resources and the FY 2012 actual numbers presented in the FY 2014 Budget cannot be performed as the FY 2014 Budget is not yet available. The FY 2014 Budget is expected to be published in February 2013 and will be available from the Government Printing Office.

In FY 2012, FSA returned $769 million of indefinite budget authority that was not obligated to Treasury from its Disaster Assistance account. The transfer was backdated to coincide with the legal period of availability of the appropriation available at the time. Also, OMB restored $3,000 million of FY 2011 Supplemental Nutrition Assistance Program (SNAP) contingency funds withdrawn with a backdated warrant. Consequently, the budget reflects these adjustments to the prior year even though the actions taken occurred in the current year.

## Note 28. Incidental Custodial Collections

Custodial collections represent National Forest Fund receipts from the sale of timber and other forest products, miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

| Revenue Activity: | FY 2012 | FY 2011 |
|---|---|---|
| Sources of Collections: | | |
| Miscellaneous | $ 38 | $ 84 |
| Total Cash Collections | 38 | 84 |
| Accrual Adjustments | (4) | (2) |
| Total Custodial Revenue | 34 | 82 |
| Disposition of Collections: | | |
| Transferred to Others: | | |
| Treasury | (26) | (77) |
| States and Counties | - | - |
| ( Increase )/Decrease in Amounts Yet to be Transferred | (8) | (5) |
| Net Custodial Activity | $ - | $ - |

## Note 29. Fiduciary Activities

Rural Housing Insurance Fund (RHIF) was established by Public Law 89-117 pursuant to section 517 of title V of the Housing Act of 1949, which authorized RD to collect escrow payments on behalf of new and existing Single Family Housing borrowers. Other fiduciary activities by RD include but are not limited to collections from borrowers, interest paid on escrow accounts, payments to insurance agencies and taxing authorities.

Schedule of Fiduciary Activity
For the Years Ended September 30, 2012 and 2011

| | Rural Housing Insurance Fund 2012 | Rural Housing Insurance Fund 2011 |
|---|---|---|
| Fiduciary net assets, beginning of year | $ 107 | $ 100 |
| Fiduciary revenues | - | - |
| Contributions | 376 | 480 |
| Investment earnings | - | - |
| Gain (Loss) on disposition of investments, net | - | - |
| Administrative and other expenses | - | - |
| Disbursements to and on behalf of beneficiaries | (376) | (473) |
| Increases/(Decrease) in fiduciary net assets | - | 7 |
| Fiduciary net assets, end of year | $ 107 | $ 107 |

Fiduciary Net Assets
As of September 30, 2012 and 2011

| | Rural Housing Insurance Fund 2012 | Rural Housing Insurance Fund 2011 |
|---|---|---|
| Fiduciary Assets | | |
| Cash and cash equivalents | $ 6 | $ 4 |
| Investments | 101 | 103 |
| Other assets | - | - |
| Fiduciary Liabilities | | |
| Less: Liabilities | - | - |
| Total Fiduciary Net Assets | $ 107 | $ 107 |

## Note 30. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

| | 2012 | 2011 |
|---|---|---|
| **Resources Used to Finance Activities:** | | |
| Budgetary Resources Obligated - | | |
| Obligations Incurred | $ 186,502 | $ 183,630 |
| Less: Spending authority from offsetting collections and recoveries | 40,179 | 38,805 |
| Obligations net of offsetting collections and recoveries | 146,323 | 144,825 |
| Less: Distributed Offsetting receipts | 2,033 | 2,039 |
| Net Obligations | 144,290 | 142,786 |
| Other Resources - | | |
| Transfers in(out) without reimbursement | 86 | 145 |
| Imputed financing from costs absorbed by others | 913 | 1,724 |
| Other | (1,315) | (1,134) |
| Net other resources used to finance activities | (316) | 735 |
| **Total resources used to finance activities** | 143,974 | 143,521 |
| **Resources Used to Finance Items not Part of the Net Cost of Operations:** | | |
| Change in undelivered orders | 2,571 | 2,958 |
| Resources that fund expenses recognized in prior periods | (4,033) | (3,495) |
| 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 | 16,192 | 15,047 |
| Change in Unfilled Customer Orders | 2,116 | 1,771 |
| Decrease in exchange revenue receivable from public | 3,071 | 6,229 |
| Other | (235) | 806 |
| Resources that finance the acquisition of assets | (21,771) | (22,924) |
| Other resources or adjustments to net obligated resources that do not affect net cost of operations | (1,359) | (2,488) |
| Total resources used to finance items not part of the net cost of operations | (3,448) | (2,096) |
| **Total resources used to finance the net cost of operations** | 140,526 | 141,425 |
| **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 | 5 | 7 |
| Increase in environmental and disposal liability | 1 | 1 |
| Upward/Downward reestimates of credit subsidy expense | 2,009 | 1,624 |
| Increase in exchange revenue receivable from the public | - | - |
| Other | 7,675 | 4,767 |
| Total components of Net Cost of Operations that will require or generate resources in future periods | 9,690 | 6,399 |
| Components not Requiring or Generating Resources - | | |
| Depreciation and amortization | 408 | 230 |
| Revaluation of assets or liabilities | 4 | 39 |
| Other Components not Requiring or Generating Resources: | | |
| Bad Debt Expense | (1,102) | (79) |
| Cost of Goods Sold | - | 488 |
| Other | 1,420 | 345 |
| Total components of Net Cost of Operations that will not require or generate resources | 730 | 1,023 |
| **Total components of Net Cost of Operations that will not require or generate resources in the current period** | 10,420 | 7,422 |
| **Net Cost of Operations** | $ 150,946 | $ 148,847 |

# Required Supplementary Stewardship Information

## Stewardship Investments (Unaudited)

| | FY 2012 Expense | FY 2011 Expense | FY 2010 Expense | FY 2009 Expense | FY 2008 Expense |
|---|---|---|---|---|---|
| **Non-Federal Physical Property:** | | | | | |
| Food and Nutrition Service | | | | | |
| Supplemental Nutrition Assistance Program | $ 38 | $ 40 | $ 41 | $ 55 | $ 32 |
| Special Supplemental Nutrition Program | 13 | 17 | 17 | 15 | 10 |
| National Institute of Foods and Agriculture | | | | | |
| Extension 1890 Facilities Program | 20 | 19 | 19 | 17 | 17 |
| Total Non-Federal Property | $ 71 | $ 76 | $ 77 | $ 87 | $ 59 |
| **Human Capital:** | | | | | |
| National Institute of Foods and Agriculture | | | | | |
| Higher Education and Extension Programs | $ 536 | $ 547 | $ 559 | $ 547 | $ 521 |
| Food and Nutrition Service | | | | | |
| Supplemental Nutrition Assistance Program | 53 | 45 | 63 | 19 | 36 |
| Agricultural Research Service | | | | | |
| National Agricultural Library | 21 | 21 | 24 | 23 | 22 |
| Risk Management Agency | | | | | |
| Risk Management Education | 13 | 10 | 6 | 6 | 10 |
| Total Human Capital | $ 623 | $ 623 | $ 652 | $ 595 | $ 589 |

| | FY 2012 Expense | FY 2011 Expense | FY 2010 Expense | FY 2009 Expense | FY 2008 Expense |
|---|---|---|---|---|---|
| **Research and Development:** | | | | | |
| **Basic Research:** | | | | | |
| Agricultural Research Service | | | | | |
| Human Nutrition | $ 43 | $ 43 | $ 45 | $ 43 | $ 42 |
| Collaborative Research Program | - | - | - | 2 | 2 |
| Product Quality/Value Added | 50 | 52 | 56 | 54 | 51 |
| Livestock Production | 37 | 41 | 44 | 43 | 42 |
| Crop Production | 114 | 116 | 119 | 102 | 99 |
| Food Safety | 53 | 53 | 53 | 53 | 51 |
| Livestock Protection | 38 | 40 | 45 | 42 | 40 |
| Crop Protection | 97 | 102 | 103 | 100 | 96 |
| Environmental Stewardship | 94 | 101 | 103 | 112 | 109 |
| National Institute of Foods and Agriculture | | | | | |
| Land-grant University System | 249 | 274 | 283 | 256 | 245 |
| Forest Service | 80 | 91 | 94 | 87 | 82 |
| Economic Research Service | | | | | |
| Economic and Social Science | 7 | 8 | 8 | 8 | 8 |
| National Agricultural Statistics Service | | | | | |
| Statistical | 3 | 3 | 3 | 3 | 3 |
| Total Basic Research | $ 865 | $ 924 | $ 956 | $ 905 | $ 870 |
| **Applied Research:** | | | | | |
| Agricultural Research Service | | | | | |
| Human Nutrition | $ 34 | $ 34 | $ 35 | $ 34 | $ 35 |
| Collaborative Research Program | - | - | - | 1 | 2 |
| Product Quality/Value Added | 40 | 42 | 44 | 43 | 43 |
| Livestock Production | 30 | 33 | 35 | 34 | 35 |
| Crop Production | 91 | 93 | 96 | 82 | 82 |
| Food Safety | 42 | 43 | 43 | 42 | 43 |
| Livestock Protection | 31 | 32 | 36 | 33 | 34 |
| Crop Protection | 77 | 81 | 82 | 81 | 80 |
| Environmental Stewardship | 75 | 80 | 83 | 90 | 92 |
| National Institute of Foods and Agriculture | | | | | |
| Land-grant University System | 424 | 467 | 461 | 435 | 418 |
| Forest Service | 207 | 220 | 227 | 220 | 207 |
| Economic Research Service | | | | | |
| Economic and Social Science | 71 | 74 | 74 | 71 | 69 |
| National Agricultural Statistics Service | | | | | |
| Statistical | 4 | 4 | 4 | 5 | 5 |
| Total Applied Research | $ 1,126 | $ 1,203 | $ 1,220 | $ 1,171 | $ 1,145 |
| **Development:** | | | | | |
| Agricultural Research Service | | | | | |
| Human Nutrition | $ 8 | $ 9 | $ 9 | $ 8 | $ 8 |
| Product Quality/Value Added | 10 | 11 | 11 | 11 | 11 |
| Livestock Production | 8 | 8 | 9 | 9 | 8 |
| Crop Production | 23 | 23 | 24 | 20 | 20 |
| Food Safety | 11 | 11 | 11 | 11 | 10 |
| Livestock Protection | 7 | 7 | 9 | 8 | 8 |
| Crop Protection | 19 | 20 | 20 | 20 | 20 |
| Environmental Stewardship | 19 | 20 | 21 | 23 | 22 |
| Forest Service | 32 | 16 | 17 | 16 | 15 |
| Total Development | $ 137 | $ 125 | $ 131 | $ 126 | $ 122 |
| Total Research and Development | $ 2,128 | $ 2,252 | $ 2,307 | $ 2,202 | $ 2,137 |

## Non-Federal Physical Property

### *Food and Nutrition Service*

FNS' non-Federal physical property consists of computer systems and other equipment obtained by State and local governments for the purpose of administering the SNAP. The total SNAP expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' non-Federal physical property also consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children.

### *National Institute of Food and Agriculture*

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 1890 Land-Grant Universities.

## Human Capital

### *National Institute of Food and Agriculture*

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. NIFA also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs.

### *Food and Nutrition Service*

FNS' human capital consists of employment and training (E&T) for the SNAP. The E&T program requires recipients of SNAP benefits to participate in an employment and training program as a condition to SNAP 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 701,721 work registrants subject to the 3 - month SNAP participant limit and 1,670,958 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

### *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 50 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*

FCIC has formed partnerships with NIFA, the Commodity Futures Trading Commission, the USDA National Office of Outreach, the ERS, and private industry to leverage the Federal Government's funding of its Risk Management Education (RME) program by using both public and private organizations to help educate their members in agricultural risk management. RME expanded State and Regional education partnerships; encouraged the development of information and technology-based decision aids; facilitated local crop insurance education and risk management training workshops throughout the nation through Cooperative Agreements with educational institutions and community-based outreach organizations.

During fiscal years 2012 and 2011, the RME program worked toward its goals by funding risk management sessions, most of which directly target producers. The number of producers reached through these sessions is approximately 81,000 in fiscal year 2012 and 79,500 in fiscal year 2011. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and other agricultural professionals) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $12.6 million and $9.6 million in fiscal years 2012 and 2011, respectively.

| (dollars in millions) | | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---|---|---|---|---|---|
| RME Obligations | $ | 12.6 | 9.6 | 6 | 6 | 10 |
| Number of producers attending RME sessions | | 81,000 | 79,500 | 47,100 | 20,000 | 49,000 |

## 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' programs are aligned under the Department's priorities as follows:

### *USDA Strategic Goal 1: Assist Rural Communities to Create Prosperity So They Are Self-Sustaining, Repopulating, and Economically Thriving*

**Product Quality/Value Added –** Many agricultural products are marketed as low value commodities and harvested commodities often suffer losses due to spoilage or damage during shipping, storage, and handling. Healthy foods are often not convenient and/or are not widely accepted by many consumers.

Biobased product represent small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products.

ARS has active research programs directed toward: 1) improving the efficiency and reducing the cost for the conversion of agricultural products into biobased products and biofuels; 2) developing new and improved products to help establish them in domestic and foreign markets; and 3) providing higher quality, healthy foods that satisfy consumer needs in the United States and abroad. Note: Some of ARS' Livestock and Crop Production research is carried out under this Strategic Goal and Strategic Goal 3.

**National Agricultural Library** — The Library, the world's largest library serving agriculture, delivered more than 106.7 million direct customer service transactions in FY 2012, a 9.4 percent increase from the FY 2011 level.

**Buildings and Facilities** —ARS has approximately 99 laboratory locations, primarily located throughout the United States. ARS' facilities programs are designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.

### *USDA Strategic Goal 2: Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources*

**Environmental Stewardship** — ARS' research programs in environmental stewardship support scientists at seventy locations. Emphasis is given to developing technologies and systems that support profitable production and enhance the Nation's vast renewable natural resource base.

ARS is currently developing the scientific knowledge and technologies needed to meet the challenges and opportunities facing U.S. agriculture in managing water resource quality and quantity under different climatic regimes, production systems, and environmental conditions. ARS' air resources research is developing measurements, prediction, and control technologies for emissions of greenhouse gases, particulate matter, ammonia, hydrogen sulfide, and volatile organic compounds affecting air quality and land-surface climate interactions. The agency is a leader in developing measurement and modeling techniques for enhancing the health and productivity of soils, including developing predictive tools to assess the sustainability of alternative land management practices. Finding mechanisms to aid agriculture in adapting to changes in atmospheric composition and climatic variations are also important components of ARS' research program.

ARS' grazing and range land research includes the conservation and restoration of the Nation's range land and pasture ecosystems and agroecosystems through improved management of fire, invasive weeds, grazing, global change, and other agents of ecological change. ARS is currently developing improved grass and forage legume germplasm for livestock, conservation, bioenergy, and bioproduct systems as well as grazing-based livestock systems that reduce risk and increase profitability. In addition, the agency is developing whole system of management strategies to reduce production costs and risks.

### *USDA Strategic Goal 3: Help America Agricultural Production and Biotechnology Exports As America Works to Increase Food Security*

**Livestock Production** — ARS' livestock production program is directed toward: 1) safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatics tools;

2) developing a basic understanding of the physiology of livestock and poultry; and 3) developing information, tools, and technologies that can be used to improve animal production systems. The research is heavily focused on the development and application of genomics technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems.

Current areas of emphasis include increasing efficiency of nutrient utilization; increasing animal well being and reducing stress in production systems; increasing reproductive rates and breeding animal longevity; developing and evaluating non-traditional production systems (e.g., organic, natural); and evaluating and conserving animal genetic resources.

**Crop Production** — ARS' crop production program focuses on developing and improving ways to reduce crop losses while protecting and ensuring a safe and affordable food supply. The research program concentrates on effective production strategies that are environmentally friendly, safe to consumers, and compatible with sustainable and profitable crop production systems. Research activities are directed at safeguarding and utilizing plant genetic resources and their associated genetic, genomic, and bioinformatics databases that facilitate selection of varieties and/or germplasm with significantly improved traits.

Current research activities attempt to minimize the impacts of crop pests while maintaining healthy crops and safe commodities that can be sold in markets throughout the world. ARS is conducting research to discover and exploit naturally occurring and engineered genetic mechanisms for plant pest control; develop agronomic germplasm with durable defensive traits, and transfer genetic resources for commercial use. ARS is also providing taxonomic information on invasive species that strengthen prevention techniques, aid in detection/identification of invasives, and increase control through management tactics which restore habitats and biological diversity.

### *USDA Strategic Goal 4: Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals*

**Food Safety** — Assuring that the United States has the highest levels of affordable, safe food requires that the food system be protected at each stage from production through processing and consumption from pathogens, toxins, and chemical contaminants that cause diseases in humans. The U.S. food supply is very diverse, extensive, easily accessible, and thus vulnerable to the introduction of biological and chemical contaminants through natural processes, intentional means, or by global commerce.

ARS' current food safety research is designed to yield science-based knowledge on the safe production, storage, processing, and handling of plant and animal products, and on the detection and control of toxin producing and/or pathogenic bacteria and fungi, parasites, chemical contaminants, and plant toxins. ARS' research activities involve a high degree of cooperation and collaboration both within the USDA-REE agencies as well as with USDA's FSIS and the APHIS, and with other entities, including the Food and Drug Administration, the Centers for Disease Control, the Department of Homeland Security, and the Environmental Protection Agency. ARS also collaborates in international research programs to address and resolve global food safety issues.

Specific research efforts are directed toward developing new technologies that assist ARS stakeholders and customers, that is, regulatory agencies, industry, and commodity and consumer organizations in detecting, identifying, and controlling foodborne diseases that affect human health.

**Livestock Protection** — ARS' animal health program is directed at protecting and ensuring the safety of the Nation's agriculture and food supply through improved disease detection, prevention, control, and treatment. Basic and applied research approaches are used to solve animal health problems of high national priority. Emphasis is given to methods and procedures to control animal diseases.

The research program has ten strategic objectives: 1) establish ARS' laboratories into a fluid, highly effective research network to maximize use of core competencies and resources; 2) access specialized high containment facilities to study zoonotic and emerging diseases; 3) develop an integrated animal and microbial genomics research program; 4) establish centers of excellence in animal immunology; 5) launch a biotherapeutic discovery program providing alternatives to animal drugs; 6) build a technology driven vaccine and diagnostic discovery research program; 7) develop core competencies in field epidemiology and predictive biology; 8) develop internationally recognized expert collaborative research laboratories; 9) establish a best in class training center for our Nation's veterinarians and scientists; and 10) develop a model technology transfer program to achieve the full impact of ARS' research discoveries.

ARS' current animal research program includes eight core components: 1) biodefense research, 2) animal genomics and immunology, 3) zoonotic diseases, 4) respiratory diseases, 5) reproductive and neonatal diseases, 6) enteric diseases, 7) parasitic diseases, and 8) transmissible spongiform encephalopathies.

**Crop Protection –** ARS research on crop protection is directed toward epidemiological investigations to understand pest and disease transmission mechanisms, and to identify and apply new technologies that increase our understanding of virulence factors and host defense mechanisms.

Currently, ARS' research priorities include: 1) identification of genes that convey virulence traits in pathogens and pests; 2) factors that modulate infectivity, gene functions, and mechanisms; 3) genetic profiles that provide specified levels of disease and insect resistance under field conditions, and 4) mechanisms that facilitate the spread of pests and infectious diseases.

ARS is developing new knowledge and integrated pest management approaches to control pest and disease outbreaks as they occur. Its research will improve the knowledge and understanding of the ecology, physiology, epidemiology, and molecular biology of emerging diseases and pests. This knowledge will be incorporated into pest risk assessments and management strategies to minimize chemical inputs and increase production. Strategies and approaches will be available to producers to control emerging crop diseases and pest outbreaks.

**Human Nutrition** – Maintenance of health throughout the lifespan along with prevention of obesity and chronic diseases via food-based recommendations are the major emphasis of ARS' human nutrition research program. These health-related goals are based on the knowledge that deficiency diseases are no longer the most important public health concerns. Excessive consumption has become the primary nutrition problem in the American population. This is reflected by increased emphasis on prevention of obesity from basic science through intervention studies to assessments of large populations. ARS' research programs also actively study bioactive components of foods that have no known requirement but have health promotion activities.

Four specific areas of research are currently emphasized: 1) nutrition monitoring and the food supply, e.g., a national diet survey and the food composition databank; 2) dietary guidance for health promotion and disease prevention, i.e., specific foods, nutrients, and dietary patterns that maintain health and prevent diseases; 3) prevention of obesity and related diseases, including research as to why so few of the population do not follow the Dietary Guidelines for Americans; and 4) life stage nutrition and metabolism, in order to better define the role of nutrition in pregnancy, growth of children, and for healthier aging.

### *National Institute of Food and Agriculture*

NIFA 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. NIFA administers grants and formula payments to State institutions to supplement State and local funding for agriculture research.

### *Forest Service*

Forest Service R&D has an integrated portfolio that supports achievement of the agency's strategic goals. The Forest Service R&D structure has two components: Priority Research Areas and Strategic Program Areas (SPAs).

The Priority Research Areas address urgent needs in seven areas: Forest Disturbances, Forest Inventory and Analysis, Watershed Management and Restoration, Bioenergy and Biobased Products, Urban Natural Resources Stewardship, Nanotechnology, and Localized Needs Research.

The SPAs are the long-term programs from which Priority Research Areas are funded; the SPAs are:

**Wildland Fire and Fuels -** R&D provides managers with the knowledge and tools to reduce negative impacts, while enhancing the beneficial effects of wildland fire, as a natural process. This knowledge and these tools are critical to understanding the human process of fire and fuels management on society and the environment.

Research focuses on understanding and modeling fundamental fire processes; interactions of fire with ecosystems; and the environmental, social, and economic aspects of fire, as well as evaluating the integrated management strategies and disturbance interactions at multiple scales and the application of fire research to address management problems.

**Invasive Species -** R&D provides the scientific information, methods, and technology to reduce or eliminate the introduction, spread, and impact of invasive species and to restore or improve the functionality of ecosystems affected by invasives species.

Research focuses on non-native plants, animals, fish, insects, diseases, invertebrates, and other species whose introduction is likely to cause economic or environmental harm to an ecosystem.

**Water, Air, and Soil -** R&D enables the sustainable management of these essential resources by providing clear air and safe drinking water, by protecting lives and property from wildlife fire and smoke, and through adapting to climate variability and change.

The program features ecosystem services with a high level of integration between water, air, and soil research, such as the effects of climate variability and change on water budgets or carbon sequestration metrics from an ecosystem perspective.

**Wildlife and Fish -** R&D relies upon interdisciplinary research to inform policy initiatives affecting wildlife and fish habitat on private and public lands, and the recovery of threatened or endangered species.

Scientists investigate the complex interactions among species, ecosystem dynamics and processes, land use and management, and any emerging broadscale threats, including global climate change, loss of open space, invasive species, and disease.

**Resource Management and Use** - R&D provides the scientific and technology base to sustainably manage and use forest resources and forest fiber-based products.

Research focuses on the plant sciences, soil sciences, social sciences, silviculture, productivity, forest and range ecology management, harvesting and operations, forest and biomass products and utilization, economics, urban forestry, and climate change.

**Outdoor Recreation -** R&D promotes human and ecological sustainability by researching environmental management, activities, and experiences that connect people with the natural world.

Research in outdoor recreation is interdisciplinary, focusing on nature-based recreation and the changing trends in American society; connections between recreation visitors, communities, and the environment; human benefits and consequences of recreation and nature contact; the effectiveness of recreation management and decisionmaking; and sustaining ecosystems affected by recreational use.

**Inventory and Monitoring -** R&D provides the resource data, analysis, and tools needed to monitor vulnerable forest ecosystems to rapid change due to threats from fire, insects, disease, natural processes, or management actions. From their research, scientists determine the status and trend of the health of the Nation's forests and grasslands, and the potential impact from climate change.

Their research integrates the development and use of science, technology, and remotely sensed data to better understand the incidences of forest fragmentation over time from changes in land use or from insects, disease, fire, and extreme weather events.

A representative summary of FY 2012 accomplishments include the following:

- 32 new interagency agreements and contracts
- 12 interagency agreements and contracts continued
- 3,049 articles published in journals
- 650 articles published in all other publications
- 8 patents granted
- 3 patent licenses executed

### *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 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. Two additional high priority items are significance editing, or cleaning of the respondent data; and research on quality operations for the new National Operations Center. The significance editing has potential to enhance the quality of survey data and reduce manual operations in preparing the survey responses for summary. While the research on quality process increases data quality through the processes of the National Operations Center. In addition, products for data users are being improved using 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

## Deferred Maintenance and Repairs (Unaudited)

Deferred maintenance and repairs is maintenance and repair activity that was not preformed when it should have been or was scheduled to be to and which is put off or delayed to a future period.

Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

### Forest Service

| FY 2012 | Cost to Return to Acceptable Condition | Cost of Critical Maintenance | Cost of Non-critical Maintenance |
|---|---|---|---|
| Asset Class | | | |
| Bridges | $ 190 | $ 35 | $ 155 |
| Buildings | 1,173 | 84 | 1,089 |
| Dam | 22 | 8 | 14 |
| Minor Constructed Features | 103 | - | 103 |
| Fence | 268 | 268 | - |
| Handling Facility | 22 | 22 | - |
| Heritage | 20 | 3 | 17 |
| Road | 3,761 | 376 | 3,385 |
| Trail Bridge | 9 | 3 | 6 |
| Wastewater | 34 | 16 | 18 |
| Water | 102 | 56 | 46 |
| Wildlife, Fish, TES | 7 | 5 | 2 |
| Trails | 314 | 6 | 308 |
| General Forest Area | - | - | - |
| Total Forest Service | $ 6,025 | $ 882 | $ 5,143 |

| FY 2011 | Cost to Return to Acceptable Condition | Cost of Critical Maintenance | Cost of Non-critical Maintenance |
|---|---|---|---|
| Asset Class | | | |
| Bridges | $ 185 | $ 34 | $ 151 |
| Buildings | 1,064 | 83 | 981 |
| Dam | 23 | 8 | 15 |
| Minor Constructed Features | 109 | - | 109 |
| Fence | 293 | 293 | - |
| Handling Facility | 22 | 22 | - |
| Heritage | 26 | 7 | 19 |
| Road | 3,333 | 333 | 3,000 |
| Trail Bridge | 10 | 3 | 7 |
| Wastewater | 36 | 19 | 17 |
| Water | 109 | 61 | 48 |
| Wildlife, Fish, TES | 7 | 5 | 2 |
| Trails | 296 | 6 | 290 |
| General Forest Area | - | - | - |
| Total Forest Service | $ 5,513 | $ 874 | $ 4,639 |

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E), heritage assets, and stewardship land. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of asset to its acceptable operating condition. Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

The FS uses condition surveys to estimate deferred maintenance on all major classes of its PP&E. Over the past decade, the FS has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No deferred maintenance exists for fleet vehicles as they 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.

The agency is committed to sustaining a manageable level of infrastructure—disinvesting in infrastructure that can no longer be managed to appropriate standards, rightsizing its asset portfolio, and eliminating the substantial backlog of deferred maintenance.

Deferred maintenance estimates for most assets—except bridges—are based on condition surveys performed on a 5-year maximum revolving schedule. The bridge class is on a 2-year maximum revolving schedule. To date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's deferred maintenance for National Forest System (NFS) roads is determined annually from random sample surveys, providing an 80-percent level of confidence.

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows.

Conditions of roads and bridges within the National Forest System (NFS) road system are measured by various standards:

- Federal Highway Administration regulations for the Federal Highway Safety Act;
- Best management practices for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;
- Road management objectives developed through the National Forest Management Act forest planning process; and
- Forest Service directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (August 25, 2005, amendment was superseded with October 1, 2008, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams shall be managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. For dams to be rated in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings shall 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, with approximately 35 percent needing major repairs or renovations; approximately 14 percent in fair condition; and 51 percent of the facilities in good condition.

The agency is currently developing an integrated strategy to realign our administrative facility infrastructure to meet current organizational structure and to reduce the maintenance liability for unneeded buildings, free up land for use by local communities and private enterprise, and provide added funds for infrastructure maintenance and development. Forest Service anticipates maximum benefits from a combination of appropriations, facility conveyance receipts, and decommissioning of unneeded facilities.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. All developed sites are managed in accordance with Federal laws and regulations (Code of Federal Regulations (CFR) 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.

Heritage assets include archaeological sites that require determinations of National Register of Historic Places status, National Historic Landmarks, and significant historic properties. Some heritage assets may have historical significance, but their primary function in the agency is as visitation or recreation sites and, therefore, may not fall under the management responsibility of the heritage program.

Trails and trail bridges are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350, Trail, River, and Similar Recreation Opportunities, and the FSH 2309.18, Trails Management Handbook.

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

## Condition of Heritage Assets and Stewardship Lands

### *Heritage Assets*

Heritage professionals are responsible for documenting and maintaining cultural resource condition assessments to standard. Periodic monitoring and condition assessments are the basis for applying protective measures and treatments to vulnerable, deteriorating, or threatened cultural resources. The condition of heritage assets depends on the type of asset and varies from poor to fair.

### *Stewardship Land*

The condition of NFS lands varies by purpose and location. The FS monitors the condition of its stewardship lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis and Forest Health Monitoring.

Although most of the estimated 193 million acres of stewardship lands continue to produce valuable benefits – clean air and water, habitat for wildlife, and products for human use – significant portions are at risk to pest outbreaks or catastrophic fires.

There are 25 million acres of NFS forest lands at risk to future mortality from insects and diseases, based on the 2006 publication of Mapping Risk from Forest Insects and Diseases. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation.

The FY 2012 accomplishments on NFS and State and Private Forestry lands include treatment of 925,475 acres for invasives and 282,071 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available in February 2013 at www.fs.fed.us.

### *Agricultural Research Service*

| | FY 2012 | FY 2011 |
|---|---|---|
| Asset Class | | |
| Buildings | $ 271 | $ 261 |
| Structures | 19 | 21 |
| Heritage | 90 | 95 |
| Total Agricultural Research Service | $ 380 | $ 377 |

Deferred Maintenance (DM) includes work needed to meet laws, regulations, codes and other legal direction as long as the original intent or purpose of the fixed asset is not changed. Also includes work performed to bring an asset up to present environmental standards or correction of safety problems. Critical DM is DM that is identified for critical systems including HVAC, electrical, roofing, and plumbing tasks. Non-critical DM is all other systems. DM is reported for buildings, structures and heritage assets.

Executive Order (EO) 13327 requires all Federal agencies to assess the condition of their facilities and plan for their full life cycle management. The Condition Index (CI) is a general measure of the constructed asset's condition at a specific point in time. It is calculated as the ration of repair needs, or DM, to plant replacement value (PRV). PRV can be calculated systematically and without much effort. The condition of the constructed asset is a more difficult figure to determine. A repair need is the amount necessary to ensure a constructed asset is restored to a condition substantially equivalent to the originally intended and designed capacity, efficiency or capability. Ideally, with enough money and time, repair needs would be determined for each asset by inspection, evaluation of the repairs required, and consistent estimating of the repairs throughout ARS. ARS does not have available manpower inhouse to complete this type of inspection and estimating, nor the funding to contract. ARS looked at approaches to model ARS assets and evaluate the results for management purposes.

Whitestone Research is a company that estimates DM based on the age of the facility, geographic location, typical major components and size of the structure. Whitestone first inspected a sample of 1,160 buildings from 38 ARS sites (roughly 53 percent of the total inventory) and used parametric models to estimate DM and PRV. The Whitestone Report only addresses Existing Active – Real Property and excludes excess and inactive property. The results were generalized to the entire population of ARS facilities. Assuming a PRV of $4 billion, the CI ratio (1 - $DM/PRV) is 92.7 percent, an outcome commonly classified as “adequate.

# Statement of Budgetary Resources (Unaudited)

| FY 2012 | FSA | | CCC | | FAS | RMA | FNS | FSIS | AMS | APHIS |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary |
| **Budgetary Resources:** | | | | | | | | | | |
| Unobligated balance, brought forward, October 1: | $ 2,780 | $ 1,053 | $ 1,870 | $ 656 | $ 455 | $ 565 | $ 10,726 | $ 17 | $ 126 | $ 324 |
| Unobligated balance brought forward, October 1, as adjusted | 2,780 | 1,053 | 1,870 | 656 | 455 | 565 | 10,726 | 17 | 126 | 324 |
| Recoveries of prior year unpaid obligations | 215 | 85 | 1,199 | 29 | 48 | 3 | 817 | 11 | 19 | 39 |
| Other changes in unobligated balance (+ or -) | (85) | (922) | (50) | (437) | (90) | (1) | (3,262) | (1) | (2) | (4) |
| Unobligated balance from prior year budget authority, net | 2,910 | 216 | 3,019 | 248 | 413 | 567 | 8,281 | 27 | 143 | 359 |
| Appropriations (discretionary and mandatory) | 1,003 | - | 2,504 | - | 370 | 7,681 | 117,370 | 1,015 | 1,123 | 1,103 |
| Borrowing authority (discretionary and mandatory) | 400 | 1,970 | 11,267 | 220 | - | - | - | - | - | - |
| Spending authority from offsetting collections (discretionary and mandatory) | 468 | 639 | 5,716 | 283 | 365 | 5,000 | 117 | 171 | 115 | 202 |
| Total budgetary resources | 4,781 | 2,825 | 22,506 | 751 | 1,148 | 13,248 | 125,768 | 1,213 | 1,381 | 1,664 |
| **Status of Budgetary Resources:** | | | | | | | | | | |
| Obligations Incurred (Note 23) | 3,035 | 2,298 | 21,292 | 410 | 569 | 12,681 | 107,404 | 1,173 | 1,254 | 1,310 |
| Unobligated balance, end of year: | | | | | | | | | | |
| Apportioned | 425 | 240 | 200 | 217 | 157 | 564 | 5,581 | 18 | 86 | 47 |
| Exempt from apportionment | 769 | - | 355 | 5 | - | - | - | - | - | - |
| Unapportioned | 552 | 287 | 659 | 119 | 422 | 3 | 12,783 | 22 | 41 | 307 |
| Total unobligated balance, end of year | 1,746 | 527 | 1,214 | 341 | 579 | 567 | 18,364 | 40 | 127 | 354 |
| Total budgetary resources | 4,781 | 2,825 | 22,506 | 751 | 1,148 | 13,248 | 125,768 | 1,213 | 1,381 | 1,664 |
| **Change in Obligated Balances:** | | | | | | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 652 | 438 | 9,925 | 210 | 235 | 460 | 6,661 | 185 | 222 | 422 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (125) | (22) | (53) | (158) | (336) | - | - | (28) | (5) | (75) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 527 | 416 | 9,872 | 52 | (101) | 460 | 6,661 | 157 | 217 | 347 |
| Obligated balance, start of year (net), as adjusted | 527 | 416 | 9,872 | 52 | (101) | 460 | 6,661 | 157 | 217 | 347 |
| Obligations incurred | 3,035 | 2,298 | 21,292 | 410 | 569 | 12,681 | 107,404 | 1,173 | 1,254 | 1,310 |
| Outlays (gross) (-) | (3,048) | (2,277) | (18,659) | (418) | (556) | (9,888) | (106,052) | (1,163) | (1,215) | (1,270) |
| Change in uncollected customer payments from Federal sources (+ or -) | 63 | 3 | (81) | - | (244) | - | - | (3) | (11) | (64) |
| Actual transfers, unpaid obligations (net)(+ or -) | - | - | - | - | - | - | - | - | - | - |
| Recoveries of prior year unpaid obligations (-) | (215) | (85) | (1,199) | (29) | (48) | (3) | (817) | (11) | (19) | (39) |
| Obligated balance, end of year: | | | | | | | | | | |
| Unpaid obligations, end of year (gross) | 425 | 372 | 11,358 | 173 | 199 | 3,251 | 7,196 | 184 | 242 | 423 |
| Uncollected customer payments from Federal sources, end of year (-) | (62) | (18) | (134) | (157) | (580) | - | - | (31) | (15) | (139) |
| Obligated balance, end of year (net) | 363 | 354 | 11,224 | 16 | (381) | 3,251 | 7,196 | 153 | 227 | 284 |
| **Budget Authority and Outlays, Net:** | | | | | | | | | | |
| Budget authority, gross (discretionary and mandatory) | 1,871 | 2,609 | 19,486 | 503 | 735 | 12,681 | 117,488 | 1,186 | 1,238 | 1,305 |
| Actual offsetting collections (discretionary and mandatory) (-) | (711) | (2,032) | (9,437) | (562) | (120) | (5,001) | (116) | (167) | (78) | (137) |
| Change in uncollected customer payments from Federal sources | 63 | 3 | (81) | - | (244) | - | - | (3) | (11) | (64) |
| Anticipated offsetting collections (discretionary and mandatory) (+ or -) | - | - | - | - | - | - | - | - | - | - |
| Budget authority, net (discretionary and mandatory) | 1,223 | 580 | 9,968 | (59) | 371 | 7,680 | 117,372 | 1,016 | 1,149 | 1,104 |
| Outlays, gross (discretionary and mandatory) | 3,048 | 2,277 | 18,659 | 418 | 556 | 9,888 | 106,052 | 1,163 | 1,215 | 1,270 |
| Actual offsetting collections (discretionary and mandatory) (-) | (711) | (2,032) | (9,437) | (562) | (120) | (5,001) | (116) | (167) | (78) | (137) |
| Outlays, net (discretionary and mandatory) | 2,337 | 245 | 9,222 | (144) | 436 | 4,887 | 105,936 | 996 | 1,137 | 1,133 |
| Distributed offsetting receipts (-) | - | (209) | - | (74) | (26) | - | 1 | (11) | (147) | (9) |
| Agency outlays, net (discretionary and mandatory) | $ 2,337 | $ 36 | $ 9,222 | $ (218) | $ 410 | $ 4,887 | $ 105,937 | $ 985 | $ 990 | $ 1,124 |

| FY 2012 | GIPSA | FS | NRCS | ARS | NIFA | ERS | NASS | RD | RD | DO | TOTAL | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Budgetary | Non-Budgetary Financing Accounts |
| **Budgetary Resources:** | | | | | | | | | | | | |
| Unobligated balance, brought forward, October 1: | $ 20 | $ 1,907 | $ 1,873 | $ 57 | $ 277 | $ 4 | $ 5 | $ 4,032 | $ 3,895 | $ 200 | $ 25,238 | $ 5,604 |
| Unobligated balance brought forward, October 1, as adjusted | 20 | 1,907 | 1,873 | 57 | 277 | 4 | 5 | 4,032 | 3,895 | 200 | 25,238 | 5,604 |
| Recoveries of prior year unpaid obligations | 1 | 131 | 463 | 28 | 157 | 5 | 15 | 317 | 1,705 | 65 | 3,533 | 1,819 |
| Other changes in unobligated balance (+ or -) | (1) | (2) | (12) | (4) | (6) | (2) | - | (64) | (3,083) | (7) | (3,593) | (4,442) |
| Unobligated balance from prior year budget authority, net | 20 | 2,036 | 2,324 | 81 | 428 | 7 | 20 | 4,285 | 2,517 | 258 | 25,178 | 2,981 |
| Appropriations (discretionary and mandatory) | 38 | 5,296 | 4,485 | 1,125 | 1,347 | 78 | 159 | 4,685 | - | 534 | 149,916 | - |
| Borrowing authority (discretionary and mandatory) | - | - | - | - | - | - | - | - | 9,441 | - | 11,667 | 11,631 |
| Spending authority from offsetting collections (discretionary and mandatory) | 50 | 757 | 231 | 143 | 41 | 2 | 22 | 2,052 | 6,185 | 1,050 | 16,502 | 7,107 |
| Total budgetary resources | 108 | 8,089 | 7,040 | 1,349 | 1,816 | 87 | 201 | 11,022 | 18,143 | 1,842 | 203,263 | 21,719 |
| **Status of Budgetary Resources:** | | | | | | | | | | | | |
| Obligations Incurred (Note 23) | 91 | 6,698 | 4,602 | 1,284 | 1,575 | 84 | 200 | 5,102 | 13,857 | 1,583 | 169,937 | 16,565 |
| Unobligated balance, end of year: | | | | | | | | | | | | |
| Apportioned | 12 | 800 | 425 | 48 | 244 | 1 | - | 1,153 | 1,877 | 217 | 9,978 | 2,334 |
| Exempt from apportionment | - | - | - | - | - | - | - | - | - | - | 1,124 | 5 |
| Unapportioned | 5 | 591 | 2,013 | 17 | (3) | 2 | 1 | 4,767 | 2,409 | 42 | 22,224 | 2,815 |
| Total unobligated balance, end of year | 17 | 1,391 | 2,438 | 65 | 241 | 3 | 1 | 5,920 | 4,286 | 259 | 33,326 | 5,154 |
| Total budgetary resources | 108 | 8,089 | 7,040 | 1,349 | 1,816 | 87 | 201 | 11,022 | 18,143 | 1,842 | 203,263 | 21,719 |
| **Change in Obligated Balances:** | | | | | | | | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 10 | 2,771 | 4,254 | 494 | 2,136 | 40 | 44 | 7,664 | 27,884 | 462 | 36,637 | 28,532 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (5) | (485) | (159) | (154) | (118) | (6) | (7) | (15) | (767) | (448) | (2,019) | (947) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 5 | 2,286 | 4,095 | 340 | 2,018 | 34 | 37 | 7,649 | 27,117 | 14 | 34,618 | 27,585 |
| Obligated balance, start of year (net), as adjusted | 5 | 2,286 | 4,095 | 340 | 2,018 | 34 | 37 | 7,649 | 27,117 | 14 | 34,618 | 27,585 |
| Obligations incurred | 91 | 6,698 | 4,602 | 1,284 | 1,575 | 84 | 200 | 5,102 | 13,857 | 1,583 | 169,937 | 16,565 |
| Outlays (gross) (-) | (88) | (6,781) | (3,878) | (1,294) | (1,425) | (82) | (188) | (6,157) | (14,312) | (1,481) | (163,225) | (17,007) |
| Change in uncollected customer payments from Federal sources (+ or -) | (2) | (46) | (147) | (26) | (14) | - | 1 | (5) | (132) | 22 | (557) | (129) |
| Actual transfers, unpaid obligations (net)(+ or -) | - | - | - | - | - | - | - | - | - | - | - | - |
| Recoveries of prior year unpaid obligations (-) | (1) | (131) | (463) | (28) | (157) | (5) | (15) | (317) | (1,705) | (65) | (3,533) | (1,819) |
| Obligated balance, end of year: | | | | | | | | | | | | |
| Unpaid obligations, end of year (gross) | 12 | 2,557 | 4,514 | 457 | 2,128 | 38 | 42 | 6,292 | 25,725 | 498 | 39,816 | 26,270 |
| Uncollected customer payments from Federal sources, end of year (-) | (7) | (531) | (306) | (180) | (131) | (7) | (6) | (20) | (900) | (427) | (2,576) | (1,075) |
| Obligated balance, end of year (net) | 5 | 2,026 | 4,208 | 277 | 1,997 | 31 | 36 | 6,272 | 24,825 | 71 | 37,240 | 25,195 |
| **Budget Authority and Outlays, Net:** | | | | | | | | | | | | |
| Budget authority, gross (discretionary and mandatory) | 88 | 6,053 | 4,716 | 1,268 | 1,388 | 80 | 181 | 6,737 | 15,626 | 1,584 | 178,085 | 18,738 |
| Actual offsetting collections (discretionary and mandatory) (-) | (48) | (712) | (85) | (117) | (28) | (2) | (24) | (3,627) | (10,071) | (1,071) | (21,481) | (12,665) |
| Change in uncollected customer payments from Federal sources | (2) | (46) | (147) | (26) | (14) | - | 1 | (5) | (132) | 22 | (557) | (129) |
| Anticipated offsetting collections (discretionary and mandatory) (+ or -) | - | - | - | - | - | - | - | - | - | - | - | - |
| Budget authority, net (discretionary and mandatory) | 38 | 5,295 | 4,484 | 1,125 | 1,346 | 78 | 158 | 3,105 | 5,423 | 535 | 156,047 | 5,944 |
| Outlays, gross (discretionary and mandatory) | 88 | 6,781 | 3,878 | 1,294 | 1,425 | 82 | 188 | 6,157 | 14,312 | 1,481 | 163,225 | 17,007 |
| Actual offsetting collections (discretionary and mandatory) (-) | (48) | (712) | (85) | (117) | (28) | (2) | (24) | (3,627) | (10,071) | (1,071) | (21,481) | (12,665) |
| Outlays, net (discretionary and mandatory) | 40 | 6,069 | 3,793 | 1,177 | 1,397 | 80 | 164 | 2,530 | 4,241 | 410 | 141,744 | 4,342 |
| Distributed offsetting receipts (-) | - | (529) | 12 | (30) | (4) | 1 | - | 1 | (1,027) | 18 | (723) | (1,310) |
| Agency outlays, net (discretionary and mandatory) | $ 40 | $ 5,540 | $ 3,805 | $ 1,147 | $ 1,393 | $ 81 | $ 164 | $ 2,531 | $ 3,214 | $ 428 | $ 141,021 | $ 3,032 |

| FY 2011 | FSA | | CCC | | FAS | RMA | FNS | FSIS | AMS | APHIS |
|---|---|---|---|---|---|---|---|---|---|---|
| | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary |
| **Budgetary Resources:** | | | | | | | | | | |
| Unobligated balance, brought forward, October 1: | $ 1,427 | $ 3,245 | $ 2,287 | $ 1,110 | $ 584 | $ 563 | $ 14,579 | $ 50 | $ 115 | $ 288 |
| Recoveries of prior year unpaid obligations | 516 | 91 | 828 | 38 | 40 | 6 | 1,237 | 12 | 36 | 285 |
| Other changes in unobligated balance (+ or -) | (54) | (3,067) | (78) | (217) | (82) | (1) | (5,036) | - | (4) | (3) |
| Unobligated balance from prior year budget authority, net | 1,889 | 269 | 3,037 | 931 | 542 | 568 | 10,780 | 62 | 147 | 570 |
| Appropriations (discretionary and mandatory) | 3,927 | - | 2,310 | - | 413 | 6,698 | 103,732 | 1,019 | 1,325 | 1,147 |
| Borrowing authority (discretionary and mandatory) | 400 | 1,477 | 11,193 | 116 | - | - | - | - | - | - |
| Spending authority from offsetting collections (discretionary and mandatory) | 464 | 1,864 | 8,561 | 443 | 257 | 3,148 | 138 | 139 | 63 | 210 |
| Total budgetary resources | 6,680 | 3,610 | 25,101 | 1,490 | 1,212 | 10,414 | 114,650 | 1,220 | 1,535 | 1,927 |
| **Status of Budgetary Resources:** | | | | | | | | | | |
| Obligations Incurred (Note 23) | 3,900 | 2,557 | 23,231 | 834 | 757 | 9,849 | 103,924 | 1,203 | 1,409 | 1,603 |
| Unobligated balance, end of year: | | | | | | | | | | |
| Apportioned | 644 | 274 | 526 | 537 | 118 | 562 | 4,179 | 7 | 114 | 304 |
| Exempt from apportionment | 600 | - | 1,136 | 9 | - | - | - | - | - | - |
| Unapportioned | 1,536 | 779 | 208 | 110 | 337 | 3 | 6,547 | 10 | 12 | 20 |
| Total unobligated balance, end of year | 2,780 | 1,053 | 1,870 | 656 | 455 | 565 | 10,726 | 17 | 126 | 324 |
| Total budgetary resources | 6,680 | 3,610 | 25,101 | 1,490 | 1,212 | 10,414 | 114,650 | 1,220 | 1,535 | 1,927 |
| **Change in Obligated Balances:** | | | | | | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 1,046 | 541 | 9,895 | 238 | 182 | 230 | 6,272 | 194 | 181 | 438 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (15) | (19) | (247) | (158) | (271) | - | - | (44) | (2) | (23) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 1,031 | 522 | 9,648 | 80 | (89) | 230 | 6,272 | 150 | 179 | 415 |
| Obligated balance, start of year (net), as adjusted | 1,031 | 522 | 9,648 | 80 | (89) | 230 | 6,272 | 150 | 179 | 415 |
| Obligations incurred | 3,900 | 2,557 | 23,231 | 834 | 757 | 9,849 | 103,924 | 1,203 | 1,409 | 1,603 |
| Outlays (gross) (-) | (3,778) | (2,570) | (22,373) | (823) | (663) | (9,613) | (102,299) | (1,199) | (1,333) | (1,334) |
| Change in uncollected customer payments from Federal sources (+ or -) | (110) | (3) | 193 | 1 | (65) | - | - | 16 | (3) | (52) |
| Actual transfers, unpaid obligations (net)(+ or -) | - | - | - | - | - | - | - | - | - | - |
| Recoveries of prior year unpaid obligations (-) | (516) | (91) | (828) | (38) | (40) | (6) | (1,237) | (12) | (36) | (285) |
| Obligated balance, end of year: | | | | | | | | | | |
| Unpaid obligations, end of year (gross) | 652 | 437 | 9,925 | 211 | 235 | 460 | 6,660 | 185 | 222 | 422 |
| Uncollected customer payments from Federal sources, end of year (-) | (125) | (22) | (53) | (158) | (336) | - | - | (28) | (5) | (75) |
| Obligated balance, end of year (net) | 527 | 415 | 9,872 | 53 | (101) | 460 | 6,660 | 157 | 217 | 347 |
| **Budget Authority and Outlays, Net:** | | | | | | | | | | |
| Budget authority, gross (discretionary and mandatory) | 4,791 | 3,341 | 22,064 | 559 | 670 | 9,846 | 103,870 | 1,158 | 1,388 | 1,357 |
| Actual offsetting collections (discretionary and mandatory) (-) | (554) | (1,862) | (12,213) | (569) | (192) | (3,148) | (138) | (155) | (74) | (159) |
| Change in uncollected customer payments from Federal sources | (110) | (3) | 193 | 1 | (65) | - | - | 16 | (3) | (52) |
| Anticipated offsetting collections (discretionary and mandatory) (+ or -) | - | - | - | - | - | - | - | - | - | - |
| Budget authority, net (discretionary and mandatory) | 4,127 | 1,476 | 10,044 | (9) | 413 | 6,698 | 103,732 | 1,019 | 1,311 | 1,146 |
| Outlays, gross (discretionary and mandatory) | 3,778 | 2,570 | 22,373 | 823 | 663 | 9,613 | 102,299 | 1,199 | 1,333 | 1,334 |
| Actual offsetting collections (discretionary and mandatory) (-) | (554) | (1,862) | (12,213) | (569) | (192) | (3,148) | (138) | (155) | (74) | (159) |
| Outlays, net (discretionary and mandatory) | 3,224 | 708 | 10,160 | 254 | 471 | 6,465 | 102,161 | 1,044 | 1,259 | 1,175 |
| Distributed offsetting receipts (-) | - | (456) | - | (225) | - | - | - | (11) | (156) | (9) |
| Agency outlays, net (discretionary and mandatory) | $ 3,224 | $ 252 | $ 10,160 | $ 29 | $ 471 | $ 6,465 | $ 102,161 | $ 1,033 | $ 1,103 | $ 1,166 |

| FY 2011 | GIPSA | FS | NRCS | ARS | NIFA | ERS | NASS | RD | RD | DO | TOTAL | TOTAL |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Budgetary | Non-Budgetary Financing Accounts | Budgetary | Budgetary | Non-Budgetary Financing Accounts |
| **Budgetary Resources:** | | | | | | | | | | | | |
| Unobligated balance, brought forward, October 1: | $ 17 | $ 2,361 | $ 1,689 | $ 322 | $ 275 | $ 5 | $ 29 | $ 3,630 | $ 3,942 | $ 199 | $ 28,420 | $ 8,297 |
| Recoveries of prior year unpaid obligations | 7 | 94 | 390 | 20 | 112 | 2 | 6 | 391 | 835 | 54 | 4,036 | 964 |
| Other changes in unobligated balance (+ or -) | - | - | (14) | (5) | (2) | (1) | - | (167) | (2,840) | 4 | (5,443) | (6,124) |
| Unobligated balance from prior year budget authority, net | 24 | 2,455 | 2,065 | 337 | 385 | 6 | 35 | 3,854 | 1,937 | 257 | 27,013 | 3,137 |
| Appropriations (discretionary and mandatory) | 39 | 5,412 | 4,025 | 933 | 1,351 | 82 | 157 | 3,515 | 2 | 506 | 136,591 | 2 |
| Borrowing authority (discretionary and mandatory) | - | - | - | - | - | - | - | - | 9,334 | - | 11,593 | 10,927 |
| Spending authority from offsetting collections (discretionary and mandatory) | 50 | 719 | 174 | 116 | 103 | 1 | 17 | 1,857 | 5,910 | 975 | 16,992 | 8,217 |
| Total budgetary resources | 113 | 8,586 | 6,264 | 1,386 | 1,839 | 89 | 209 | 9,226 | 17,183 | 1,738 | 192,189 | 22,283 |
| **Status of Budgetary Resources:** | | | | | | | | | | | | |
| Obligations Incurred (Note 23) | 93 | 6,679 | 4,391 | 1,329 | 1,562 | 85 | 204 | 5,194 | 13,288 | 1,538 | 166,951 | 16,679 |
| Unobligated balance, end of year: | | | | | | | | | | | | |
| Apportioned | 18 | 1,194 | 276 | 41 | 276 | 1 | - | 1,506 | 3,785 | 169 | 9,935 | 4,596 |
| Exempt from apportionment | - | - | - | - | - | - | - | - | - | - | 1,736 | 9 |
| Unapportioned | 2 | 713 | 1,597 | 16 | 1 | 3 | 5 | 2,526 | 110 | 31 | 13,567 | 999 |
| Total unobligated balance, end of year | 20 | 1,907 | 1,873 | 57 | 277 | 4 | 5 | 4,032 | 3,895 | 200 | 25,238 | 5,604 |
| Total budgetary resources | 113 | 8,586 | 6,264 | 1,386 | 1,839 | 89 | 209 | 9,226 | 17,183 | 1,738 | 192,189 | 22,283 |
| **Change in Obligated Balances:** | | | | | | | | | | | | |
| Unpaid obligations, brought forward, October 1 (gross) | 10 | 3,072 | 4,242 | 574 | 1,965 | 46 | 33 | 8,649 | 29,415 | 511 | 37,540 | 30,194 |
| Uncollected customer payments from Federal sources, brought forward, October 1 (-) | (6) | (310) | (144) | (142) | (62) | (5) | (30) | (14) | (906) | (415) | (1,730) | (1,083) |
| Obligated balance, start of year (net), before adjustments (+ or -) | 4 | 2,762 | 4,098 | 432 | 1,903 | 41 | 3 | 8,635 | 28,509 | 96 | 35,810 | 29,111 |
| Obligated balance, start of year (net), as adjusted | 4 | 2,762 | 4,098 | 432 | 1,903 | 41 | 3 | 8,635 | 28,509 | 96 | 35,810 | 29,111 |
| Obligations incurred | 93 | 6,679 | 4,391 | 1,329 | 1,562 | 85 | 204 | 5,194 | 13,288 | 1,538 | 166,951 | 16,679 |
| Outlays (gross) (-) | (87) | (6,885) | (3,989) | (1,388) | (1,279) | (88) | (187) | (5,787) | (13,984) | (1,536) | (163,818) | (17,377) |
| Change in uncollected customer payments from Federal sources (+ or -) | 1 | (175) | (15) | (13) | (57) | (1) | 24 | (1) | 138 | (32) | (290) | 136 |
| Actual transfers, unpaid obligations (net)(+ or -) | - | - | - | - | - | - | - | - | - | - | - | - |
| Recoveries of prior year unpaid obligations (-) | (7) | (94) | (390) | (20) | (112) | (2) | (6) | (391) | (835) | (54) | (4,036) | (964) |
| Obligated balance, end of year: | | | | | | | | | | | | |
| Unpaid obligations, end of year (gross) | 10 | 2,771 | 4,254 | 495 | 2,136 | 40 | 44 | 7,664 | 27,884 | 462 | 36,637 | 28,532 |
| Uncollected customer payments from Federal sources, end of year (-) | (5) | (485) | (159) | (154) | (118) | (6) | (7) | (15) | (767) | (448) | (2,019) | (947) |
| Obligated balance, end of year (net) | 5 | 2,286 | 4,095 | 341 | 2,018 | 34 | 37 | 7,649 | 27,117 | 14 | 34,618 | 27,585 |
| **Budget Authority and Outlays, Net:** | | | | | | | | | | | | |
| Budget authority, gross (discretionary and mandatory) | 89 | 6,131 | 4,199 | 1,049 | 1,454 | 83 | 174 | 5,372 | 15,246 | 1,481 | 165,176 | 19,146 |
| Actual offsetting collections (discretionary and mandatory) (-) | (51) | (545) | (159) | (103) | (43) | - | (41) | (3,818) | (8,884) | (943) | (22,336) | (11,315) |
| Change in uncollected customer payments from Federal sources | 1 | (175) | (15) | (13) | (57) | (1) | 24 | (1) | 138 | (32) | (290) | 136 |
| Anticipated offsetting collections (discretionary and mandatory) (+ or -) | - | - | - | - | - | - | - | - | - | - | - | - |
| Budget authority, net (discretionary and mandatory) | 39 | 5,411 | 4,025 | 933 | 1,354 | 82 | 157 | 1,553 | 6,500 | 506 | 142,550 | 7,967 |
| Outlays, gross (discretionary and mandatory) | 87 | 6,885 | 3,989 | 1,388 | 1,279 | 88 | 187 | 5,787 | 13,984 | 1,536 | 163,818 | 17,377 |
| Actual offsetting collections (discretionary and mandatory) (-) | (51) | (545) | (159) | (103) | (43) | - | (41) | (3,818) | (8,884) | (943) | (22,336) | (11,315) |
| Outlays, net (discretionary and mandatory) | 36 | 6,340 | 3,830 | 1,285 | 1,236 | 88 | 146 | 1,969 | 5,100 | 593 | 141,482 | 6,062 |
| Distributed offsetting receipts (-) | - | (467) | (3) | (31) | (5) | - | - | - | (672) | (4) | (686) | (1,353) |
| Agency outlays, net (discretionary and mandatory) | $ 36 | $ 5,873 | $ 3,827 | $ 1,254 | $ 1,231 | $ 88 | $ 146 | $ 1,969 | $ 4,428 | $ 589 | $ 140,796 | $ 4,709 |

## Risk Assumed Information (Unaudited)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $18,287 million and $8,757 million as of September 30, 2012 and 2011, respectively.

# Section 3: Other Accompanying Information

## Schedule of Spending

### For The Year Ended September 30, 2012
### (In Millions)

| | Budgetary | Non-budgetary Credit Reform Financing Accounts |
|---|---|---|
| **What Money is Available to Spend?** | | |
| Total Resources | $ 203,263 | $ 21,719 |
| Less Amount Available but Not Agreed to be Spent | 11,102 | 2,339 |
| Less Amount Not Available to be Spent | 22,224 | 2,815 |
| **Total Amounts Agreed to be Spent** | **169,937** | **16,565** |
| | | |
| **How was the Money Spent?** | | |
| | | |
| Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving: | | |
| Personnel Compensation and Benefits | 2,490 | - |
| Contractual Services and Supplies | 5,978 | 1,560 |
| Acquisitions of Assets | 5,552 | 11,159 |
| Grants and Fixed Charges | 22,210 | 3,878 |
| Other | (190) | - |
| Total | 36,040 | 16,597 |
| | | |
| Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources: | | |
| Personnel Compensation and Benefits | 4,391 | - |
| Contractual Services and Supplies | 3,709 | 5 |
| Acquisitions of Assets | 733 | 185 |
| Grants and Fixed Charges | 4,799 | 56 |
| Other | 213 | - |
| Total | 13,845 | 246 |
| | | |
| Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security: | | |
| Personnel Compensation and Benefits | 216 | - |
| Contractual Services and Supplies | 1,007 | - |
| Acquisitions of Assets | 11 | 2 |
| Grants and Fixed Charges | 2,173 | 163 |
| Other | (78) | - |
| Total | 3,329 | 165 |
| | | |
| Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals: | | |
| Personnel Compensation and Benefits | 2,253 | - |
| Contractual Services and Supplies | 2,964 | - |
| Acquisitions of Assets | 72 | - |
| Grants and Fixed Charges | 104,741 | - |
| Other | (19) | - |
| Total | 110,011 | - |
| | | |
| Total Spending | 163,225 | 17,008 |

# Schedule of Spending (continued)

**For The Year Ended September 30, 2012**
**(In Millions)**

| | Budgetary | Non-budgetary Credit Reform Financing Accounts |
|---|---|---|
| Unpaid obligations, end of year (gross) | 39,816 | 26,270 |
| Unpaid obligations, brought forward, October 1 (gross) | 36,637 | 28,532 |
| Recoveries of prior year unpaid obligations | 3,533 | 1,819 |
| Amounts Remaining to be Spent | 6,712 | (443) |
| **Total Amounts Agreed to be Spent** | **$ 169,937** | **$ 16,565** |

# Response to Management Challenges

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) to report annually on the most serious management challenges USDA and its agencies face. To identify these Departmental challenges, OIG examined previously issued audit reports where corrective actions have yet to be taken. It also assessed ongoing investigative and audit work to ascertain significant vulnerabilities, and analyzed new programs and activities that could pose significant challenges due to their range and complexity. Nine challenges were included in the OIG's report this year.

One challenge was removed from those included in last year's report — Challenge 8, which highlighted the need to carefully oversee the $28 billion in American Recovery and Reinvestment Act (ARRA) funds provided to USDA agencies and programs. With spending from the ARRA winding down, OIG is concluding its work relating to these funds and how they were spent. It expects to issue its last reports on this topic soon.

One new challenge was added concerning the need to plan for succession and reduced staffing in many USDA sub-agencies. For some time, the Federal Government has been anticipating the retirement of a significant portion of its experienced workforce as employees of the "Baby Boomer" generation reach retirement age. Given the constrained budget situation, the Department must ensure that it has adequate staff in place to accomplish critical missions, such as inspecting meat processing plants and overseeing billions of dollars in loans.

Finally, OIG discussed several emerging issues that may develop into significant concerns: animal welfare, the reporting of performance measures, and duplication in USDA programs and operations.

The following narrative summarizes the management challenges and USDA's fiscal year (FY) 2012 agency accomplishments and FY 2013 planned actions to address them.

## CHALLENGE 1: Interagency Communication, Coordination, and Program Integration Need Improvement

Like many departments within the Federal Government, USDA faces a challenge in coordinating the various agencies and programs within its purview. This challenge is particularly pressing for the Department because several of its agencies provide payments to producers for programs that have complementary and interlocking missions. Likewise, USDA divides responsibilities for food research among several agencies, which also requires a high degree of intradepartmental cooperation. Department agencies must understand these interrelationships and the need to work together to create a cohesive, integrated system of program administration. Such an approach should increase organizational communication, streamline operations, reduce spending, and improve program efficiency, compliance, and integrity.

## Farm Programs

### OIG determined that:

- The Animal and Plant Health Inspection Service (APHIS) did not coordinate with the Risk Management Agency (RMA) to determine the amount of indemnity payments growers had received before calculating its payments. Federal regulations require APHIS to reduce its citrus canker lost production payments by the amount of any tree payments that growers receive from RMA; and
- APHIS did not report $290.9 million in Citrus Canker Tree Replacement Program (CCTRP) payments to the Internal Revenue Service (IRS) from FY 2001 through FY 2007.

### Corrective Actions:

During FY 2012, APHIS recovered approximately 80 percent of the overpayments made to growers. Several growers paid their bills in full. In addition, APHIS made the appropriate payments to growers it underpaid. The agency plans to work with the Department to determine what actions are needed to resolve the CCTRP payments that were not reported to IRS. It also will continue collection activities for vendors that were overpaid and billed, but have not yet repaid the funds provided in error. Possible action may include referring outstanding collectors to the U.S. Department of Treasury for off-set.

RMA and the Farm Service Agency (FSA), working together, made great strides in making acreage reporting simpler for farmers and ranchers. The Acreage Crop Reporting Streamlining Initiative seeks to reduce the reporting burden on producers that submit data to USDA. The agencies developed various processes in four specific areas with common definitions to support the design of business processes that share and use common information. They reduced the number of USDA common acreage reporting dates from more than 50 to 15 common dates. They also developed pilot Web services that will allow producers to report their data directly to RMA and FSA using the common acreage information online reporting tool as an alternative to providing them to their FSA county office and RMA insurance agent. The Web services pilot is scheduled to be available for the 2012 crop year spring-planted crops.

The agencies will continue to work together as partners to enhance and implement interagency communication, coordination, and program integration efforts.

## Agriculture-Related Research

In response to the Colony Collapse Disorder (CCD) — a disorder that interferes with honey bee pollination and endangers $15 billion annually in added crop value — USDA led a Federal and non-Federal collaboration that took action to better understand the disorder and mitigate the damage to bee colonies.

### OIG determined that:

The Under Secretary for Research, Education, and Economics (REE) should seek adequate funding and facilitate communications to conduct a comprehensive survey of honey bee colony production and health. While Department officials agree with the need to complete this survey, they express concerns about the ability to fund it.

### Corrective Actions:

The Under Secretary for REE appointed Agricultural Research Service, National Agricultural Statistics Service, and National Institute of Food and Agriculture officials to the CCD Steering Committee. The committee was charged with monitoring and implementing the CCD Action Plan, and ensuring that all actions under the plan were completed.

The committee hosted a workshop in October 2012 to revise the 2007 CCD Action Plan and update its best management practices for maintaining healthy colonies. The 2012 CCD Annual Report has been submitted to Congress.

## CHALLENGE 2: Strong, Integrated Control Systems Still Needed

USDA managers are responsible for controlling the programs they oversee through internal control systems that bring about desired objectives, such as administering crop insurance correctly and making payments accurately. These internal controls consist of the policies, procedures, and organizational structures that collectively determine how a program is implemented and how its requirements are met. In effect, internal controls are the tools managers use to ensure that programs achieve intended results efficiently and effectively. They provide for program integrity and proper stewardship of resources. Since systemic control flaws can yield systemic program weaknesses — e.g., unrealized objectives and improper payments — managers must continuously assess and improve their internal control systems. When they identify a widespread deficiency, they must correct the problem before it undermines the program.

### OIG determined that:

- RMA approved insurance providers that circumvented established procedures for adjusting losses;
- There were a significant number of instances where the Natural Resources Conservation Service (NRCS) State and local staff either did not follow established procedures or relied on other parties — including producers and landowners — to ensure compliance. This resulted in improper payments and unrealized program objectives;
- A significant risk to public safety occurred when NRCS relied on owners to volunteer their flood control dams for rehabilitation;
- FSA implemented the Biomass Crop Assistance Program (BCAP) without creating an effective system of program-specific internal controls. Instead, the agency used control tools from other programs (contracts, information technology (IT) support, etc.);
- NRCS did not provide its staff with adequate guidance or oversight. This led to inequitable treatment of program participants, improper payments, and other problems;
- FSA lacks effective controls to ensure the reasonableness of the soil rental rates used for payments on Conservation Reserve Program (CRP) contracts;
- FSA did not adhere to policies and regulations it established to ensure the reasonableness of county average rental rates, and did not use the most recent NRCS soil productivity factors in calculating most of the approved soil rental rates; and

- APHIS has not issued regulations that pertain specifically to introducing genetically engineered animal or insects (through imports, interstate movement, or field release).

### Corrective Actions:

RMA executed the various strategies and means outlined in the *RMA Strategic Plan FY 2011-2015*, Strategic Goal Number 4, "Safeguard the Integrity of the Federal Crop Insurance Program." The agency worked to minimize improper payments, strengthen approved insurance providers' crop insurance operations, and pursue criminal, civil, or administrative sanctions to address program violations.

Based on FSA's lessons learned, matching project-area payments were successfully issued under the new regulation, 1-BCAP handbook, and Web-based software and forms. FSA reviewed and recovered improper payments for Collection, Harvest, Storage, and Transportation (CHST) matching payments. It also reviewed and issued payments for the underpaid amounts for CHST, consulted and acted upon cases where scheme or device was suspected, and reviewed and implemented guidance on potential conflict of interest as well as scheme and device.

FSA plans to establish performance goals and measures and conduct associated data gathering. In addition, the agency will provide additional guidance on compliance reviews, facility reporting requirements, verifications, spot checks, and technical assistance. It will also evaluate impact of facility sale agreements, revise facility overview form, perform evaluations of payment rates, evaluate eligibility of aggregators, manage multiple types and sources of biomass material, and clarify policy and methodology for material sampling and moisture testing.

The Office of General Counsel determined the Commodity Credit Corporation (CCC) and FSA do not have the authority to adjust the average rental rate of the contractual offer and acceptance terms agreed to by the CRP participant and CCC. CRP contract modifications to an alternate rental rate will be pursued. FSA will require that the States and counties submit strong evidence to support their alternate county average rental rates for future CRP signups. Criteria for areas with a strong cash-rent market may be different that those for areas with mainly share-rent.

NRCS has worked with State Dam Safety agencies to develop memoranda of understanding (MOUs) to ensure that Federal and State guidelines for high-hazard dams are consistent. Thirty-three MOUs have been signed with States to date. The agency completed 650 high-hazard dam assessments and safety reports so that dams can be prioritized according to the Population at Risk and Risk and Failure Indices of each particular high-hazard dam. It also funded high-hazard dam assessments as priority and ahead of low- and significant-hazard dams. NRCS is developing a geospatial tracking tool to better update its National Inventory of Dams. It is also piloting a dam safety monitoring tool in Oklahoma so dam owners and dam safety officials can respond better to natural disasters by using real-time data from other Federal agencies.

NRCS will continue its oversight function on funded Watershed Rehabilitation Program projects, complete and deploy the geospatial tracking tool, complete the pilot of dam safety monitoring tool, and implement the dam monitoring tool nationwide.

For the Conservation Security Program, the Wetlands Reserve Program, and the Farm and Ranch Lands Protection Program, NRCS has conducted assurance reviews and provided training for the programs. NRCS will continue conducting quality reviews to ensure program policy and program objectives are achieved.

During FY 2012, APHIS directed its Center for Plant Health and Science Technology to develop written management controls for a work plan approval and review process that is transparent and ensures accountability of funded projects. The agency also updated its risk assessments and performed reviews of its laboratories that meet the requirements of Departmental Manual 9610-2, "USDA Security Policies and Procedures for Laboratories and Technical Facilities." During FY 2013, APHIS plans to develop an action plan that includes timetables and performance measures to ensure that its regulatory framework for genetically engineered animals and insects is developed timely and meets the agency's strategic goals.

## CHALLENGE 3: Information Technology Security Needs Continuing Improvement

Typically, USDA's work is thought of in terms of the benefits and services the Department provides, which touch almost every aspect of American life. To accomplish these missions, USDA must manage vast amounts of data associated with its many programs and operations. This critical information ranges from agricultural statistics that drive domestic and global markets to data-driven inspection systems that help ensure our food is safe. Department employees must be able to access, manipulate, and communicate this information to deliver programs effectively. Additionally, the general public can apply for many program benefits and other services via the Internet. It is therefore critical that the Department protect the security, confidentiality, and integrity of its Information Technology (IT) infrastructure. Over the last several years, however, OIG determined that USDA's IT systems remain vulnerable in many critical areas.

### OIG determined that:

- Most significantly, the current security program does not have a solid foundation because the Department has not fully deployed basic analytic tools that determine accurate system inventories, or performed appropriate risk assessments and timely vulnerability scans;
- The Office of the Chief Information Officer (OCIO) should provide official guidance about using and acquiring data through cloud services;
- Devices were not adequately secured, as defined by guidance issued by the National Institute of Standards and Technology (NIST);
- Blackberry servers were not secured in accordance with Departmental guidance and users were able to disable their passwords or bypass USDA's Internet content filters;
- The Department needs to work with all of its agencies to identify overall risks, and then prioritize the risks so that it will have a solid basis for a time-phased plan to systematically mitigate them;
- OCIO did not strategically plan, prioritize, and manage its efforts to be more effective;

- OCIO needs to adequately develop oversight mechanisms, communicate and coordinate within OCIO, plan projects, and determine how to effectively utilize its resources; and
- USDA management did not ensure that all requirements for domain name systems were met and that NIST guidance was completely implemented and followed.

### Corrective Actions:

OCIO realigned its internal structure to streamline and strengthen the organizational capability of USDA to effectively manage the overall IT security program. The Department has deployed an array of tools to conduct continuous monitoring of its network. This work has enabled USDA to stop malicious attacks and discover abnormal data traversing the enterprise. OCIO will continue to fine-tune the tools' capabilities, reduce false positives, and train the supporting technical staff on the administration and usage of all the tools' capabilities.

Additionally, OCIO recognized that the volume of potential security events that the Security Stack Array (SSA) was identifying daily presented an enormous challenge to manage research and analyze in a timely manner. To address this issue, OCIO initiated efforts to develop and tune automated security rules and conditions to handle the volume of data. It has implemented a cross-training program with agency personnel.

In addition, USDA purchased an Enterprise Vulnerability Scanner which is currently in the pilot phase. A Secure Sockets Layer Decryption tool is also being evaluated for deployment within the NETWORX infrastructure. The Virtual Network Modeling and Performance or 'OPNET' is operating, and efforts are focused on advancing the collection of all network assets of the agencies.

Agriculture Security Operations Center (ASOC) has realigned staffing to better utilize resources, ensure IT equipment works property and is virus free, and concentrate on High-Value Targets (personnel, systems and endpoints). USDA is also developing a cadre of SSA expertise by providing instruction and hands-on training to agency IT personnel. The Department is deploying agency subject-matter experts to assist OCIO to better understand agency data and activities.

USDA produces monthly reports from Tivoli Endpoint Manager to ensure visibility of vulnerabilities identified via that tool. The Department then uploads the reports to its Connect site for agencies to review. These reports also support USDA's Continuous Monitoring strategy to assist in making agencies aware of their security posture. ASOC has collaborated with agencies on these reports, which has prompted swift action by the agencies to mitigate known vulnerabilities. The Department completed a Standard Operating Procedure to outline the procedures for meeting the OCIO mandate that all agencies deploy Tivoli on all major operating systems to ensure an accurate inventory of devices Department-wide.

USDA uses the software company Remedy to track all identified incidents. The various tools allow the Department to identify and block threats, and lessen the impact on its network and missions. The ASOC SSA is designed to monitor network traffic flow and detect suspicious, malicious, or anomalous traffic through the use of a combination of signature based and behavioral traffic analysis. SSA also normalizes, correlates, and stores these data which are then used to generate alerts to ASOC personnel for further analysis and incident response. In addition to monitoring the SSA, the OCIO Monitoring and Analysis Division also responds to events generated by external entities (U.S. Computer Emergency Response Team (US-CERT), the Internet Identity, and the Federal Bureau of Investigation) and from the Incident Handling Division, which escalate Tier 3 events for further analysis. Tier 3 refers to the highest level of support in a three-tiered technical support model responsible for handling the most difficult or advanced problems.

In FY 2012, USDA signed a Memorandum of Agreement (MOA) with the U.S. Department of Homeland Security (DHS) National Cyber Security Division Network Security Deployment, which utilizes EINSTEIN first- and second-generation sensors. An aggressive scanning and wireless security program in conjunction with the endpoint protection program better addresses the realities of contemporary computing where mobile computing devices routinely operate outside the network perimeter. Intrusion detection and prevention are essential at all levels of network operations with an integrated framework that aggregates, correlates, and stores all events at the agency and Department level.

In FY 2012, ASOC integrated communications security services into required classified cyber intelligence functions capable of efficient communications of critical classified information throughout the intelligence community. In addition, ASOC publishes formal USDA Early Warning Indicators to the Government cyber security community via the several classified and controlled collaboration mechanisms (including the US-CERT's GFIRST Mercury Portal, the DHS' Data Network, Secret Internet Protocol Router Network, ASOC blog, and via direct distribution to other Government agencies).

USDA requires all IT systems which store, process, and transmit Departmental information to comply with Federal security requirements, including the NIST Special Publication (SP) 800-37, "Guide for Applying the Risk Management Framework to Federal Information Systems," and NIST 800-53 (Rev. 3), "Recommended Security Controls for Federal Information Systems and Organizations." These directives require that all USDA, contractor, and cloud systems must undergo Assessment and Authorization (formerly called Certification and Accreditation).

In FY 2012, USDA developed an overarching Departmental IT Security Plan in accordance with NIST SP 800-100, "Information Security Handbook: a Guide for Managers." In FY 2012, OCIO developed a risk remediation plan based on the Federal Information Security Act audit findings and recommendations from FY 2009-2011. The top three risk priorities for remediation are: IT Security Policy refresh, clarification, and oversight/continuous monitoring of secure configurations of USDA's IT assets; full implementation of multi-factor account; and identity management. The Department continued its implementation and operations of enterprise level security monitoring devices and implementation of the Identity Credentialing and Access Management and Homeland Security Presidential Directive (ICAM/HSPD-12) program for logical and physical access control.

USDA developed an operational standard for Wireless Local Area Network (LAN) in April 2012. This memorandum defines the minimal elements and operational standards to be met by any Wireless LAN (802.11x) system installed in or connected to the USDA network to ensure Department-wide interoperability.

Enterprise Network Services (ENS) has completed all Domain Name System Security Extensions (DNSSEC) project initiation documents, including the charter, scope statement, and project plan. ENS is currently working with AT&T to set the domain name system server cutover date, which enables the implementation of DNSSEC.

USDA efforts toward continuous monitoring will be focused on continuous vulnerability assessment. The Department will continue to develop methods for operational baselines, identification and analysis of security vulnerabilities, and a repeatable risk management framework. It will continue to fine-tune the SSA through implementation of security rules and conditions to proactively identify true attacks and compromises, and greatly reduce the false positives.

The Department will continue to provide the highest possible levels of security and systems availability and reliability to USDA customers throughout FY 2013. It also will develop enterprise-wide incident handling procedures and response guidance, including classified information, finalize deployment of a case management system to centrally track incidents, and provide all USDA agencies with common reporting and tracking tools on an ongoing basis.

USDA will revise its existing Department Regulation, DM 3555-001, "Certification and Accreditation Methodology," to reflect NIST SP 800-37 and the current Department process for the Risk Management Framework. In FY 2013, OCIO plans to complete revision and publication of updated (NIST compliant) IT Security policies. It also will continue its coordination with the agencies to ensure the successful implementation and operations of SSA and other monitoring tools deployed on an enterprise level. In addition, OCIO will continue its implementation of the HSPD-12/Personnel Identity Verification (PIV) credentialing and use of the PIV card for logical and physical access enterprise-wide.

In FY 2013, OCIO plans to initiate specific oversight/continuous monitoring activities for the security and management of wireless technologies within the USDA enterprise. These activities include monthly scanning for unauthorized/unsecured BlackBerry Enterprise Servers and wireless access points, a review and issue, as necessary, of additional guidance for the procurement, issuance and management of wireless technologies, and review technologies to facilitate verification and validation of security settings and configurations on USDA-owned wireless/handheld devices issued to its employees.

The following actions will be taken during FY 2013 to meet the DNSSEC requirements:

- Domain Name System Managed through InfoBlox;
- Implement DNSSEC between .GOV and ENS root servers; and
- Implement DNSSEC between root servers and agency servers.

## CHALLENGE 4: Material Control Weaknesses in Civil Rights Should Be Mitigated

In an April 2009 memorandum to all USDA employees, the Secretary of Agriculture stated that civil rights was one of the Department's top priorities, emphasizing that there was significant progress to be made. USDA has received public attention with the *Pigford I* and *Pigford II* settlements, which stem from a series of discrimination complaints made against USDA by African-American farmers. Similar lawsuits, known as *Keepseagle, Garcia,* and *Love,* have been filed by Native-American, Hispanic, and female farmers. Because the Department is committed to ensuring that its conduct is just and equitable, USDA needs to timely and efficiently address civil rights complaints.

**OIG determined that:**

- The Office of the Assistant Secretary for Civil Rights (OASCR) needs to strengthen its procedures for settlement agreements so that it can maintain current improvements, support its decisions, process cases timely, and report them accurately;
- OASCR must develop a detailed, formal plan to process employment complaints in collaboration with USDA agencies, and establish the necessary monitoring framework to intervene when complaint processing exceeds timeframes; and
- The Office of Advocacy and Outreach (OAO) had not adhered to the agency's draft policies and procedures, as well as the guidelines cited in the Funding Opportunity Announcement issued in November 2011, when selecting the FY 2012 applicants.

**Corrective Actions:**

OASCR developed a plan to evaluate and adjust staffing levels to ensure timely resolution of employee and program complaints. The actions completed in FY 2012 include:

- Improving quality control procedures;
- Establishing an electronic records management system;
- Holding agency heads accountable for complaint processing; and
- Strengthening alternative dispute resolution.

OASCR has prioritized program complaints facing the statute of limitations under the Equal Credit Opportunity Act, and reviewed the quality of every final agency decision. OASCR is implementing the Lean Six Sigma process to identify efficiencies to reduce timeframes for employee and program complaint resolution processes. OASCR also implemented new management controls for resolving program complaints by developing a "stop-light" sheet to help management identify program complaints requiring priority processing. In addition, OASCR created a single form that USDA program participants can use to file a civil-rights complaint that will standardize the collection of information and reduce processing time.

In FY 2013, OASCR will continue efforts to ensure data reliability of the IComplaints database to include a comprehensive set of business rules, a data integrity tool, and a quality review management module. OASCR will continue to conduct quality reviews each month and revise data as needed. The IComplaints software checks whether all of the data are complete before generating a report on employee complaints to meet the Equal Employment Opportunity Commission's reporting requirements. OASCR also developed and is implementing a plan to check the accuracy of data entered for each program complaint in the Program Complaints Management System.

OAO realigned its staff to better accomplish the mission of its grant programs. The entire applicant pool was re-evaluated and scored. Afterwards, the office ranked a new list of FY 2012 grant recipients and presented the list to the Secretary for approval. It documented the process for review and selection of applicants and recipients. As part of the business process improvement, all of the staff is being scheduled for additional grants training to ensure future success.

## CHALLENGE 5: Proactive, Integrated Strategy Is Necessary To Increase Agricultural Commerce and Trade

Given the importance of U.S. agriculture to the economy — in 2011, the Nation's farms and ranches produced $409 billion in goods — USDA has a longstanding and deeply rooted interest in promoting the export of our commodities worldwide. Over the last several years, the monetary total of U.S. agricultural exports has risen significantly because of several factors, including adverse weather conditions in major agricultural areas, the U.S. dollar's declining value, and increased demand in countries such as India and China. In FY 2011, U.S. agricultural exports totaled $137 billion — an increase of 27 percent from the preceding fiscal year's $109 billion.

### OIG determined that:

- USDA develop a global market strategy to increase U.S. export opportunities and competitiveness;
- The Department needs a coordinated, comprehensive strategy to address the challenges that U.S. producers face when exporting genetically engineered (GE) commodities; and
- USDA should finalize a coordinated and consolidated global market strategy, which includes guidelines and strategies for working with countries reluctant to import GE crops.

### Corrective Actions:

The Foreign Agricultural Service (FAS) supports the export of GE agricultural products through bilateral and multilateral engagement and capacity-building efforts intended to achieve a public appreciation of the importance of agricultural innovation through biotechnology, and foster international implementation of policies that (1) ensure safe use of the technology, (2) promote dispersion of its benefits, and (3) liberalize trade in biotechnology products.

USDA's Global Market Strategy includes market access and market development goals, activities, and responsibilities of various agencies across categories of countries on a market development continuum. The strategy to achieve USDA's market access goals includes specific efforts related to new technologies and science-based policies, and the strategy to achieve the Department's market development goals includes specific efforts related to new markets for high-value and processed products.

## CHALLENGE 6: Forest Service Management and Community Action Needed to Improve Forest Health and Reduce Firefighting Costs

To care for the 193 million acres of forests and grasslands under its supervision, the Forest Service (FS) needs to ensure that it approaches complex budgetary and human resource management issues with the same dedication it brings to managing the Nation's lands. As the logistical challenges of managing vast natural resources have become more complicated and more expensive, the overall cost of fighting wildfires has soared to more than $1 billion per year and already commands approximately 40 percent of the agency's budget.

**OIG determined that:**

- As part of FS' efforts to improve the efficiency with which it operates, the agency could improve how it manages the "special use" permits it processes for a wide variety of purposes such as setting up communication relays, bottling spring water, and outfitting and guiding on Federal lands;
- Improve how it addresses issues resulting from the sale of private forest land with easements for residential development and commercial use — the mingling of residential developments and forestlands is a contributing factor to the high-costs of fighting fires;
- Assess risks, develop strategies to lessen the impacts of changing land use, and incorporate appropriate changes into the agency's planning rule and strategic rule;
- Make further efforts to implement the Forest Roads and Trails Act of 1969 (FRTA) easement amendment, which would clarify rights and responsibilities before successor landowners come into possession of the land, and provide sufficient guidance to local field staff on how to address landowner disputes once the land has already been sold;
- Work with other land management organizations and Congress to convince State and local Governments to enact appropriate building and zoning codes to better regulate developments, especially in areas that are at risk of wildfire; and
- Collaborate with other land management organizations and State and local Governments to reduce wildfire risk.

**Corrective Actions:**

FS regions evaluated its staffing, recommended program efficiencies, assessed the funding gap for special use administrative costs, and developed action plans to resolve deficiencies. FS issued a letter to regional foresters regarding annual adjustment of the minimum use fees for inflation. The agency also proposed a revision to the FS Manual to clarify that regional foresters maintain minimum fees annually.

FS released the Planning Rule, "National Forest System (NFS) Land Management Planning," that describes the process to assess existing conditions, including ecological, economic, social conditions, trends, and sustainability, that includes the potential extent of changing land use impacting NFS.

The agency will work with USDA on inclusion of fee retention in the FY 2014 budget and continue to pursue a joint update of cost recovery rates. FS will administer Phase I of the contract for a market survey to establish minimum fees and seek funds for Phase II, establish automatic indexing of minimum fees in conjunction with implementation of the market survey, and establish a data entry control with the Special Uses Data System and issue guidance.

To enhance the methods to obtain and grant rights-of-ways and easement, FS will establish or re-establish specific goals, strategies, and timeframes for addressing the impacts of changing land use. FS will clarify the process for analyzing and addressing the issues of whether an FRTA easement amendment should be a public process, and whether an Environmental Impact Statement needs to be completed under National Environmental Policy Act before an easement amendment can be finalized. FS will develop a standard road use agreement specifically for use with homeowner associations. The agency then will implement the standard agreement whenever circumstances warrant, and develop consistent guidelines for field staffs to follow regarding residential successors to FRTA easements.

## CHALLENGE 7: Food Safety Inspection Systems Need Improved Controls

Because foodborne pathogens and food contamination can put consumer health in jeopardy, USDA inspection systems work to protect the safety of the U.S. food supply. The Department provides a range of safety measures, from placing qualified inspectors in livestock and poultry slaughtering facilities to creating comprehensive data mining systems that pinpoint likely risks in food processing procedures. To maintain the confidence of consumers, Congress, and other stakeholders, the Food Safety and Inspection Service (FSIS) should continue to improve its technology systems, inspection processes, and management controls to accurately assess risk and effectively prevent contamination.

### OIG determined that:

- That current processes did not ensure that FSIS had the volume and quality of data necessary to select establishments posing the highest public health risk;
- Develops methods to quickly detect such improprieties before they significantly endanger consumer health and animal welfare; and
- Consider shifting more of its testing resources to sampling trim, instead of ground beef, for *E. coli* O157:H7.

### Corrective Actions:

FSIS issued a policy that requires all non-ambulatory disabled cattle to be condemned and appointed an ombudsman responsible for humane handling issues. It developed a report on field personnel training completion which is used by managers to monitor training, and ensure inspection program personnel receive the training needed to perform their duties. The agency automated two reports in its management control system, AssuranceNet, to properly assess and monitor whether districts/circuits are meeting established In-Plant Performance System frequencies. It also issued instructions on reviewing, monitoring, analyzing, and responding to AssuranceNet results. AssuranceNet management controls were updated as a result of the Public Health Information System (PHIS) implementation to ensure that 100 percent of Hazard Analysis and Critical Control Point, Standard Sanitation Operating Procedure, Sanitation Performance Standard, humane handling, sanitary dressing, and zero-tolerance tasks are scheduled and performed in accordance with established procedures. Guidance was issued regarding the agency's expectations for trim sampling, and how to react to high event periods. Guidance also was issued in the selection of commercial and private microbiological testing laboratories.

A Federal Register notice will be published with a plan to prioritize and perform *E. coli* 0157:H7 baseline studies. The notice will include a re-evaluation of the Beef Manufacturing and Trim

Sampling Program parameters, document the scientific support and rationale for the re-design, and a detailed plan to implement a program to direct sampling and testing resources. FSIS will hold discussions with stakeholders to determine if *E. coli* O157:H7 could be better utilized by sampling beef trim instead of ground beef. The agency will evaluate the appropriateness of current *E. coli* O157:H7 performance standards to determine if changes are needed, and develop a plan for implementing changes. FSIS will revise guidance to address issues with the collection of samples of proper weight, and that of random samples and procedures for *E. coli* testing. This process will ensure that industry is not avoiding regulatory actions. FSIS will also determine how PHIS can be used to better track and monitor appeals of humane handling noncompliance records.

## CHALLENGE 8: Efforts to Identify, Report, and Reduce Improper Payments Need To Be Strengthened

USDA delivers approximately $189 billion in public services annually through more than 300 programs. In FY 2011, USDA reported that 16 of its programs were vulnerable to significant improper payments ("high-risk" programs) and estimated $5.4 billion in improper payments for that year — a 5.37-percent error rate. This rate remained the same from FY 2010, and leaves the Department with an opportunity to realize considerable cost savings by continuing to reduce its improper payments.

### OIG determined that:

- USDA continues to struggle to fully comply with some requirements, particularly those involving its reporting practices and preventive measures;
- FNS did not report estimates for improper payments in one of its high-risk programs because it is pursuing multiple projects to develop an estimate of improper payments for the Family Day Care Homes Meal Claims component of the Child and Adult Care Food Program;
- The Department has not fully developed its reporting process to ensure that it reports all required information and USDA agencies meet their reduction targets;
- FSA needs to implement more effective second party reviews over the manual calculation process;
- NRCS must improve its Improper Payments Elimination and Recovery Act (IPERA) reviews, particularly in the area of eligibility, and develop a dependable and centralized method for recording, tracking, and monitoring improper payments; and
- USDA agencies need to identify root causes of overpayments and implement necessary internal controls to prevent future overpayments.

### Corrective Actions:

The Office of the Chief Financial Officer awarded a contract to Accenture Federal Services, LLC, for payment recapture/recovery auditing (PRRA) services. USDA has selected two FSA programs and one Rural Housing Service program to begin the phased implementation of the PRRA initiative. The Department issued revised improper payments guidance on the risk assessments, measurement plans, and corrective action plans. The guidance was strengthened to assist agencies in complying with the Improper Payments Elimination and Recovery Act of 2010 (IPERA), the Office of Management and Budget (OMB), and OIG's requirements and recommendations. The guidance will improve the accuracy of improper payment reporting and completing risk assessments. USDA developed a Department-wide plan to implement the “Do Not Pay” initiative. Departmental management is working with USDA agencies on their plans for accessing to the “Do Not Pay” portal for checking program payments and eligibility.

USDA will continue the phased implementation of the PRRA initiative and award a contract for Supplier Credit Recovery Auditing services to recover contract payments. The Department also will strengthen its quality-control process and direct agencies to strengthen compliance with IPERA requirements by including measurable milestones and completion dates for corrective actions. In addition, USDA will evaluate reasons for unmet reduction targets and ensure all key elements are included in the measurement process for both high- and low-risk programs. The Department will issue revised guidance for the High-Dollar Overpayment Report which will strengthen the reporting process and provide additional clarification as needed. USDA will continue implementing the Department-wide “Do Not Pay” plan provided to OMB. All USDA agencies will have access to the “Do Not Pay” portal.

During FY 2012, the Food and Nutrition Service (FNS) reported an estimated improper payment rate for the certification component of the Special Supplemental Program for Women, Infants, and Children (WIC). The final report was posted to the FNS Web site on April 20, 2012.

The Child and Adult Care Food Program (CACFP) Improper Payment Meal Claims Assessment Study evaluates the feasibility of a parent-recall interview methodology. This methodology is designed to develop improper payment estimates of the share of CACFP-participating family day care home meals approved by providers for an incorrect level of per meal reimbursement. FNS received OMB approval under the Paperwork Reduction Act in March 2012.

FSA conducted training sessions for State Executive Directors regarding the impact of IPERA legislation on county offices. It briefed OMB on statistical sampling methodology and proposed alternative methodologies in sampling FSA high-risk programs. The agency plans to implement the PRRA initiative by pilot testing the Conservation Reserve and Noninsured Crop Disaster Assistance Programs. FSA will conduct monthly validation of potential improper payments and implement the “Do Not Pay” initiative.

NRCS States Offices and divisions reported improper payment recoveries to the National Headquarters (NHQ) quarterly. NHQ reviewed the information and provided a consolidated report to the Department quarterly. For high-dollar improper payments, NRCS reported the dollar amounts of the improper payments, the status of recovery efforts, and strategies to prevent the improper payment from occurring to the Department. NRCS documented the improper payment risk of all of its programs. Samples of watershed and Farm Bill financial assistance payment propriety have been tested. A risk assessment was prepared on the watershed programs and a corrective action plan has been prepared. In FY 2013, NRCS plans to update the policy to include agency policy identifying and reporting improper payments to NHQ and the Department.

## CHALLENGE 9: Planning Needed for Succession Planning and Reduced Staffing

For some time, USDA, like most of the Federal Government, has been anticipating the retirement of a significant portion of its experienced workforce as employees of the Baby Boomer generation reach retirement age. As of April 2011, more than half of USDA's senior executive service staff were eligible to retire (155 of 304), while a third of the Department's higher level general schedule (GS) grade staff — GS 11 to 15 — were eligible as well (8,994 of 26,019). The potential problems inherent in this generational shift in USDA's workforce have been magnified by the need to trim the Federal budget and accomplish more with fewer employees. Agencies have not always been able to hire new employees to replace those who are retiring. Also, in some critical areas, they may be operating with too few employees to accomplish their mission.

### OIG determined that:

- Inspectors were not always able to comply with FSIS policy to visit processing establishments at least once per day and per operating shift, often due to factors like inclement weather;
- FSA needs to reconsider how it delivers its programs, possibly streamlining the approval, processing, and servicing of loans to include only those factors essential and training its employees so that they are better able to review and service loans; and
- Rural Development (RD) will need to strategize and plan wisely for succession planning and maintain servicing and monitoring efforts on a portfolio that has grown significantly while the agency's staff has decreased.

### Corrective Actions:

During FY 2012, FSIS published Notice 70-11, "Recording Inspection Tasks as Not Performed in the Public Health Information System." This notice implemented an expanded list of 24 codes that inspection personnel would use when they cannot perform all scheduled inspection tasks.

FSIS will conduct an analysis to determine reasons for missed inspections to find any trends and make informed decisions about inspection allocation and prioritization. FSIS will prepare a notice that instructs inspection personnel to review "missed" days Sanitation Standard Operating Procedures records, and perform a Hazard Analysis and Critical Control Point verification task to mitigate when inspection shifts are missed. The agency will also prepare a directive and guidance instructing supervisors to periodically review data generated in PHIS for trends. In addition, FSIS will conduct unannounced visits to establishments to ensure inspections are being performed appropriately.

To strengthen the oversight and accountability of the Farm Storage Facility Loan (FSFL) program, FSA plans to issue memoranda to State Executive Directors instructing them to ensure that corrective actions have been taken by the respective county office. FSA will also conduct training to review FSFL program policies and procedures. In addition, the agency will issue handbook amendments and National FSFL program notices to State and county offices providing information relating to eligibility and obligation requirements, final facility costs, release of liability documentation, and servicing delinquent loans.

To improve FSFL administration and strengthen its oversight and accountability, FSA will receive verification and documentation from State and county offices to support disbursement of previously determined ones with unsupported documentation. The agency also will demand and collect unsupported disbursements from the FSFL producer, develop a program servicing checklist for State and county offices, release a program-servicing checklist along with instructions, inform State offices that annual reviews will be performed along with instructions to complete annual training, and distribute program training.

RD reduced its workforce in FY 2012 from 6,000 to approximately 5,150 employees through a Voluntary Early Retirement Authority/Voluntary Separation Incentive Pay (VERA/VSIP). Twelve Midwestern States have begun regionalizing their administrative functions. The Single Family Housing (SFH) Guaranteed Loan Program began implementing the State centralization of the guaranteed SFH delivery platform.

Beginning in 2013, RD plans to fill positions that meet the strategic objectives of the Department and the mission area. To determine which positions are strategic imperatives, the mission area is currently undergoing a rigorous exercise to determine new full-time employee allocations in the State offices and agencies. Also during FY 2013, RD plans to implement strategies to decrease the need for administrative support in States by focusing on regionalization effort. The agency also will continue to implement the Comprehensive Loan Program, pilot test the electronic loan applications and the development of a plan for future integration, submit the proposed rule on Certified Loan Packager to the Office of Management and Budget, and continue exploring the possibility of a user fee and electronic loan closing for the Guaranteed Underwriting System.

# Summary of Financial Statement Audit and Management Assurances

## Summary of Existing Material Weaknesses

The U.S. Department of Agriculture's material weaknesses and financial system non-conformance, as related to management's assurance for the Federal Managers' Financial Integrity Act and the certification for the Federal Financial Management Improvement Act, are listed in Exhibits 20 and 21.

**Exhibit 20: Summary of Financial Statement Audit**

| Audit Opinion | Unqualified | | | | | |
|---|---|---|---|---|---|---|
| Restatement | No | | | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| Improvement Needed in Overall Financial Management* | 1 | | | | | 1 |
| Improvement Needed in Information Technology Security and Controls | 1 | | | | | 1 |
| **TOTAL MATERIAL WEAKNESSES** | **2** | | | | | **2** |

** USDA reports "Improvements Needed in Overall Financial Management as a financial system non-conformance in Exhibit 21.*

**Exhibit 21: Summary of Management Assurances**

| EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2) | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | **Qualified** | | | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| Information Technology | 1 | | | | | 1 |
| Financial Reporting – Unliquidated Obligations | 1 | | | | 1 | 0 |
| **TOTAL MATERIAL WEAKNESSES** | **2** | | | | | **1** |
| **EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)** | | | | | | |
| **Statement of Assurance** | **Unqualified** | | | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| **TOTAL MATERIAL WEAKNESSES** | **0** | | | | | **0** |

| CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4) | | | | | | |
|---|---|---|---|---|---|---|
| **Statement of Assurance** | **Systems do not conform to financial management system requirements** | | | | | |
| **Material Weakness** | **Beginning Balance** | **New** | **Resolved** | **Consolidated** | **Reassessed** | **Ending Balance** |
| Funds Control Management | 1 | | | | | 1 |
| **TOTAL NON-CONFORMANCES** | **1** | | | | | **1** |

| COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA) | | |
|---|---|---|
| | **Agency** | **Auditor** |
| Overall Substantial Compliance | No | No |
| 1. System Requirements | No | No |
| 2. Accounting Standards | No | No |
| 3. United States Standard General Ledger at Transaction Level | No | No |
| 4. Information security policies, procedures, and practices | No | No |

# Improper Payments

Since fiscal year (FY) 2000, agencies have reported efforts to reduce improper payments through the Office of Management and Budget's (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Under the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), executive agencies must identify any of their programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (high-risk program) has both a 2.5-percent improper payment rate of the total program outlays, and at least $10 million in improper payments. Implementing guidance for IPERA is located in OMB Circular No. A-123, "Management's Responsibility for Internal Control," Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments."

Measuring and reporting improper payments is mandatory for 5 high-risk programs under the former Section 57 of OMB Circular No. A-11. The U.S. Department of Agriculture (USDA) also has identified an additional 11 high-risk programs through its risk-assessment process. This risk-assessment process is used to review USDA programs and activities, and identify those susceptible to significant improper payments.

### Fiscal Year 2012 Results

The Department's improper payment rate decreased from 5.37 percent for FY 2011 to 5.11 percent for FY 2012. While outlays for the high-risk programs increased $6.7 billion from FY 2011 to FY 2012, the Department still lowered the improper payment rate. The increase in outlays was largely attributed to the increase in demand for food and nutrition assistance. The following FY 2012 results demonstrate that USDA has reduced improper payment rates, and that progress is being made:

- Eight USDA high-risk programs reported improper payment rates for FY 2012 that were below the programs' improper payment rates reported for FY 2011;
- Eight USDA high-risk programs reported improper payment rates for FY 2012 that met or were lower than the programs' reduction targets for FY 2012;
- The Forest Service's (FS) Wildland Fire Suppression Management Program reported an improper payment rate of 0.00 percent — less than the FY 2012 reduction target of 0.02 percent;
- The Natural Resources Conservation Service's (NRCS) Farm Security and Rural Investment Programs reported an improper payment rate of 0.02 percent — less than the FY 2012 reduction target of 0.03 percent, and less than the 0.80 percent improper payment rate reported for FY 2011;
- The Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) reported an improper payment rate of 3.80 percent — less than the FY 2012 reduction target of 3.81 percent, and less than the 3.81 percent improper payment rate reported for FY 2011. The SNAP improper payment rate is a historic low for the program;

- The Farm Service Agency's (FSA) Market Assistance Loan Program reported an improper payment rate of 0.08 percent — less than the FY 2012 reduction target of 0.51 percent, and less than the 0.52 percent improper payment rate reported for FY 2011;
- FSA's Noninsured Assistance Program reported an improper payment rate of 7.00 percent — less than the 8.97 percent improper payment rate reported for FY 2011;
- FSA's Conservation Reserve Program reported an improper payment rate of 0.36 percent — less than FY 2012 reduction target of 0.69 percent, and less than the 1.77 percent improper payment rate reported for FY 2011;
- FSA's Miscellaneous Disaster Programs reported an improper payment rate of 2.16 percent — less than FY 2012 reduction target of 2.80 percent, and less than the 2.90 percent improper payment rate reported for FY 2011;
- Risk Management Agency's Federal Crop Insurance Corporation Program reported an improper payment rate of 4.08 percent — less than the FY 2012 reduction target of 4.40 percent and the 4.72 percent improper payment rate reported for FY 2011; and
- FNS' National School Lunch Program (NSLP) reported an improper payment rate of 15.53 percent, which met the FY 2012 reduction target and was less than the 15.98 percent improper payment rate reported for FY 2011.

The root causes of USDA's improper payments are summarized into the categories of verification, authentication, and administrative. Verification errors relate to verifying such recipient information as earnings, income, assets, and work status. Authentication errors relate to authenticating the accuracy of qualifying for program specific requirements, criteria, or conditions. Administrative errors relate to the accuracy of the program staff's entry, classification, or processing of information associated with applications, supporting documents, or payments.

For FY 2012, the root causes of USDA's improper payments were categorized as:

- More than 97 percent attributable to administrative error;
- More than 2 percent attributable to verification error; and
- Less than 1 percent attributable to authentication error.

In FY 2012, the Department took the following actions to address improper payments:

- Awarded a payment recapture/recovery auditing (PRRA) services contract to a private sector recovery auditing contractor to identify program overpayments;
- Initiated a phased implementation approach to the PRRA initiative, with two FSA and one Rural Development program selected for Phase One implementation;
- Provided its first Annual Recovery Auditing Report to Congress and USDA's Office of Inspector General (OIG);
- Submitted its final plan for implementing the "Do Not Pay" initiative to OMB;

- Revised its High-Dollar Quarterly Report guidance to provide additional clarification and transparency;
- Provided semi-annual reporting of additional error measurements for USDA's two high-priority programs, SNAP and NSLP;
- Provided an Annual Accountable Official Report to OIG for the USDA high-priority programs;
- Provided its improper payments information for the Government-wide PaymentAccuracy.gov Web site that includes key indicators and statistics by program; and
- Completed risk assessments for 35 programs in FY 2012 as scheduled on a 3-year cycle. No new programs were declared high-risk as a result of the risk assessment.

USDA plans to continue reducing improper payments and expand the implementation of the PRRA initiative during FY 2013. In addition to meeting IPIA/IPERA requirements, the Department will continue to implement the requirements of Executive Order 13520, "Reducing Improper Payments and Eliminating Waste in Federal Programs," and the June 18, 2010, Presidential Memorandum, "Enhancing Payment Accuracy Through a 'Do Not Pay' List."

USDA's FY 2013 actions planned to address improper payments include:

- Continue Phase One implementation of the PRRA initiative to identify, prevent, and recover overpayments made in the applicable agency programs;
- Identify additional agency programs and gather requirements for implementation of future phases of the PRRA initiative;
- Award a Department-wide contract and implement the Supplier Credit Initiative to perform recovery auditing on administrative payments;
- Implement the Department's plan for the "Do Not Pay" initiative to have all applicable agencies and staff offices granted access to the "Do Not Pay" portal, which will allow them to verify recipient eligibility for USDA payments;
- Create aggressive correction action plans that target the root causes of improper payments and address internal control issues for each program;
- Implement the USDA plan to address IPERA noncompliance and designate a senior agency official as an IPERA accountable official for each agency with high-risk programs that was determined to be noncompliant with IPERA requirements;
- Participate in interagency workgroups to assist OMB in developing Government-wide guidance for implementing initiatives to reduce, prevent, and recover improper payments; and
- Revise Departmental High-Dollar Overpayment Quarterly Report guidance to provide additional clarification and transparency.

## I. Risk Assessment.

The Office of the Chief Financial Officer (OCFO) issued detailed guidance for the risk-assessment process, including templates, and performed 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 includes the following:

- Amount of improper payments needed to meet the reporting standards;
- Description of the program including purpose and basic eligibility requirements;
- Definition of improper payments specific to the program;
- Program vulnerabilities linked to improper payments;
- Internal controls designed to offset the program vulnerabilities;
- Internal controls testing for selected programs;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements; and
- Description of how improper payments are recovered.

USDA has identified the following 16 programs as susceptible to significant improper payments.

**Exhibit 22: Programs Susceptible to Improper Payments**

| Selection Methodology | Agency | Program |
|---|---|---|
| Former Section 57 of Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget" (Circular No. A-11). | Farm Service Agency (FSA), Commodity Credit Corporation (CCC) | Marketing Assistance Loan (MAL) Program |
| | Food Nutrition Service (FNS) | Supplemental Nutrition Assistance Program (SNAP) |
| | | National School Lunch Program (NSLP) |
| | | School Breakfast Program (SBP) |
| | | Special Supplemental Nutrition Program for Woman, Infants, and Children (WIC) |
| USDA Identified as Susceptible to Significant Improper Payments | FSA, CCC | Milk Income Loss Contract (MILC) Program |
| | | Loan Deficiency Payments (LDP) |
| | | Direct and Counter-Cyclical Payments (DCP) |
| | | Conservation Reserve Program (CRP) |
| | | Miscellaneous Disaster Programs (MDP) |
| | | Noninsured Assistance Program (NAP) |
| | Food Nutrition Service (FNS) | Child and Adult Care Food Program (CACFP) |
| | Forest Service (FS) | Wildland Fire Suppression Management (WFSM) |
| | Rural Development (RD) | Rental Assistance Program (RAP) |
| | Risk Management Agency (RMA) | Federal Crop Insurance Corporation (FCIC) Program Fund |
| | Natural Resources Conservation Service (NRCS) | Farm Security and Rural Investment Act Programs (FSRIP) |

## II. Statistical Sampling.

Following is an exhibit describing each program's sampling process.

### Exhibit 23: Program Sampling Process

| Agency | Program | Sampling Process |
|---|---|---|
| **Farm Service Agency (FSA)/Commodity Credit Corporation (CCC)** | Marketing Assistance Loan (MAL) Program | The MAL sampling process information was described in the fiscal year (FY) 2011 Performance and Accountability Report (PAR), which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **Food and Nutrition Service (FNS)** | Supplemental Nutrition Assistance Program (SNAP) | States select a statistically random sample of cases each month from a universe of all households receiving SNAP benefits for that given month. Most States draw the samples using a constant sampling interval. There are some States which employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State agencies with small SNAP populations to more than 1,000 for larger States. The average is approximately 950 per State. Federal sub-samples are selected systematically by FNS from each State's completed reviews. These sample sizes range from 150 to 400 per State.<br>The improper payment rate calculation process was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **FNS** | National School Lunch Program (NSLP) | The NSLP information reporting for FY 2012 is based on the improper payment rate for School Year 2010-11 times the FY 2011 outlays.<br>The NSLP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **FNS** | School Breakfast Program (SBP) | The SBP information reporting for FY 2012 is based on the improper payment rate for School Year 2010-2011 times the FY 2011 outlays.<br>The statistical sampling process for this program is similar to NSLP. See the NSLP description. |
| **FNS** | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | WIC information reported for FY 2012 is based on two components of the program:<br>▪ Vendor Error — The Vendor Error sampling process was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm; and<br>▪ Certification Error — WIC reported certification error for the first time in FY 2011. This certification sampling process was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **FNS** | Child and Adult Care Food Program (CACFP) | CACFP information reported for FY 2012 is based on FY 2011 outlays. The CACFP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **FSA, CCC** | Milk Income Loss Contract (MILC) Program | FSA did not perform a statstical sample because the costs were not justified based on the low volume of outlays and low improper payment rates during previous years. OMB and USDA will evaluate MILC annually to determine the type of measurement and AFR reporting to be done for a specific fiscal year. |
| **FSA, CCC** | Loan Deficiency Payments (LDP) | FSA did not perform a statistical sample because the costs were not justified based on the low volume of outlays and the low improper payment rates during previous years. OMB and USDA will evaluate LDP annually to determine the type of measurement and AFR reporting to be done for a specific fiscal year. |

| Agency | Program | Sampling Process |
|---|---|---|
| **FSA, CCC** | Direct and Counter-Cyclical Program (DCP) | The DCP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>The same process was used for this program, except the statistical sample was drawn from program payments made from October 2011 through December 2011, representing approximately 98 percent of the FY 2012 outlays. This alternative measurement provided results nearly one year earlier than the previous measurement methodology. |
| **FSA, CCC** | Conservation Reserve Program (CRP) | The CRP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>The same process was used for this program, except the statistical sample was drawn from program payments made from October 2011 through December 2011, representing approximately 95 percent of the FY 2012 outlays. This alternative measurement provided results nearly one year earlier than the previous measurement methodology. |
| **FSA, CCC** | Miscellaneous Disaster Programs (MDP) | The MDP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>The same process was used for this program, except the statistical sample was drawn for the Livestock Forage Disaster program payments made from October 2010 through September 2011, representing 63 percent of the MDP annual outlays. OMB and USDA will evaluate MDP components annually to determine if measurement and AFR reporting will be done for a specific fiscal year. |
| **FSA, CCC** | Noninsured Assistance Program (NAP) | The NAP sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **Forest Service (FS)** | Wildland Fire Suppression Management (WFSM) | FS information reported for FY 2012 is based on FY 2011 outlays. The FS sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **Rural Development (RD)** | Rental Assistance Program (RAP) | This report is based on a review of tenants receiving rental assistance during FY 2011. The RD sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>This year, the agency also tested if RD's Office of the Deputy Chief Financial Officer paid appropriately on the borrower's request for subsidy. During FY 2012, two reviews of the RAP compliance with IPIA, both OIG (in Audit Report No. 500-24-001-11, "IPERA Compliance") and GAO (in GAO Report No. GAO-12-624, "Rural Housing Service – Efforts to Identify and Reduce Improper Rental Assistance Payments Could Be Enhanced") recommended that RD should test the causes of any payment processing errors to gain a more accurate picture of improper payments. Therefore, the agency undertook a review of payments made on the borrower's request for subsidy.<br>When borrowers use the Management Interactive Connection Network (MICN), the form is generated from the tenant certifications currently on file with the agency. Once the borrower accepts the form in MICN, the information is automatically sent through the Multi-Family Housing Information System and then to the Automated Multi Housing Accounting System without any data entry by the Centralized Servicing Center. Thus, the agency's risk for data entry errors is eliminated. In FY 2011, 93 percent of the payments were automatically processed for accuracy and conformance through MICN, which left 7 percent that might have data entry errors.<br>The agency used the same methodology for completing the review of these 7 percent of payments as was used for reviewing tenant certifications. It used statisticians to identify the sample for review. Of the 6,346 payments that were processed manually between October 2010 and September 2011, a sample of 603 payments that required manual intervention was reviewed. No errors were found. |

| Agency | Program | Sampling Process |
| --- | --- | --- |
| **Risk Management Agency (RMA)** | Federal Crop Insurance Corporation (FCIC) Program Fund | RMA completed the measurement of 2008, 2009, and 2010 crop year idemnities reviewed during 2009, 2010, and 2011. For FY 2012 reporting, RMA sampled and reviewed the 2011 crop year, using those results to replace the 2008 crop year results. The RMA sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>While RMA and OMB have discussed changing the sampling plan to include premium discrepancies in the improper payment calculations, RMA has deferred any action to expand the current OMB-approved sampling plan unless additional resources are made available for this purpose. |
| **Natural Resources Conservation Service (NRCS)** | Farm Security and Rural Investment Act Programs (FSRIP) | NRCS information reported for FY 2012 is based on FY 2011 outlays. The NRCS sampling process information was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm.<br>In addition, each selected sample item was reviewed, based upon supporting documentation, to verify that (1) the recipient was eligible for payment; (2) payment was made to the proper recipient; (3) payments issued for goods and/or services were delivered within the appropriate period of performance; (4) payments were made for the goods and/or services that were reflected on the contract documents; (5) payment amounts are equal to or less than the contract amount (not in excess of contract amount); (6) the appropriate documentation (when applicable) contains the eligible recipient's signature; (7) The NRCS Government official signature acknowledging receipt of goods and/or services is present; and (8) the payment amounts agree to invoice amounts. |

## III. Corrective Actions.

Each program is required to develop a Corrective Action Plan. The following exhibit describes actions taken and planned.

### Exhibit 24: Program Corrective Action Plans

| Agency | Program | Corrective Actions |
|---|---|---|
| **Farm Service Agency (FSA)/Commodity Credit Corporation (CCC)** | Marketing Assistance Loan Program (MAL) | All of the $2.4 million in MAL improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>▪ The producer did not have beneficial interest; and<br>▪ Error in calculating farm production.<br>**Actions taken to reduce improper payments:**<br>In accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its *2012-2016 Strategic Plan*. A notice was issued to remind field offices that Average Crop Revenue Election (ACRE) and non-ACRE production have separate Reasonable Quantity and Available Amount worksheets.<br>Completion Date: September 30, 2012.<br>FSA has a performance-management program designed to improve individual and organizational effectiveness in accomplishing its mission and goals. This program provides for improper payments to be included in the performance plan (in place for FY 2012).<br>National and State office managers are held accountable for ensuring that program policies and procedures are provided to the State and county office employees accurately and timely. National office managers are also held accountable, as reflected in the performance based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to the agency's strategic plan (in place for FY 2012).<br>During FY 2012, county office employees were responsible for making payments to producers and following all administrative steps in doing so. Employees were evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans.<br>**Actions planned to reduce improper payments:**<br>In FY 2013, FSA will:<br>▪ Integrate the employee's individual performance results related to reducing improper payments into their annual performance rating.<br>▪ Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance;<br>▪ Issue additional National notices and handbook amendments to State and County Offices reinforcing current program policies and procedures;<br>▪ Improve the quality of field guidance by implementing a process whereby program directives are vetted by at least six field office employees before directives are approved and issued Nation-wide.<br>▪ Contact State office managers where the improper payments were identified to determine possible training and/or job aids the State and County Office staff may need to assist in compliance with program requirements;<br>▪ Provide notices of detailed findings discovered during the FY 2012 Statistical Sample including established policy and procedure references for each finding. State Office division chiefs and specialists will be instructed to review this notice in detail to develop corrective actions, as needed, to ensure that County offices follow applicable program procedures issued through national notices and program handbooks and provide additional program training where needed for the identified |

| Agency | Program | Corrective Actions |
|---|---|---|
| | | weaknesses. District Directors will be instructed to review this notice with County Executive Directors and Program Technicians within their respective districts; and<br>▪ Implement numerous controls to detect, prevent or recover improper payments. These include:<br>o Utilization of a checklist before disbursement of proceeds; and<br>o Compliance reviews and spot-checks to ensure the accuracy and integrity of program payments.<br>Additionally, for the MAL program only, the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) is scheduled to be available to field offices in the 2013 crop year. MIDAS is a collaborative, cross functional effort within FSA to advance and streamline business processes, and to achieve compliance by oversight, management, and accountability of administering FSA programs.<br>Completion Date: September 30, 2013. |
| **FNS** | Supplemental Nutrition Assistance Program (SNAP) | All of the $2.7 billion in SNAP improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which it is eligible. This error can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification, and 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 cause improper payments. An analysis of the FY 2011 completed statistical sample revealed that approximately 72.79 percent of all variances occurred before or at the most recent certification/recertification. In addition, 69.09 percent of the errors were caused by State agencies (SAs). More than half of the errors (52.62 percent) were income related and caused by misreporting by the client or misapplying the reported income by the SAs. Misreporting or misapplying deductions was the second largest source of improper payments at 31.11 percent.<br>**Actions taken to reduce improper payments:**<br>▪ FNS published the final regulation which codifies the current policy for the use of the Social Security Administration's Death Master File by the SAs. This action was completed in August 2012; and<br>▪ FNS issued a policy memo stating that the SAs are expected to use the results of FNS retailer disqualification actions to investigate and penalize recipients for trafficking. This action was completed in October 2011.<br>**Actions planned to reduce improper payments:**<br>FNS will develop a pilot system that will allow States to detect duplicate participation in SNAP across State boundaries and within the same State. Completion Date: September 30, 2013.<br>The SNAP information on steps that are (or will be) taken to address specific findings, and improve the overall control environment and improper payments was described in the FY 2011 PAR, which can be found at: http://www.ocfo.usda.gov/usdarpt/usdarpt.htm. |
| **FNS** | National School Lunch Program (NSLP) | All of the $1.6 billion in NSLP improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>▪ Misclassification by the schools of the meal eligibility status of participating students (certification error); and<br>▪ Improper meal counting and meal claiming by schools and school districts (non-certification error).<br>**Actions taken to reduce improper payments:**<br>▪ Required annual training for schools on certification and accountability issues. Completion Date: School Year 2012-2013;<br>▪ Awarded funding to State Agencies (SAs) in FY 2012 to perform |

| Agency | Program | Corrective Actions |
|---|---|---|
| | | additional administrative reviews in local education agencies having demonstrated a high level of or at high-risk for administrative error in NSLP/SBP;<br>▪ FNS established the Child Nutrition (CN) Division's State Systems Support Branch in FY 2010 that is dedicated to providing support and technical assistance to SAs to assist them in working toward successful program outcomes in the implementation of automated systems to improve: (1) CN program administration and performance; (2) access to CN program benefits through direct certification, direct verification and other automated means to establish children's eligibility for free and reduced-price meals; and (3) Federal reporting on program outcomes;<br>▪ In 2012, FNS issued a policy memo detailing the school district's ability and responsibilities to verify NSLP applications beyond the required sample size when there is cause; and<br>▪ As of June 2012, FNS has awarded 27 grants to 19 States that administer NSLP and have a low direct-certification rate to improve the rate of children in SNAP households who are directly certified for free meals. In addition, FNS expanded the number of States eligible to apply to any State that does not meet the 95-percent benchmark for direct certification rates with SNAP. Completion Date: School Year 2011-2012.<br>**Actions planned to reduce improper payments:**<br>Beginning with School Year 2011-2012 and after, States that do not meet the benchmarks set for direct certification rates with SNAP must develop and implement continuous improvement plans to describe the activities they will implement to improve their rates. FNS is contracting for technical assistance to States in the area of direct certification improvements, including collecting and sharing best State and local educational agency practices and developing continuous improvement plans.<br>Beginning in FY 2013, FNS will improve the School Food Verification Summary Report by requesting additional data which will contribute to a more accurate direct certification rate. In addition, it has simplified the form's instructions and developed a more user-friendly layout. The agency has also issued applications and other materials for households with limited English proficiency to lead to greater accuracy in application data and fewer certification errors. Currently, FNS is restructuring the request for grant applications to allow further application opportunities, streamline the application process, and focus on key improvement strategies. |
| **FNS** | School Breakfast Program (SBP) | All of the $752 million in SBP improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>The causes for this program are similar to NSLP. See the NSLP description.<br>**Actions taken and planned to reduce improper payments:**<br>The corrective actions for this program are similar to NSLP. See the NSLP description. |
| **FNS** | Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) | All of the $201.6 million in WIC improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>▪ Participant is certified erroneously (i.e. deemed eligible though the participant's actual income was not within eligibility guidelines); and<br>▪ Overpayments and underpayments to WIC vendors.<br>**Actions taken to reduce improper payments:**<br>In FY 2012, FNS provided training on WIC vendor management requirements and practices, including vendor selection criteria, peer group definitions and classifications, guidelines/criteria for setting competitive prices and maximum allowable reimbursement rates, and effective vendor monitoring.<br>**Actions planned to reduce improper payments:**<br>Vendor monitoring will be the priority functional area for management evaluations of WIC SAs conducted in FY 2013. Program integrity training and oversight efforts |

| Agency | Program | Corrective Actions |
| --- | --- | --- |
| | | are designed to strengthen WIC SA vendor management weaknesses, and discourage vendor attempts to defraud or overcharge the program. |
| **FNS** | Child and Adult Care Food Program (CACFP) | All of the $14.2 million in CACFP improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>Family Day Care Homes (FDCH) improper payments are caused by sponsor error in determining a participating home's reimbursement tier (tiering error), or by FDCH error in reporting the number of meals which are eligible for reimbursement (claiming error).<br>**Actions taken to reduce improper payments:**<br>During FY 2012, regional offices (ROs) will provide on-site training and technical assistance visits for State agency (SA) and local agency staff, as needed, to ensure successful implementation of targeted management evaluations (TME) corrective actions, and/or address new issues of concern which have surfaced and impact the integrity of SA CACFP operations. Monthly RO/Child Nutrition Division (CND) CACFP conference calls (facilitated by ROs) will include TME corrective actions as an agenda item to allow ROs/CND to discuss findings/corrective actions by category to promote implementation of best practices and consistency across regions.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>The first 7 work products will be completed by December 31, 2012. The management evaluation guidance and regional office site training will be completed by September 30, 2013. FNS workgroups will draft guidance materials on the following areas:<br>▪ Multi-State sponsors instruction;<br>▪ Effective monitoring (SA level only as local monitoring guidance is in process);<br>▪ Serious deficiency guidance (includes SA and sponsoring organization implementation);<br>▪ Budget review and approval guidance;<br>▪ A revision of FNS Instruction 796-2, "Financial Management: Child and Adult Care Food Program;"<br>▪ Independent center handbook;<br>▪ Sponsored center handbook; and<br>▪ During FY 2013, regional offices (ROs) will provide on-site training and technical assistance visits for State agency (SA) and local agency staff, as needed, to ensure successful implementation of targeted management evaluations (TME) corrective actions, and/or address new issues of concern which have surfaced and impact the integrity of SA CACFP operations. Monthly RO/Child Nutrition Division (CND) CACFP conference calls (facilitated by ROs) will include TME corrective actions as an agenda item to allow ROs/CND to discuss findings/corrective actions by category to promote implementation of best practices and consistency across regions.<br>▪ Management evaluation guidance.<br>Beginning in FY 2013, FNS will require sponsoring organizations to conduct periodic, unannounced site visits at not less than 3-year intervals to sponsored child and adult care and family or group day care homes, and at least 1 scheduled site visit annually at these centers and homes. The timing of unannounced reviews will be varied in such a way that the reviews will be unpredictable to sponsored facilities. |
| **FSA, CCC** | Milk Income Loss Contract (MILC) Program | FSA did not perform a statstical sample because costs were not justified based on low outlays during FY 2011 and the low improper payment rates during previous years. OMB and USDA will evaluate MILC annually to determine the type of measurement and AFR reporting to be done for a specific fiscal year. |
| **FSA, CCC** | Loan Deficiency Payments (LDP) | FSA did not perform a statstical sample because costs were not justified based on low outlays during FY 2011 and the low improper payment rates and FY 2011 outlays during previous years. OMB and USDA will evaluate LDP annually to |

| Agency | Program | Corrective Actions |
|---|---|---|
| | | determine the type of measurement and AFR reporting to be done for a specific fiscal year. |
| **FSA, CCC** | Direct and Counter-Cyclical Payments (DCP) | All of the $18.8 million in DCP improper payments were attributable to administrative error.<br>**Causes of improper payments include:**<br>▪ Producer did not meet cash-rent tenant requirement;<br>▪ Required signatures and/or acreage reports were not on file; and<br>▪ Payment did not take into account required base acres reduction.<br>**Actions taken to reduce improper payments:**<br>In FY 2012, FSA conducted payment training to remind employees that all owners should be properly recorded in the farm records and to properly record base acre reductions where applicable.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>For DCP planned actions, see the MAL planned actions. The same apply to this program. |
| **FSA, CCC** | Conservation Reserve Program (CRP) | All of the $6.1 million in CRP improper payments were attributable to administrative error.<br>**Causes of improper payments include:**<br>▪ Applicable payment reduction was not made;<br>▪ Incorrect rental rate was used; and<br>▪ Incorrect amount of acres in contracts.<br>**Actions taken to reduce improper payments:**<br>In FY 2012, FSA issued a notice to State and county offices providing the detailed findings discovered during the FY 2012 CRP IPIA review including established policy and procedure references for each finding.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>For CRP planned actions, see the MAL planned actions. The same apply to this program. |
| **FSA, CCC** | Miscellaneous Disaster Programs (MDP) | All of the $10.2 million in MDP improper payments were attributable to administrative error.<br>**Causes of improper payments include:**<br>▪ Payment based on incorrect forage or livestock information;<br>▪ Documentation is not on file to support grazing losses occurred on eligible land;<br>▪ Producer did not meet Risk Management Purchase Requirements; and<br>▪ Not all livestock meet eligibility requirements.<br>**Actions taken to reduce improper payments:**<br>In FY 2012, a notice was issued to field offices to reinforce program policies and procedures.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>For MDP planned actions, see the MAL planned actions. The same apply to this program. |
| **FSA, CCC** | Noninsured Assistance Program (NAP) | All of the $4.8 million in MDP improper payments were attributable to administrative error.<br>**Causes of improper payments include:**<br>▪ Incorrect total production used to calculate payment;<br>▪ Application for payment filed late;<br>▪ Acreage report is not on file; and<br>▪ Incorrect crop acreage used to calculate payment. |

| Agency | Program | Corrective Actions |
|---|---|---|
| | | **Actions taken reduce improper payments:**<br>In FY 2012, a notice was issued to field offices to reinforce current program policies and procedures. In addition, NAP payment software has been enhanced to retrieve acres from acreage reporting software.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>For NAP planned actions, see the MAL planned actions. The same apply to this program. |
| **FS** | Wildland Fire Suppression Management (WFSM) | FS corrective actions have reduced the potential for errors, resulting in the WFSM reporting a 0-percent improper payment rate. These actions include: improved internal controls; internal monitoring and reviews for potential improper payments; centralization of accounting functions; improved communications; and follow up prior to payment authorization.<br>**Actions planned to reduce improper payments:**<br>▪ Management will be notified of identified improper payments and will have reduction of improper payments and recovery of improper payments included in its performance plans. Completion Date: FY 2013; and<br>▪ Management will be notified of improper payments and audit findings, identification of root causes, and recovery efforts. Completion Date: FY 2013. |
| **RD** | Rental Assistance Program (RAP) | A total of $4.6 million or 12.5 percent of the $37.1 million in RAP improper payments were attributable to verfication error. A total of $32.5 million or 87.5 percent of the $37.1 million in RAP improper payments were attributable to administrative and documentation error.<br>**Causes of improper payments include:**<br>▪ Insufficient file documentation; and<br>▪ Borrower/agent calculation errors.<br>**Actions taken to reduce improper payments:**<br>A Departmental priority is to assist borrowers and property managers in their responsibilities by obtaining access to the New Hires database provided by the U.S. Department of Health and Human Services. This access would improve income verification and subsidy documentation, thereby improving the accuracy of subsidy payments. Completion Date: USDA sent request for this legislative change to OMB in May 2012.<br>**Actions planned to reduce improper payments:**<br>▪ RD State office staff is required to follow up on each instance of error found in the audit, and either obtain appropriate supporting documentation for the subsidy amount paid, or begin recovery of unauthorized assistance amounts. Completion Date: September 30, 2013;<br>▪ All State offices must conduct training for borrowers and property managers in appropriate required documentation and follow up with tenants and income-verifiers. Completion Date: September 30, 2013;<br>▪ RD has begun implementing its Rental Assistance Program for the Department's recovery auditing initiative. Completion Date: September 30, 2013; and<br>▪ RD will address recommendations provided by GAO in Audit Report "GAO-12-624 "Rural Housing Service – Efforts to Identify and Reduce Improper Rental Assistance Payments Could Be Enhanced." Completion Date: September 30, 2013. |
| **RMA** | Federal Crop Insurance Corporation (FCIC) Program Fund | A total of $138.7 million or 80 percent of the $173.4 million in FCIC improper payments were attributable to verfication error. A total of $34.7 million or 20 percent of the $173.4 million in FCIC improper payments were attributable to administrative and documentation error.<br>**Cause of improper payments was:**<br>Producer certification.<br>**Actions planned to reduce improper payments:**<br>RMA has initiated discussions with insurance companies that would result in a historical production database for policy holders and acreage with the first phase |

| Agency | Program | Corrective Actions |
|---|---|---|
| | | scheduled for completion in 2015. In conjunction with this corrective action, RMA plans to switch land identification to "common land units" for all farm programs. This collaboration could potentially reduce the number of certification errors by producers and ease program complexity. |
| **NRCS** | Farm Security and Rural Investment Act Programs (FSRIP) | All of the $400,000 in FSRIP improper payments were attributable to authentication errors.<br>**Cause of improper payments:**<br>Ineligible acres included in contract.<br>**Actions taken to reduce improper payments:**<br>A contract review checklist was developed that States use when conducting quality assurance, annual contracts reviews, and second level reviews. The checklist requires verification of eligible acres on the entire operation and agricultural delineation. Eligible acres for program enrollment are verified to ensure all acres in a contract are eligible for program enrollment. Corrective actions include modifying the acres out of the contract or termination. If deficiencies are found after payments have been made, the full recovery of financial assistance and termination of the contract is required if the cause is determined to be intentional.<br>Completion date: September 30, 2012.<br>**Actions planned to reduce improper payments:**<br>NRCS will provide national program roll-out training to reiterate existing national policy. Completion Date: FY 2013. |

## IV. Improper Payment Reporting

The following exhibit shows USDA's high-risk programs. See the notes for an explanation of the program's measurement period and other applicable information.

**Exhibit 25: Improper Payments Reporting Results**

| Improper Payments Reporting Results ($millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Results Reported in FY 2011 | | | Results Reported in FY 2012 | | |
| Program | Outlays | IP% | IP$ | Outlays | IP% | IP$ |
| Marketing Assistance Loan Program, FSA/CCC [Note #3] | 3,054 | 0.52% | 16 | 2,878 | 0.08% | 2 |
| Supplemental Nutrition Assistance Program, FNS [Note #8] | 64,705 | 3.81% | 2,465 | 71,813 | 3.80% | 2,729 |
| National School Lunch Program, FNS [Note #1] | | | | | | |
| Total Program | 10,739 | 15.98% | 1,716 | 10,024 | 15.53% | 1,557 |
| Certification Error | | 9.10% | 977 | | 8.65% | 867 |
| Counting/Claiming Error | | 6.88% | 739 | | 6.88% | 690 |
| School Breakfast Program, FNS [Note #1] | | | | | | |
| Total Program | 2,824 | 24.96% | 705 | 2,987 | 25.18% | 752 |
| Certification Error | | 9.17% | 259 | | 9.39% | 280 |
| Counting/Claiming Error | | 15.79% | 446 | | 15.79% | 472 |
| Women, Infants, and Children, FNS [Note #2] | | | | | | |
| Total Program | 4,648 | 4.13% | 192 | 4,886 | 4.13% | 202 |
| Certification Error Component | | 3.05% | 142 | | 2.98% | 146 |
| Vendor Error Component | | 1.08% | 50 | | 1.15% | 56 |
| Child and Adult Care Food Program, FNS [Note #2] | | | | | | |
| Total Program | 2,521 | N/A | N/A | 2,653 | N/A | N/A |
| FDC Homes – Tiering Decisions | 896 | 1.53% | 14 | 900 | 1.58% | 14 |
| FDC Homes – Meal Claims | | N/A | N/A | | N/A | N/A |
| Milk Income Loss Contract Program, FSA [Note #4] | 182 | 2.00% | 4 | 1 | N/A | N/A |
| Loan Deficiency Payments, FSA [Note #5] | 0.2 | N/A | N/A | 0.1 | N/A | N/A |
| Direct and Counter-Cyclical Payments, FSA [Note #3] | 3,877 | 0.05% | 2 | 3,867 | 0.50% | 19 |
| Conservation Reserve Program, FSA [Note #3] | 1,605 | 1.77% | 27 | 1,686 | 0.36% | 6 |
| Miscellaneous Disaster Programs, FSA [Note #6] | 235 | 2.90% | 7 | 477 | 2.16% | 10 |

| Improper Payments Reporting Results ($millions) | | | | | | |
|---|---|---|---|---|---|---|
| Program | Results Reported in FY 2011 | | | Results Reported in FY 2012 | | |
| | Outlays | IP% | IP$ | Outlays | IP% | IP$ |
| Noninsured Assistance Program, FSA [Note #3] | 90 | 8.97% | 8 | 69 | 7.00% | 5 |
| Wildland Fire Suppression Management, FS [Note #9] | 491 | 0.00% | 0.0 | 694 | 0.00% | 0.0 |
| Rental Assistance Program, RD [Note #9] | 1,020 | 1.48% | 15 | 1,078 | 3.44% | 37 |
| Federal Crop Insurance Corporation Program Fund, RMA [Note #7] | 5,225 | 4.72% | 247 | 4,249 | 4.08% | 173 |
| Farm Security and Rural Investment Act Programs, NRCS [Note #9] | 1,433 | 0.80% | 11 | 2,088 | 0.02% | 0.4 |
| USDA Total | 101,024 | 5.37% | 5,428 | 107,696 | 5.11% | 5,507 |

The following exhibit shows USDA's high-risk programs and provides a detailed breakdown of the annual amount of improper payments. It shows overpayments and underpayments, improper payments due to disbursement errors, and incomplete paperwork. See the notes for an explanation of the program's measurement period and other applicable information.

**Exhibit 26: Detailed Breakout of Improper Payments Reporting**

| Detailed Breakout of Improper Payments Reporting for FY 2012 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Improper Payments $millions | IP % | Over-Payment $millions | Over-Payment % | Under-Payment $millions | Under-Payment % | Incorrect Disburse-ment $millions | Incorrect Disburse-ment % | Incomplete Paperwork $millions | Incomplete Paperwork % |
| Marketing Assistance Loan Program, FSA/CCC [Note #3] | 2 | 0.08% | 2 | 0.08% | 0.2 | 0.00% | 2 | 0.08% | 0.0 | 0.00% |
| Supplemental Nutrition Assistance Program, FNS [Note #8] | 2,729 | 3.80% | 2,147 | 2.99% | 582 | 0.81% | 2,729 | 3.80% | 0.0 | 0.00% |
| National School Lunch Program, FNS [Note #1] | 1,557 | 15.53% | 1,182 | 11.79% | 375 | 3.74% | 1,557 | 15.53% | 0.0 | 0.00% |
| School Breakfast Program, FNS [Note #1] | 752 | 25.18% | 648 | 21.70% | 104 | 3.48% | 752 | 25.18% | 0.0 | 0.00% |
| Women, Infants, and Children, FNS | 202 | 4.13% | 185 | 3.79% | 17 | 0.34% | 202 | 4.13% | 0.0 | 0.00% |
| Child and Adult Care Food Program, FNS | 14 | 1.58% | 12 | 1.30% | 2 | 0.28% | 14 | 1.58% | 0.0 | 0.00% |

| Detailed Breakout of Improper Payments Reporting for FY 2012 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Total Improper Payments $millions | IP % | Over-Payment $millions | Over-Payment % | Under-Payment $millions | Under-Payment % | Incorrect Disburse-ment $millions | Incorrect Disburse-ment % | Incomplete Paperwork $millions | Incomplete Paperwork % |
| Milk Income Loss Contract Program, FSA [Note #4] | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Loan Deficiency Payments, FSA [Note #5] | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |
| Direct and Counter-Cyclical Payments, FSA [Note #3] | 19 | 0.50% | 19 | 0.50% | 0.0 | 0.00% | 19 | 0.50% | 0.0 | 0.00% |
| Conservation Reserve Program, FSA [Note #3] | 6 | 0.36% | 4 | 0.24% | 2 | 0.12% | 6 | 0.36% | 0.0 | 0.00% |
| Miscellaneous Disaster Programs, FSA [Note #6] | 10 | 2.16% | 7 | 1.53% | 3 | 0.63% | 9 | 1.97% | 1 | 0.18% |
| Noninsured Assistance Program, FSA [Note #3] | 5 | 7.00% | 3 | 4.99% | 1 | 2.01% | 4 | 5.28% | 2 | 2.72% |
| Wildland Fire Suppression Management, FS [Note #9] | 0.0 | 0.00% | 0.0 | 0.00% | 0.0 | 0.00% | 0.0 | 0.00% | 0.0 | 0.00% |
| Rental Assistance Program, RD [Note #9] | 37 | 3.44% | 35 | 3.22% | 2 | 0.22% | 3 | 0.25% | 34 | 3.18% |
| Federal Crop Insurance Corporation Program Fund, RMA [Note #7] | 173 | 4.08% | 160 | 3.75% | 14 | 0.33% | 173 | 4.08% | 0.0 | 0.00% |
| Farm Security and Rural Investment Program, NRCS [Note #9] | 0.4 | 0.02% | 0.4 | 0.02% | 0.0 | 0.00% | 0.4 | 0.02% | 0.0 | 0.00% |
| USDA Total | 5,507 | 5.11% | 4,404 | 4.09% | 1,103 | 1.02% | 5,470 | 5.08% | 37 | 0.03% |

The following exhibit shows future year outlays and improper payment estimates for USDA's high-risk programs.

**Exhibit 27: Improper Payments Reduction Outlook**

| Improper Payment Reduction Outlook ($millions) | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | FY 2013 Reporting | | | FY 2014 Reporting | | | FY 2015 Reporting | | |
| Program | Outlays | IP% | IP$ | Outlays | IP% | IP$ | Outlays | IP% | IP$ |
| Marketing Assistance Loan Program, FSA/CCC [Note #10] | 3,941 | 0.49% | 19 | 28 | 0.48% | 0.1 | 28 | 0.40% | 0.1 |
| Supplemental Nutrition Assistance Program, FNS [Note #8] | 76,030 | 3.81% | 2,897 | 76,030 | 3.81% | 2,897 | 76,030 | 3.81% | 2,897 |
| National School Lunch Program, FNS | 11,106 | 15.10% | 1,677 | 11,414 | 14.67% | 1,674 | 11,650 | 14.25% | 1,660 |
| School Breakfast Program, FNS | 3,467 | 24.36% | 845 | 3,617 | 23.57% | 853 | 3,804 | 22.80% | 867 |
| Women, Infants, and Children, FNS | 4,560 | 4.00% | 182 | 5,290 | 3.92% | 207 | 4,977 | 3.84% | 191 |
| Child and Adult Care Food Program, FNS | 922 | 1.53% | 14 | 951 | 1.48% | 14 | 972 | 1.43% | 14 |
| Milk Income Loss Contract Program, FSA [Note #4] | 404 | 1.80% | 7 | 8 | 1.79% | 0.0 | 8 | 1.78% | 0.0 |
| Loan Deficiency Payments, FSA [Note #5] | 0.1 | 0.40% | 0.0 | 0.0 | 0.38% | 0.0 | 1.4 | 0.35% | 0.0 |
| Direct and Counter-Cyclical Payments, FSA | 3,528 | 0.35% | 12 | 4,958 | 0.33% | 16 | 4,958 | 0.31% | 15 |
| Conservation Reserve Program, FSA | 1,859 | 0.35% | 7 | 2,202 | 0.34% | 8 | 2,202 | 0.33% | 7 |
| Miscellaneous Disaster Programs, FSA [Note #6] | 700 | 2.10% | 15 | 1,395 | 2.05% | 29 | 1,395 | 2.00% | 28 |
| Noninsured Assistance Program, FSA | 260 | 4.97% | 13 | 115 | 3.00% | 3 | 115 | 2.50% | 3 |
| Wildland Fire Suppression Management, FS [Note #11] | 1,239 | 0.02% | 0.3 | 1,268 | 0.02% | 0.3 | 1,312 | 0.02% | 0.3 |
| Rental Assistance Program, RD | 1,189 | 2.50% | 30 | 1,248 | 2.20% | 27 | 1,310 | 1.90% | 25 |
| Federal Crop Insurance Corporation Program Fund, RMA | 8,000 | 4.00% | 320 | 8,000 | 3.90% | 312 | 8,000 | 3.80% | 304 |
| Farm Security and Rural Investment, NRCS [Note #12] | 2,618 | 0.03% | 1 | 2,666 | 0.03% | 1 | 2,774 | 0.03% | 1 |

Note #1: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error. NSLP and SBP estimated improper payment amounts reported for FY 2012 are based on improper payment rates for School Year 2010/2011, multiplied by the FY 2011 outlays.

Note #2: WIC and CACFP currently test components of their programs measuring FY 2011 outlays for FY 2012 reporting. CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. The agency has not set a date for measurement and reporting.

Note #3: MAL and NAP information for FY 2012 reporting is based on total outlays for FY 2011. DCP and CRP information for FY 2012 reporting is based on October 2011 through December 2011 outlays, which represent 98.3 percent of the annual outlays for DCP and 94.7 percent of the annual outlays for CRP. The estimated improper payment dollar amounts for MAL, DCP, CRP, and NAP may reflect variances from the relationship between the improper payment percentage and the outlays amount. These variances result from the complex, multi-stage statistical sampling methodology developed by the contract statistician in calculating the independent projections of the dollars and percentages in error. The variances represent a complex ratio estimate weighted with respect to the payments within their applicable county stratification. They reflect the variability within the payment data and occur with a 90-percent confidence level.

Note #4: A full statistical sample was not cost effective due to low outlays during FY 2011 and the low improper payment rates in previous years. OMB will evaluate MILC activity annually to determine if measurement for a specific fiscal year would be cost effective.

Note #5: A statistical sample was not performed; it was not cost effective due to low outlays during FY 2011, and low improper payment rates in previous years. OMB will evaluate LDP activity annually to determine if measurement for a specific fiscal year is cost effective.

Note #6: FSA measured one component of the several MDP disaster program components for FY 2012 reporting. A full statistical sample of all MDP components was not cost effective. The Livestock Forage Disaster Program FY 2011 outlays (63 percent of all MDP outlays) were statistically sampled. FSA is undergoing a risk assessment of the Livestock Indemnity Program (35 percent of MDP outlays). OMB will evaluate MDP activity annually and determine which components to measure for a specific fiscal year.

Note #7: RMA uses a 3-year running average to calculate its improper payment rate. FY 2012 is based on the measurement of 2009, 2010, and 2011 crop year outlays.

Note #8: SNAP FY 2012 reporting information is based on FY 2011 outlays. SNAP reduction targets may be reduced and adjusted in consideration of increased need resulting from further growth in the program, which has been unprecedented during the past few years, State budget constraints, and other related factors. The SNAP improper payment rate trend line goes from 5.99 percent in FY 2007 to 3.80 percent in FY 2012. Due to the above issues, it is not realistic and likely not achievable for SNAP to consistently have 3.80 percent or less improper payment rate for future years.

Note #9: The FSRI, RAP, and WFSM programs' information for FY 2012 reporting is based on FY 2011 outlays.

Note #10: The MAL improper payment rate trend line goes from 7.52 percent in FY 2007 to 0.08 percent in FY 2012. The 0.08 percent rate for FY 2012 is an outlier compared to rates of the previous five years. Due to the inherent variables in the statistical sampling measurement process, a FY 2013 reduction lower than 0.08 percent is not realistic and likely not achievable. The MAL reduction target rates for FY 2013, FY 2014 and FY 2015 in Exhibit 27, are more realistic and achievable in relationship to the MAL trend line from FY 2007 through FY 2011.

Note #11: The WFSM program has reported a 0.00 percent improper payment rate for the past four years. Due to the inherent variables in the statistical sampling measurement process, it is not realistic and likely not achievable for WFSM program to consistently have 0.00 percent improper payment rate for future years.

Note #12: Due to the inherent variables in the statistical sampling measurement process, it is not realistic and likely not achievable for FSRI program to consistently have 0.02 percent or less improper payment rate for future years.

### V. Recapture of Improper Payments Reporting.

During FY 2012, USDA provided its first Annual Recovery Auditing Report to Congress and OIG. Also in FY 2012, the Department awarded a payment recapture/recovery auditing (PRRA) services contract to a private sector contractor to identify program overpayments. Under USDA's phased implementation of the PRRA initiative, phase one consists of three Department programs, the Farm Service Agency's (FSA) Conservation Reserve and Noninsured Assistance Programs, and Rural Development's Rental Assistance Program. FSA and RD have been working with contractor staff to help them understand how the programs operate and how improper payments occur within each program. This process is crucial for implementing the PRRA initiative. It allows the contractor to tailor its software to each program to reduce false positives and assist in identifying overpayments made to ineligible recipients.

USDA plans to identify additional agency programs for implementation during the first quarter of FY 2013 for phase two of the PRRA initiative. Since the initiative is in the implementation phase and has yet to make recoveries, the Department cannot report PRRA information for FY 2012; therefore, Exhibit 28, Payment Recapture Audit Reporting; Exhibit 29, Payment Recapture Audit Targets; Exhibit 30, Aging of Outstanding Overpayments; and Exhibit 31, Disposition of Recapture Funds, are not available. USDA anticipates reporting PRRA targets, aging of outstanding overpayments, recoveries by type of payment, and disposition of recaptured funds in the FY 2013 AFR.

The following exhibits are designed to illustrate payment recapture audit (or recovery auditing) efforts.

The following exhibit is to show how recovery payments are reported for audits.

**Exhibit 28: Payment Recapture Audit Reporting**

| Payment Recapture Audit Reporting | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Program or Activity | Type of Payment (contract, grant, benefit, loan, or other) | Amount Subject to Review for CY Reporting | Actual Amount Reviewed and Reported (CY) | Amount Identified for Recovery (CY) | Amount Recovered (CY) | % of Amount Recovered out of Amount Identified (CY) | Amount Outstanding (CY) | % of Amount Outstanding out of Amount Identified (CY) |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

| Payment Recapture Audit Reporting | | | | | | | |
|---|---|---|---|---|---|---|---|
| Amount Determined Not to be Collectable (CY) | % of Amount Determined Not to be Collectable out of Amount Identified (CY) | Amounts Identified for Recovery (PYs) | Amounts Recovered (PYs) | Cumulative Amounts Identified for Recovery (CY+PYs) | Cumulative Amounts Recovered (CY+PYs) | Cumulative Amounts Outstanding (CY+PYs) | Cumulative Amounts Determined Not to be Collectable (CY+PYs) |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

The following exhibit is to show how these annual targets, based on the rate of recovery, are used to drive performance.

**Exhibit 29: Payment Recapture Audit Targets**

| Payment Recapture Audit Targets | | | | | | | |
|---|---|---|---|---|---|---|---|
| Program or Activity | Type of Payment (contract, grant, benefit, loan, or other) | CY Amount Identified | CY Amount Recovered | CY Recovery Rate (Amount Recovered/Amount Identified) | CY +1 Recovery Rate Target | CY + 2 Recovery Rate Target | CY +3 Recovery Rate Target |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

The following exhibit is to show an aging schedule of outstanding overpayments and 6-month periods.

**Exhibit 30: Aging of Outstanding Overpayments**

| Aging of Outstanding Overpayments | | | | |
|---|---|---|---|---|
| Program or Activity | Type of Payment (contract, grant, benefit, loan, or other) | CY Amount Outstanding (0 – 6 months) | CY Amount Outstanding (6 months to 1 year) | CY Amount Outstanding (over 1 year) |
| N/A | N/A | N/A | N/A | N/A |

The following exhibit is to show a summary of how recovered amounts have been used.

**Exhibit 31: Disposition of Recaptured Funds**

| Disposition of Recaptured Funds | | | | | | | |
|---|---|---|---|---|---|---|---|
| Program or Activity | Type of Payment (contract, grant, benefit, loan, or other) | Agency Expenses to Administer the Program | Payment Recapture Auditor Fees | Financial Management Improvement Activities | Original Purpose | Office of Inspector General | Returned to Treasury |
| N/A | N/A | N/A | N/A | N/A | N/A | N/A | N/A |

The following exhibit includes amounts of USDA improper payments identified and recovered by source in FY 2012, prior years, and cumulative. The prior year's column includes recoveries from FY 2004 through FY 2011.

**Exhibit 32: Overpayments Recaptured**

| Overpayments Recaptured Outside of PRRA Initiative ($millions) | | | | | | |
|---|---|---|---|---|---|---|
| Agency Source | FY 2012 Amounts Identified | FY 2012 Amounts Recovered | Prior Years Amounts Identified | Prior Years Amounts Recovered | Cumulative (Current & Prior Years) Amounts Identified | Cumulative (Current & Prior Years) Amounts Recovered |
| Statistical Samples Under IPIA | $2.97 | $0.92 | $891.65 | $891.65 | $894.62 | $892.57 |
| Identified Internally & Post Payment Reviews | $244.71 | $229.13 | $302.35 | $287.09 | $547.06 | $516.22 |
| Identified by OIG & GAO Audits | $7.62 | $0.06 | $2.45 | $0.07 | $10.07 | $0.13 |
| Reports from the Public | $6.06 | $6.00 | $0.00 | $0.00 | $6.06 | $6.00 |
| Other Sources | $3.79 | $3.32 | $0.00 | $0.00 | $3.79 | $3.32 |
| USDA Total | $265.15 | $239.43 | $1,196.44 | $1,178.80 | $1,461.60 | $1,418.24 |

## VI. Accountability.

The following steps were taken to ensure that agency managers are held accountable for reducing and recovering improper payments:

### Farm Service Agency

- The Farm Service Agency (FSA) operates a performance-management program designed to improve individual and organizational effectiveness in accomplishing its mission and goals. This program provides for improper payments to be included in the State Executive Directors Performance Plan;
- National and State office (STO) managers are held accountable for ensuring that program policies and procedures are provided to the STO and county office (COF) employees accurately and timely. National office managers are also held accountable, as reflected in the performance based rating measures, for overall program administration. FSA employees' performance elements are directly related to its strategic plan;
- COF employees, including the county executive director, must pay producers and follow all administrative steps in doing so. Employees will be evaluated on program delivery, compliance with regulations, policies, and procedures through their performance plans;
- The Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability; and

- FSA has incorporated the priority of reducing improper payments into its *FY 2012-2016 Strategic Plan,* in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with IPIA.

### Food and Nutrition Service

An agency priority is to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high-risk for improper payments. The goal for SNAP, WIC, and CACFP is to reduce the improper payment rates by continuing management improvements. The goal of NSLP and SBP is to improve the accuracy of school administration processes that certify children for school meals. The agency goals and priorities are incorporated into each manager's performance plan.

### Forest Service

Management will be made aware of improper payments and held accountable for reduction and recoveries of improper payments. The agency is also exploring a tool to help in reducing improper payments after the implementation of its new accounting system, the Financial Management Modernization Initiative.

Dissemination of audit findings, recovery efforts and identification of root causes ensure management's awareness. Quarterly monitoring and corrective actions will improve accountability, identification, and resolution of improper payments in a timely manner.

### Rural Development

Rural Development (RD) State offices with improper payments develop a corrective action plan. The plan includes procedures to train field staff, borrowers, and property managers in appropriate required documentation and follow up with tenants and income-verifiers.

- State office directors and program managers are held accountable for ensuring that program policies and procedures are implemented and administratively enforced. National office managers are also held accountable, as reflected in the performance based rating measures, for overall program administration at the National level;
- Deputy Administrator of Multi-Family Housing Programs will facilitate monthly meetings with the State and area office program areas to discuss any additional action necessary for senior management to address accountability and program administration;
- The National office staff performance plan agreements contain position-corresponding mission-area strategic objective element goals and priorities, and are incorporated into each manager's performance plan; and
- RD has a performance management program in place to improve individual and organizational effectiveness in accomplishing its mission and goals.

### Risk Management Agency

The Risk Management Agency (RMA) revised its strategic plan to provide results to enhance accountability. RMA also has established procedures to ensure agency management takes future corrective actions to address program vulnerabilities. Additionally, every employee's performance plan agreement has contained a position-corresponding strategic objective element since FY 2005.

### Natural Resources Conservation Service

The Natural Resources Conservation Service incorporated IPIA goals and objectives in the performance standards for all senior executive service positions. These also have been included in the Regional Assistant Chiefs' and State Conservationists' performance plans.

## VII. Agency Information Systems and Other Infrastructure.

Although USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. The Department has worked closely with the Office of Management and Budget to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

### Food and Nutrition Service

The School Breakfast, National School Lunch, and Child and Adult Care Food Programs (CACFP) do not have administrative infrastructure or methods for producing yearly estimates of improper payment rates and dollar values. To establish and maintain effective internal controls to reduce improper payments, FNS needs the following:

- Training and Technical Assistance — Effective and continual training and technical assistance are necessary to support the CACFP oversight activities and help States properly administer the Child Nutrition Program to ensure they are equipped to identify and prevent fraud and abuse;
- Child Nutrition Payment Accuracy — FNS believes that robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of improper payments; and
- Coordinated Review Program — Providing training and technical assistance for State agencies responsible for reviewing local school food authorities that participated in the school meal programs. The Coordinated Review Effort helps ensure that school children are offered meals that meet regulatory standards and that the financial claims associated with those meals are appropriate.

### Farm Service Agency

FSA needs the following to reduce improper payments:

- Reduce the number of manually calculated payment reductions and adjustments by incorporating the management of all contract activities, such as managed haying and grazing, into the contract software. Requirements gathering and development is underway for the Conservation Reserve Program (CRP) Contract Maintenance and migration, and implementation of this enhanced functionality is targeted for FY 2013;

- Develop a system that will collect improper payment data for both over and underpayments at the disbursing office level. These data will be used to develop collection goals and better identify what receivables and additional payables are directly related to improper payments;
- FSA must have a sufficient budget for staff, equipment, and supplies to continue to support software, eligibility checks, field spot checks, and compliance reviews; and
- Infrastructure improvements must include enhancements to support Web-based software and the necessary Federal staffing to define, design, develop, and maintain CRP Web-based software. These enhancements will help to ensure better compliance reviews and eligibility validation through mainframe centralized databases. The time savings will allow field office employees to review and document other manual program related issues in more detail.

### Rural Development

The FY2013 President's Budget included a legislative proposal to allow property owners and management agents' access to the Department of Health and Human Services' New Hires database, a resource that will enable confirmation and verification of household income reported by property tenants. Access to the database is estimated at $1.7 million for the first year of use. Access to the database will be through a Web-based portal managed by the U.S. Department of Housing and Urban Development.

### Risk Management Agency

While the program has seen significant growth, the Risk Management Agency's (RMA) administrative budget has remained relatively flat. Compliance has gained significant efficiencies through data mining and other technology applications used to identify program vulnerabilities. These improvements have been made without additional staff to review and recover improper payments. Thus, progress will be restricted. Also, while RMA has effective internal controls in place, compliance staff has been unable to perform all the work assigned based on the sheer size of the current program. RMA is considering several options for increasing the number of compliance staff and what would be accomplished depending on funding.

## VIII. Barriers.

### Farm Service Agency/Commodity Credit Corporation

The Department of Agriculture Reorganization Act of 1994, Section 281, provides that "[E]ach decision of a State, county, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This statute, commonly referred to as the "Finality Rule," will affect the Farm Service Agency/Commodity Credit Corporation's ability to recover improper payments.

### Food and Nutrition Service

The Farm Security and Rural Investment Act of 2002 (FSRIA/2002 Farm Bill) restricts the liability levels States can be sanctioned due to high improper payment rates and also restricts the amount of bonus funding available to States that do a good job reducing and maintaining a low improper payment rate. While the Healthy, Hunger-Free Kids Act provided new tools to promote strong management and integrity in the school meals programs, statutory authority continues to limit USDA's ability to act in this area because of concerns about potential barriers to participation. In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper payments. In addition, program administration is highly decentralized involving a myriad of Governmental and non-Governmental organizations. There are approximately 100,000 school meal locations at which benefits are provided. Many of these benefit providers simply do not have the capacity to develop robust accountability processes. For these reasons, any approach to reducing school meal improper payments must:

- Improve accuracy without compromising access for low-income families. A process that keeps eligible children from participating would undermine the program;
- Not unduly increase burden on schools. Many schools consider the program burdensome now. Adding burden could discourage schools from participating;
- Be cost effective. Improving accuracy is potentially resource intensive; and
- Answer the needs of other users of program data. Certification data are often used to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

### Rural Development

The Rural Development program does not have the statutory authority, similar to the U.S. Department of Housing and Urban Development, to gain access to data from the U.S. Department of Health and Human Services Directory of New Hires, the U.S. Internal Revenue Service (IRS), the U.S. Social Security Administration, and the U.S. Department of Labor to be shared with field offices and management agents. Having these resources would better enable borrowers and management agents to confirm and verify income information from tenants, on whose behalf rental assistance subsidy is provided.

### Natural Resources Conservation Service

Verification of eligibility will be an ongoing challenge for the Natural Resources Conservation Service (NRCS). It would be advantageous for the agency to determine adjusted gross income eligibility on current and future FSRIA/2002 Farm Bill participants by coordinating with the IRS. For long-term contracts, the IRS requirement for participants to maintain tax records expires prior to the expiration of the Farm Bill contracts. This requirement limits NRCS' ability to independently verify eligibility.

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

## Background

The Inspector General Act Amendments of 1988 (P.L. 100-504), require that each agency head submit semi-annual reports to Congress on the actions taken in response to Office of Inspector General (OIG) audit, evaluation, and inspection reports. Consistent with the Reports Consolidation Act of 2000 (P.L. 106-531), the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer (OCFO) consolidates and annualizes the required semi-annual Inspector General Act Amendments reporting elements for inclusion in the annual Agency Financial Report.

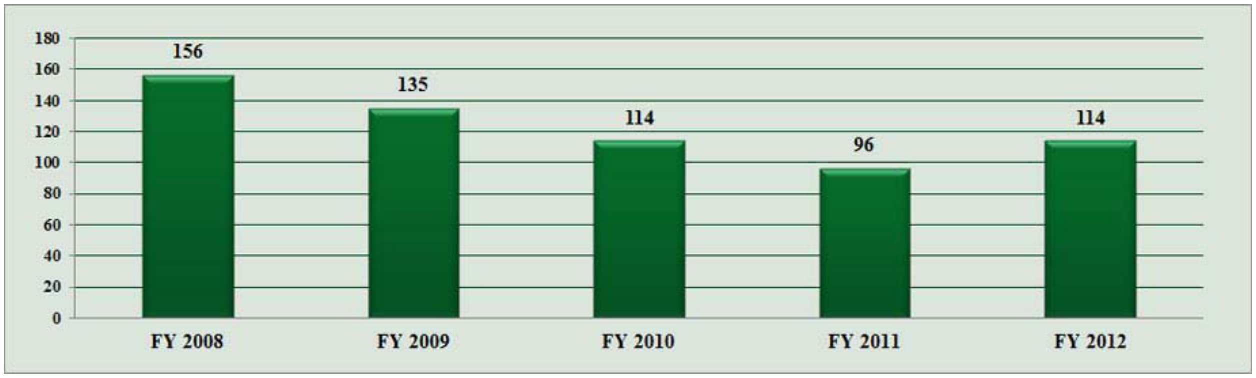
OIG audits USDA's programs, systems, and operations. It then recommends improvements to management based on its findings. Management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan is then submitted to OIG for concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, then a management decision is concluded for that recommendation.

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

## Fiscal Year 2012 Results

USDA agencies closed 39 audits in fiscal year (FY) 2012. OIG and USDA agencies reached management decision on 57 audits during the year. As shown in the following exhibit, the Department's inventory of open audits increased in FY 2012 by 19 percent from 96 to 114.

**Exhibit 33: Open Audit Inventory**




*Note: The FY 2011 ending balance was revised from 91 to 96 to include 5 audits transmitted from the Office of Inspector General after the reporting period. These adjustments are also reflected in the beginning balances for audits with disallowed costs (DC) and funds to be put to better use (FTBU) shown in Exhibit 35 and Exhibit 37, respectively.*

## Audit Follow Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress providing the status of resolved audits that remain open. Resolved audits are those for which management decision has been reached for all recommendations. Reports on resolved audits must include the elements listed in the accompanying bullets:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs (DC) and funds to be put to better use (FTBU) (see definitions below);
- The number of new management decisions reached;
- The disposition of audits with final action (see definition below);
- Resolved audits that remain open one year or more past the management decision date require an additional reporting element; and
- The date issued, dollar value, and an explanation of why final action has not been taken.

**Exhibit 34: Audit Follow Up Definitions**

| Term | Definition |
|---|---|
| Disallowed Cost (DC) | An incurred cost questioned by the Office of Inspector General (OIG) that management has agreed should not be chargeable to the Government. |
| Final Action | To complete all actions that management has agreed will address the audit findings and recommendations. |
| Funds To Be Put to Better Use (FTBU) | An OIG recommendation that funds could be used more efficiently if management completes the recommendation, including:<br>• Reductions in outlays or other savings;<br>• De-obligation of funds from programs or operation, or withdrawal of subsidy costs on loans, guarantees, or bonds; and<br>• Implementation of recommended improvements for grants or contracts or unnecessary expenditures noted in pre-award reviews of contract or grant agreements. |
| Management Decision | Agreement between management and OIG on corrective action needed to address audit findings and recommendations. |

## Beginning and Ending Inventory for Audits with Disallowed Costs and Funds to Be Put to Better Use

Of the 39 audits that achieved final action during the fiscal year, 12 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 38 with a monetary value of $38,476,260. See following exhibit.

**Exhibit 35: Inventory of Audits with Disallowed Costs**

| Audits with Disallowed Costs (DC) | # of Audits | Amount ($) |
|---|---|---|
| Beginning of the Period | 27 | $24,431,081 |
| Plus: New Management Decisions | 23 | 16,710,192 |
| Total Audits Pending Collection of DC | 50 | 41,141,273 |
| Adjustments (see Exhibit 36) | | 414,717 |
| Revised Subtotal | | 40,726,556 |
| Less: Final Actions (Recoveries) | 12 | 2,250,296 |
| Audits with DC Requiring Final Action at the End of the Period | 38 | $38,476,260 |

*Exhibit 35 and Exhibit 37 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 35 and Exhibit 37 does not equal the total resolved audit inventory balance in Exhibit 33.*

For DC audits that achieved final action in FY 2012, OIG and management agreed to collect $2,665,013. Adjustments were made totaling $414,717 (16 percent of the total) (see Exhibit 35) because of: (1) USDA agencies' ability to provide sufficient documentation to substantiate DC agency documentation; (2) write-offs; (3) changes in management decision; and (4) agency discovery. Management recovered the remaining $2,250,296. See Exhibit 35.

**Exhibit 36: Distribution of Adjustments to DC**

| Category | Amount ($) |
|---|---|
| Agency Documentation | - $ 11,743 |
| Write-Offs | 117,713 |
| Changes in Management Decision | 63,548 |
| Agency Discovery | 245,199 |
| **Total** | **$414,717** |

Final action occurred on 8 audits that involved funds to be put to better use (FTBU) amounts. The number of FTBU audits remaining in the inventory to date is 7 with a monetary value of $106,905,411. See the following exhibit.

**Exhibit 37: Inventory of Audits with Funds To Be Put to Better Use**

| Audits with Funds to be Put to Better Use (FTBU) | # of Audits | Amount ($) |
|---|---|---|
| Beginning of the Period | 12 | $108,271,519 |
| Plus: New Management Decisions | 3 | 778,862 |
| Total Audits Pending | 15 | 109,050,381 |
| Less: Final Actions | 8 | 2,144,970 |
| Audits with FTBU Requiring Final Action at the End of the Period | 7 | 106,905,411 |
| Disposition of FTBU: | | |
| FTBU Implemented | | 2,144,970 |
| FTBU Not Implemented | | 0 |
| **Total FTBU Amounts for Final Action Audits** | | **$2,144,970** |

*Exhibit 35 and Exhibit 37 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 35 and Exhibit 37 does not equal the total resolved audit inventory balance in Exhibit 33.*

The numbers of audits open 1 or more years without final action in FY 2012 decreased from 63 to 50 audits, a 21-percent decrease. During the year, an additional 16 audits reached 1 year past Management Decision Date (MDD) for a balance of 66 audits. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits.

**Exhibit 38: Decrease in the Number of Audits Open One or More Years Past the Management Decision Date**

| Audits One Year or More Past Management Decision Date (MDD) | # of Audits |
|---|---|
| Beginning of the period | 63* |
| Less: FY 2011 audits closed | 13 |
| Subtotal FY 2011 Audits one year or more past MDD | 50 |
| Plus: Audits that turned one year during FY 2011 | 16 |
| **End of the Period*** | **66*** |

** End of the Period includes 1 audit in appeal not listed in Exhibit 39. In addition, one audit was omitted from the FY 2011 ending balance. An adjustment has been made to change the beginning balance FY 2012 from 62 to 63.*

Agencies have completed all planned corrective actions on 16 audits that are pending collection of associated DC. See the following exhibit.

**Exhibit 39: Distribution of Audits Open One Year or More Past the Management Decision Date**

| | Audits On Schedule | | | Audits Behind Schedule | | | Audits Under Collection | | |
|---|---|---|---|---|---|---|---|---|---|
| Agency | No. | DC ($) | FTBU ($) | No. | DC ($) | FTBU ($) | No. | DC ($) | FTBU ($) |
| Totals | 2 | 0 | 0 | 46 | $4,205,321 | $97,677,980 | 16 | $16,885,427 | $569,524 |

## Management's Report on Audit Follow Up

With the exception of one audit which is in appeals, audits without final action one year or more past MDD and behind schedule are listed individually in the following exhibit. They are categorized by the reason final action has not occurred. More detailed information on audits on schedule, in appeals, and under collection is available from OCFO.

**Exhibit 40: Audits Open One Year or More, Past the Management Decision Date, and Behind Schedule**

| Audits | Date Issued | Revised Completion Date | Audit Title | Monetary Amount | |
|---|---|---|---|---|---|
| | | | | DC$ | FTBU$ |
| **(29) Pending issuance of policy/guidance and legislation** | | | | | |
| 03601-17-CH | 9/29/08 | 12/31/12 | FSA Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance | - | - |
| 04601-20-CH | 9/19/11 | 05/31/15 | RD Rural Rental Housing Program - Midwest Apartment and Management Group, Inc. | $152,970 | - |
| 05601-4-KC | 3/4/09 | 10/01/14 | RMA Use of the National Agriculture Statistics Service County Average Yields for the Group Risk Protection Plans of Insurance | - | $70,000,000 |
| 08601-54-SF | 3/31/10 | 12/31/12 | FS Firefighting Succession Plans | - | $27,500,000 |
| 10401-2-FM | 11/13/08 | 12/31/12 | NRCS Financial Statements for FY 2008 | - | - |
| 10703-1-KC | 9/8/10 | 12/31/12 | NRCS ARRA – Emergency Watershed Protection Program Floodplain Easement Phase I | - | - |

| Audits | Date Issued | Revised Completion Date | Audit Title | Monetary Amount DC$ | Monetary Amount FTBU$ |
|---|---|---|---|---|---|
| **(29) Pending issuance of policy/guidance and legislation** | | | | | |
| 11099-44-FM | 12/14/06 | 10/31/12 | Departmental Management Potential Improper Payments/Purchase Card Management System | - | - |
| 24601-1-CH | 6/21/00 | 12/31/12 | FSIS Laboratory Testing of Meat and Poultry Products | - | - |
| 24601-8-KC | 3/25/10 | 12/31/12 | FSIS National Residue Program for Cattle | - | - |
| 24601-9-KC | 2/24/11 | 12/31/12 | FSIS Sampling Protocol for Testing Beef Trim for *E. Coli* O157:H7 | - | - |
| 27099-49-TE | 3/10/08 | 5/31/13 | FNS Disaster Food Stamp Program for Hurricanes Katrina and Rita, Louisiana, Mississippi, and Texas | - | - |
| 27601-16-AT | 3/31/08 | 12/31/12 | FNS Food Stamp Employment and Training | - | - |
| 33002-4-SF | 5/14/10 | 12/31/12 | APHIS Inspection of Problematic Dealers | - | $177,980 |
| 33601-2-KC | 9/30/10 | 12/03/12 | APHIS Administration of the Horse Protection Program and the Slaughter Horse Transport Program | - | - |
| 33601-3-CH | 2/20/03 | 11/30/13 | APHIS Safeguards to Prevent Entry of Prohibited Pests and Diseases into the United States | - | - |
| 33601-7-CH | 8/14/07 | 11/30/13 | APHIS Review of Customs and Border Protection Inspection Activities | - | - |
| 33601-10-CH | 4/13/10 | 12/31/12 | APHIS Controls over Licensing of Animal Exhibitions | - | - |
| 33601-11-CH | 8/13/10 | 12/31/12 | APHIS USDA's Controls over Animal Import Centers | - | - |
| 34099-2-AT | 9/14/01 | 11/30/12 | RD, RBCS Business and Industry Loan Program, OMNIVEST Resources, Inc. – Fort Gaines, Georgia | $4,052,351 | - |
| 34601-4-AT | 1/10/03 | 11/30/12 | RD, RBCS Lender Servicing of Business and Industry Guaranteed Loans in Georgia | - | - |
| 34601-15-TE | 9/30/03 | 11/30/12 | RD, RBCS National Report on the Business and Industry Loan Program | - | - |
| 50401-65-FM | 11/14/08 | 11/30/12 | Office of the Chief Financial Officer (OCFO) USDA Consolidated Financial Statements FY 2007 and FY 2006 | - | - |
| 50401-67-FM | 11/16/09 | 11/30/12 | OCFO USDA Consolidated Financial Statements FY 2009 and FY 2008 | - | - |
| 50401-70-FM | 8/16/10 | 11/30/12 | OCFO USDA Consolidated Financial Statements FY 2010 and FY 2009 | - | - |
| 50601-6-HY | 7/15/09 | 12/31/13 | FSIS's Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements | - | - |
| 50601-8-TE | 1/28/05 | 04/30/13 | APHIS Controls Over Issuance of Genetically Engineered Organism Release Permits | - | - |
| 50601-10-AT | 3/8/04 | 9/30/13 | ARS Follow Up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories | - | - |

| Audits | Date Issued | Revised Completion Date | Audit Title | Monetary Amount | |
|---|---|---|---|---|---|
| | | | | DC$ | FTBU$ |
| **(29) Pending issuance of policy/guidance and legislation** | | | | | |
| 50601-16-TE | 5/31/11 | 11/30/13 | APHIS Controls over Genetically Engineered Animal and Insect Research | - | - |
| 50601-17-TE | 12/12/08 | 12/31/12 | ARS Control over Importation of Transgenic Plant and Animals | - | - |
| **(7) Pending completion of IT system security weaknesses, systems development, implementation, or enhancement** | | | | | |
| 24601-7-HY | 9/28/06 | 12/31/12 | FSIS Issues Impacting the Development of Risk-Based Inspection at Meat and Poultry Processing Establishments | - | - |
| 24601-8-CH | 8/23/07 | 12/31/14 | FSIS Egg Products Processing Inspection | - | - |
| 24601-8-HY | 8/24/08 | 12/31/12 | FSIS Follow up Review of FSIS' Controls Over Imported Meat and Poultry Products | - | - |
| 33601-1-HY | 2/14/05 | 12/31/12 | FSIS Oversight of the Importation of Beef Products from Canada | - | - |
| 50501-1-IT | 8/15/11 | 9/30/13 | Office of the Chief Information Officer (OCIO) USDA's Management and Security Over Wireless Handheld Devices | - | - |
| 50501-2-IT | 11/19/10 | 9/30/13 | OCIO FY 2010 Federal Information Security Management Act | - | - |
| 50501-15-FM | 11/18/09 | 9/30/13 | OCIO FY 2009 Federal Information Security Management Act | - | - |
| **(2) Pending results of internal monitoring or program review** | | | | | |
| 04099-212-TE | 8/25/09 | 10/31/13 | RD, Rural Housing Service Multi–Family Housing Loans in Texas | - | - |
| 10401-3-FM | 11/4/09 | 11/30/13 | NRCS Financial Statements for FY 2009 | - | - |
| **(2) Conclusion of external action** | | | | | |
| 50099-11-HY | 3/31/05 | 12/31/12 | Research Education and Economics Implementation of Federal Research Misconduct Policy in the U.S. Department of Agriculture | - | - |
| 50601-6-TE | 3/4/04 | 12/31/12 | ARS Controls Over Plant Variety Protection and Germplasm Storage | - | - |
| **(6) Pending administrative action** | | | | | |
| 01601-4-HY | 8/18/11 | 12/30/12 | AMS Implementation of Country of Origin Labeling | - | - |
| 02601-1-CH | 9/30/05 | 12/31/12 | ARS Adequacy of Controls to Prevent the Improper Transfer of Sensitive Technology | - | - |
| 03601-11-AT | 11/17/05 | 12/31/12 | FSA Minority Participation in FSA's Programs | - | - |
| 06401-20-FM | 11/9/05 | 09/30/14 | Commodity Credit Corporation's Financial Statements for FYs 2005 and 2004 | - | - |
| 06401-24-FM | 11/12/09 | 3/31/13 | Commodity Credit Corporation's Financial Statements for FYs 2009 and 2008 | - | - |
| 50601-15-KC | 8/1/2011 | 12/31/12 | FSA, NASS Establishment of Average Yields | - | - |
| **Total Number Audits (46)** | | | **Total** | **$ 4,205,321** | **$ 97,677,980** |

# Acronyms

| | |
|---|---|
| **A** | |
| A&A—Assessment and Authorization<br>AARC—Alternative Agricultural Research and Commercialization Corporation<br>ACRE—Average Crop Revenue Election<br>ACRSI—Acreage Crop Reporting Streamlining Initiative<br>AFR—Agency Financial Report | AMS—Agricultural Marketing Service<br>APHIS—Animal and Plant Health Inspection Service<br>APR—Annual Performance Report<br>ARRA—American Reinvestment and Recovery Act of 2009<br>ARS—Agricultural Research Service<br>ASOC—Agriculture Security Operations Center |
| **B** | |
| BCAP—Biomass Crop Assistance Program | BDO—Barter Delivery Obligation |
| **C** | |
| C&A—Certification and Accreditation<br>CACFP—Child and Adult Care Food Program<br>CAP—Corrective Action Plan<br>CBO—Certificates of Beneficial Ownership<br>CCC—Commodity Credit Corporation<br>CCD—Colony Collapse Disorder<br>CCTRP—Citrus Canker Tree Replacement Program<br>CFR—Code of Federal Regulations<br>CHST—Collection, Harvest, Storage, and Transportation<br>CI—Condition Index | CM—Continuous Monitoring<br>CN—Child Nutrition<br>CND—Child Nutrition Division<br>CNPP—Center for Nutrition Policy and Promotion<br>CoC—Cushion of Credit<br>COF—County Office<br>ComSec—Communications Security<br>CORE—Core Accounting System<br>CRP—Conservation Reserve Program |
| **D** | |
| DAFO—Deputy Administrator of Field Operations<br>DC—Disallowed Costs<br>DCP—Direct and Counter-Cyclical Payments<br>DHS—United States Department of Homeland Security | DM—Deferred Maintenance<br>DM—Departmental Management<br>DNSSEC—Domain Name System Security Extensions |
| **E** | |
| E&T—Employment and Training<br>eFMS—Electronic Funds Manaement System<br>ENS—Enterprise Network Services | EPAS—Economic Policy and Analysis<br>EPRT—External Performance Review Team<br>ERS—Economic Research Service |

# Acronyms

| | |
|---|---|
| **F** | |
| FAS—Foreign Agricultural Service<br>FCIC—Federal Crop Insurance Corporation<br>FDCH—Family Day Care Homes<br>FFAS—Farm and Foreign Agricultural Services<br>FFB—Federal Financing Bank<br>FFIS—Foundation Financial Information System<br>FFMIA—Federal Financial Management Improvement Act<br>FFMS—Federal Financial Management System<br>FISMA—Federal Information Security Management Act<br>FMFIA—Federal Managers' Financial Integrity Act<br>FMMI—Financial Management Modernization Initiative<br>FNCS—Food, Nutrition, and Consumer Services | FNS—Food and Nutrition Service<br>FRTA—Forest Roads and Trails Act of 1969<br>FS—Forest Service<br>FSA—Farm Service Agency<br>FSFL—Farm Storage Facility Loan<br>FSH—Forest Service Handbook<br>FSIS—Food Safety and Inspection Service<br>FSM—Forest Service Manual<br>FSRIA—Farm Security and Rural Investment Act<br>FTA—Free Trade Agreement<br>FTBU—Funds To Be Put to Better Use<br>FY—Fiscal Year |
| **G** | |
| GAO—Government Accountability Office<br>GE—Genetically Engineered<br>GIPSA—Grain Inspection, Packers, and Stockyards Administration | GMOT—Grants Management Oversight Team<br>GS—General Schedule<br>GSA—General Services Administration |
| **H** | |
| HAACP—Hazard Analysis and Critical Control Point<br>HSPD-12—Homeland Security Presidential Directive 12 | HVT—High Value Target |
| **I** | |
| ICAM—Identity Credentialing and Access Management<br>ICRT—Internal Compliance Review Team<br>IHD—Incident Handling Division<br>IID—Internet Identity | IPERA—Improper Payments Elimination and Recovery Act of 2010<br>IPIA—Improper Payments Information Act of 2002<br>IRS—Internal Revenue Service<br>IT—Information Technology |
| **L** | |
| L&WCF—The Land and Water Conservation Fund<br>LAN—Local Area Network | LDP—Loan Deficiency Payment |
| **M** | |
| MAL—Marketing Assistance Loan<br>MDD—Management Decision Date<br>MDP—Miscellaneous Disaster Programs<br>MICN—Management Interactive Connection Network<br>MIDAS—Modernize and Innovate the Delivery of Agricultural Systems | MILC—Milk Income Loss Contract<br>MOA—Memorandum of Agreement<br>MOU—Memorandum of Understanding<br>MRP—Marketing and Regulatory Programs |

## N

NAL—National Agricultural Library
NAP—Noninsured Assistance Program
NASS—National Agricultural Statistics Service
NEPA—National Environmental Policy Act
NFS—National Forest System
NHQ—National Headquarters
NIFA—National Institute of Food and Agriculture
NIST—National Institute of Standards and Technology
NRCS—Natural Resources Conservation Service
NRE—Natural Resources and Environment
NSLP—National School Lunch Program

## O

OALJ—Office of Administrative Law Judges
OAO—Office of Advocacy and Outreach
OASCR—Office of the Assistant Security for Civil Rights
OCFO—Office of the Chief Financial Officer
OCIO—Office of the Chief Information Officer
OES—Office of the Executive Secretariat
OHRM—Office of Human Resources Management
OHSEC—Office of Homeland Security and Emergency Coordination
OIG—Office of Inspector General
OJO—Office of the Judicial Officer
OMB—Office of Management and Budget
OO—Office of Operations
OPPM—Office of Procurement and Property Management
OSDBU—Office of Small and Disadvantaged Business Utilization

## P

PAR—Performance and Accountability Report
PHA—Priority Heritage Assets
PHIS—Public Health Information System
PIV—Personal Identity Verification
PP&E—Property, Plant, and Equipment
PRRA—Payment Recapture/Recovery Auditing
PRV—Plant Replacement Value

## R

R&D—Research and Development
RAP—Rental Assistance Program
RBS—Rural Business and Cooperative Service
RD—Rural Development
REE—Research, Education, and Economics
RHS—Rural Housing Service
RHIF—Rural Housing Insurance Fund
RMA—Risk Management Agency
RME—Risk Management Education
RO—Regional Office
RUS—Rural Utilities Service

## S

SA—State Agency
SBP—School Breakfast Program
SER—Single Effective Rate
SFH—Single Family Housing
SFHG—Single Family Housing Guaranteed
SNAP—Supplemental Nutrition Assistance Program
SOP—Standard Operating Procedure
SOS—Schedule of Spending
SP—Special Publication
SPA—Special Program Area
SPFI—Summary of Performance and Financial Information
SPS—Sanitation Performance Standard
SSA—Security Stack Array
SSFL—Sugar Storage Facility Loan
SSL—Secure Socket Layer
SSOP—Standard Sanitation Operating Procedure
STO—State Office

| | |
|---|---|
| **T** | |
| TME—Target Management Evaluations<br>TPMC—Tucson Plant Materials Center<br>TPP—Trans Pacific Partnership | |
| **U** | |
| UEWI—USDA Early Warning Indicators<br>ULO—Unliquidated Obligations | US-CERT—The United States Computer Emergency Response Team<br>USDA—United States Department of Agriculture |
| **V** | |
| VERA/VSIP—Voluntary Early Reitrement Authority/ Voluntary Suspension Incentive Pay | VPN—Virtual Private Network |
| **W** | |
| WebTCAS—Web-based Total Cost Accounting System<br>WFSM—Wildland Fire Suppression Management<br>WIC—Special Supplemental Program for Women, Infants, and Children | |