USDA

United States
Department of
Agriculture

January 2003

Performance and Accountability Report for FY 2002

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MESSAGE FROM THE SECRETARY

The United States Department of Agriculture (USDA) is pleased to present the *Performance and Accountability Report for FY 2002*. This report provides information on our performance and our operating and financial results.

We achieved success on a host of issues: implementing the Farm Security and Rural Investment Act of 2002; providing assistance to farmers and ranchers impacted by severe weather conditions; making significant progress on agricultural trade issues; fighting a near record-level of forest fires; supporting renewable fuels such as ethanol and biodiesel; advocating strong conservation programs; providing grants and loans to spur economic growth and create jobs in rural communities; investing in technology and infrastructure projects such as new water systems, hospitals, schools, housing projects and processing facilities; and continuing to be vigilant in protecting the food and agriculture sector against intentional and unintentional threats.

USDA managers have reviewed the quality of performance data included in the Annual Performance Goals and Results section. Except for data limitations explicitly discussed in that section and based upon reviews by our management team, I hereby provide reasonable assurance that the data are valid and reliable. Furthermore, managers have discussed data limitations and plans for improvement in data quality.

This report includes information that satisfies the reporting requirements for the Federal Managers' Financial Integrity Act (FMFIA) to ensure that federal programs are operated efficiently, effectively, and in compliance with relevant laws. Therefore, except for those areas for improvement identified in this document, USDA is providing reasonable assurance that our systems of internal control comply with the objectives of FMFIA Section 2. Section 4 of the FMFIA requires financial systems to conform to certain standards, principles, and other specifications to ensure timely, relevant, and consistent financial information. Based on the work performed during FY 2002 and prior years, the Department's integrated financial management system is substantially compliant with the objectives of Section 4 of FMFIA with the exception of those financial system nonconformances identified in this report.

Ann M. Veneman
Secretary of Agriculture

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

People are the only source of a sustainable competitive advantage.

My gratitude and congratulations go to the individual excellence and collective success of all United States Department of Agriculture (USDA) associates and our business partners for achieving numerous valuable results in financial management accountability in Fiscal Year (FY) 2002.

Value was created by accomplishing break-through results, such as:

- Receiving the first-ever, clean audit opinion for the Department since the passage of the Chief Financial Officer Act in 1990;
- Assembling, focusing and integrating an effective team of talented leaders to create effective change and sustain improvement in financial management, led by Secretary Veneman, the Subcabinet, the Office of the Chief Financial Officer, agency administrators and their related finance, accounting and budget staffs;
- Implementing improved accounting processes and completing the installation of a standard general accounting system;
- Transforming the Forest Service financial management activity into a vastly improved function;
- Correcting real and personal property accounting deficiencies;
- Improving capabilities in the management of working capital funds, analyzing program costs and administering lending programs;
- Instituting an organizational structure that creates a unified corporate controller function with related process and system accountabilities; and
- Reducing the number of material deficiencies by almost 50 percent—a noteworthy achievement that reflects an improving environment of internal control. We began the year with 32 material deficiencies and closed it with 19. Our FY 2003 goal is to reduce the remaining deficiencies by half. We plan to eliminate the rest in FY 2004.

USDA is committed to providing the best management of the resources under its stewardship. Through teamwork and the dedicated efforts of many USDA employees, we will continue to improve financial management accountability at USDA and report the results that are expected of a world-class organization.

Edward R. (Ted) McPherson
Chief Financial Officer

I. MANAGEMENT DISCUSSION AND ANALYSIS

AN OVERVIEW OF USDA

Mission Statement: We provide leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management.

Founded by President Abraham Lincoln in 1862 when more than half of the nation's population lived and worked on farms, the United States Department of Agriculture's (USDA's) role has evolved as the United States (U.S.) economy has changed. USDA enhances the quality of life for the American people by:

- Enhancing economic opportunities for farmers and ranchers;
- Ensuring a safe, affordable, nutritious, and accessible food supply;
- Caring for public lands and helping people care for private lands;
- Supporting sound sustainable development of rural communities;
- Providing economic opportunities and improving the quality of life for farm and rural residents;
- Expanding global markets for agricultural and forest products and services; and
- Working to improve Americans' nutrition and reduce hunger.

As noted by Secretary Veneman in *"Food and Agriculture: Taking Stock for a New Century,"* published in September 2001, America's food and fiber producers now operate in a global, technologically advanced, rapidly diversifying, highly competitive business environment that is relentlessly driven by increasingly sophisticated consumers. USDA's challenge today is two-fold: to confront and manage the change immediately before us while, at the same time, modernizing our farm and food system infrastructure to ensure continued growth and development for the 21st century. USDA's progress toward meeting this challenge is described in this *Performance and Accountability Report for FY 2002.*

USDA is revising its strategic plan for FY 2002–2007. This report provides information on our core performance measures as set forth in our revised FY 2002 Annual Performance Plan. Accordingly, for the purpose of this report, we have revised the placement of the core measures to align approximately with the structure of the draft plan. When finalized, the structure of our new Strategic Plan and the measures used to assess our performance may differ from what is depicted here.

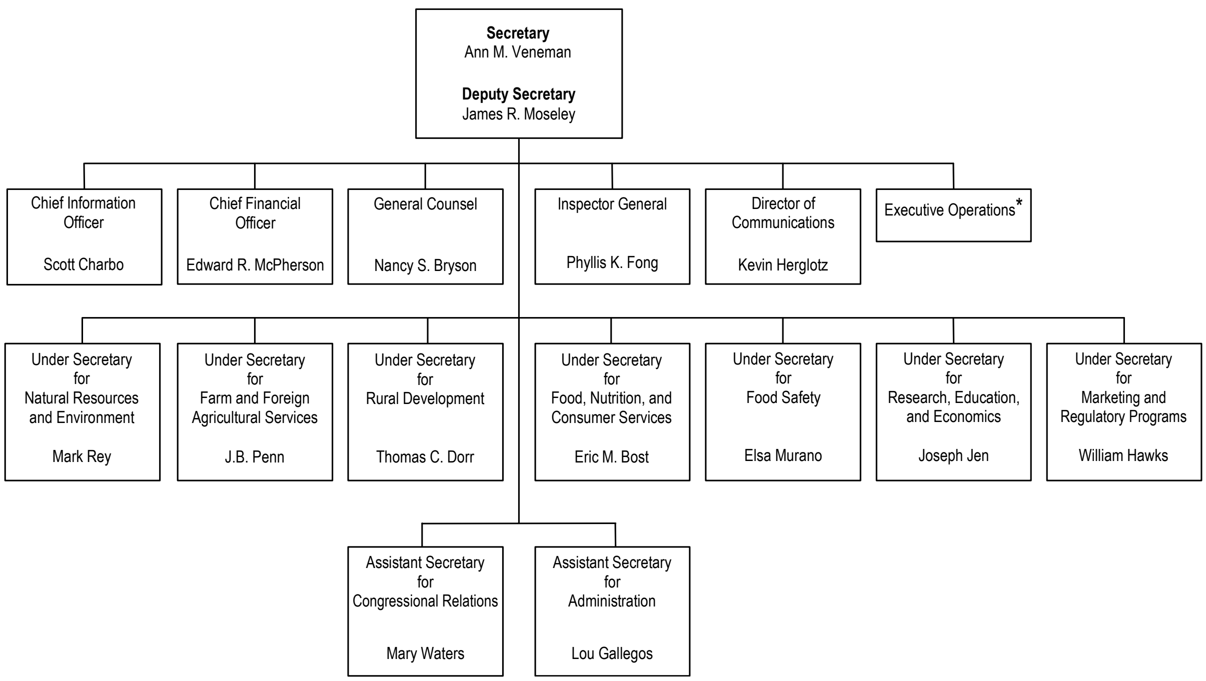
USDA's two fundamental goals are service to customers (Goal 1) and efficient management (Goal 2). Goal 1 contains seven key outcomes, reflecting results for programs that cover farmers, ranchers, rural communities and all of us who consume food. This goal includes implementation of the Farm Security and Rural Investment Act of 2002 and Homeland Security. Goal 2 addresses the President's Management Agenda (PMA) and seeks to improve USDA's capabilities in the areas of human capital and competitive sourcing, financial management, electronic information, and budget and performance integration.

Some highlights of USDA's 2002 performance:

- Agricultural exports continued on an upward trend, rising by an estimated $0.6 billion to $53.3 billion.
- Grain quality measurements increased dramatically, from a target of 40 to an actual of 60.
- Travelers non-compliant with agricultural restrictions decreased from 4.0 to 3.3 percent.

- The Centers for Disease Control and Prevention tied a decline in human *Salmonella* infections to USDA-regulated products.
- The U.S. provided more than 50 percent of total international food aid.
- USDA contributed expertise to the Partnership to End Hunger in Africa.
- We completed the implementation of an integrated standard general ledger accounting system in all USDA agencies on October 1, 2002.
- We established clear and sustainable processes to fully reconcile our fund balance with Treasury.
- We completed new direct and guaranteed loan models to improve resource management.

Organization



* Includes the Office of the Executive Secretariat, Office of Budget and Program Analysis, Office of the Chief Economist and the National Appeals Division.

Mission Areas

Natural Resources and Environment Mission Area

The Natural Resources and Environment (NRE) mission area has two agencies: the Forest Service (FS) and the Natural Resources and Conservation Service (NRCS). The agencies work to ensure the health of the land through sustainable management. The FS manages the 192 million acres of National Forests and Grasslands for the American people, and NRCS assists farmers, ranchers, and others to manage private lands for environmental and economic sustainability. Both NRE agencies work in partnership with tribal, State, and local governments; communities and groups; and Federal agencies to protect the Nation's soils, watersheds, and ecosystems to meet current and future needs.

Farm and Foreign Agricultural Services Mission Area

The Farm and Foreign Agricultural Services (FFAS) mission area has three agencies: the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), and the Risk Management Agency (RMA). The FFAS mission area is devoted to improving the livelihood of American farmers and ranchers through its numerous programs and activities. FFAS programs strengthen American agricultural markets by stabilizing farm incomes, conserving our natural resources, providing credit and risk management products and services, and developing and expanding our international markets. Working together, these programs contribute to making the American agricultural sector more productive and sustainable for the future.

The Commodity Credit Corporation (CCC) is a Government-owned organization created to stabilize, support, and protect farm income and prices; to help maintain balanced and adequate supplies of agricultural commodities, including food products, feeds, and fibers; and to help in an orderly distribution of these commodities. They deliver commodity, credit, conservation, disaster, and emergency assistance programs that help improve and strengthen the agricultural economy.

Rural Development Mission Area

The Rural Development (RD) mission area provides economic opportunities to improve the quality of life in rural America. RD addresses rural America's need for basic utility services, single and multi-family housing, as well as health and other community facilities. This mission area also provides support to rural areas that need to develop new job opportunities, helping businesses and cooperatives to remain viable in a changing economy.

Food Nutrition and Consumer Services Mission Area

The Food Nutrition and Consumer Services (FNCS) mission area operates through two agencies: the Food Nutrition Service (FNS) and the Center for Nutrition Policy and Promotion (CNPP). FNS administers the Federal nutrition assistance programs, including the Food Stamp Program, the Child Nutrition Programs, and the Women, Infants and Children Program—programs which provide access to nutritious food and support for better dietary habits to one in six Americans each year. CNPP links scientific research to the nutrition needs of consumers through science-based dietary guidance.

Food Safety Mission Area

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

Research, Education, and Economics Mission Area

The Research, Education, and Economics (REE) mission area is dedicated to creating a safe, sustainable, competitive U.S. food and fiber system and strong, healthy communities, families, and youth through integrated research, analysis, and education. Composed of the Agricultural Research Service (ARS); the Cooperative State Research, Education, and Extension Service (CSREES); the Economic Research Service (ERS); and the National Agricultural Statistics Service (NASS), REE generates and provides access to agricultural information, ensuring an abundance of high-quality safe food and other agricultural products to meet the nutritional needs of the American consumer, to sustain a viable economy, and to maintain a high-quality environment and natural resource base.

Marketing and Regulatory Programs Mission Area

Three agencies operate under the Marketing and Regulatory Programs (MRP) mission area: the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS), and the Grain Inspection, Packers, and Stockyards Administration (GIPSA). MRP facilitates the domestic and international marketing of U.S. agricultural products and helps protect the agricultural sector from plant and animal health related threats while improving competitiveness and the economy for the overall benefit of both consumers and American agriculture. MRP also protects our borders from agricultural pests and diseases; its agencies actively participate in setting national and international standards, via Federal-State cooperation and international organizations. It also helps ensure humane care and treatment of animals.

Departmental Offices

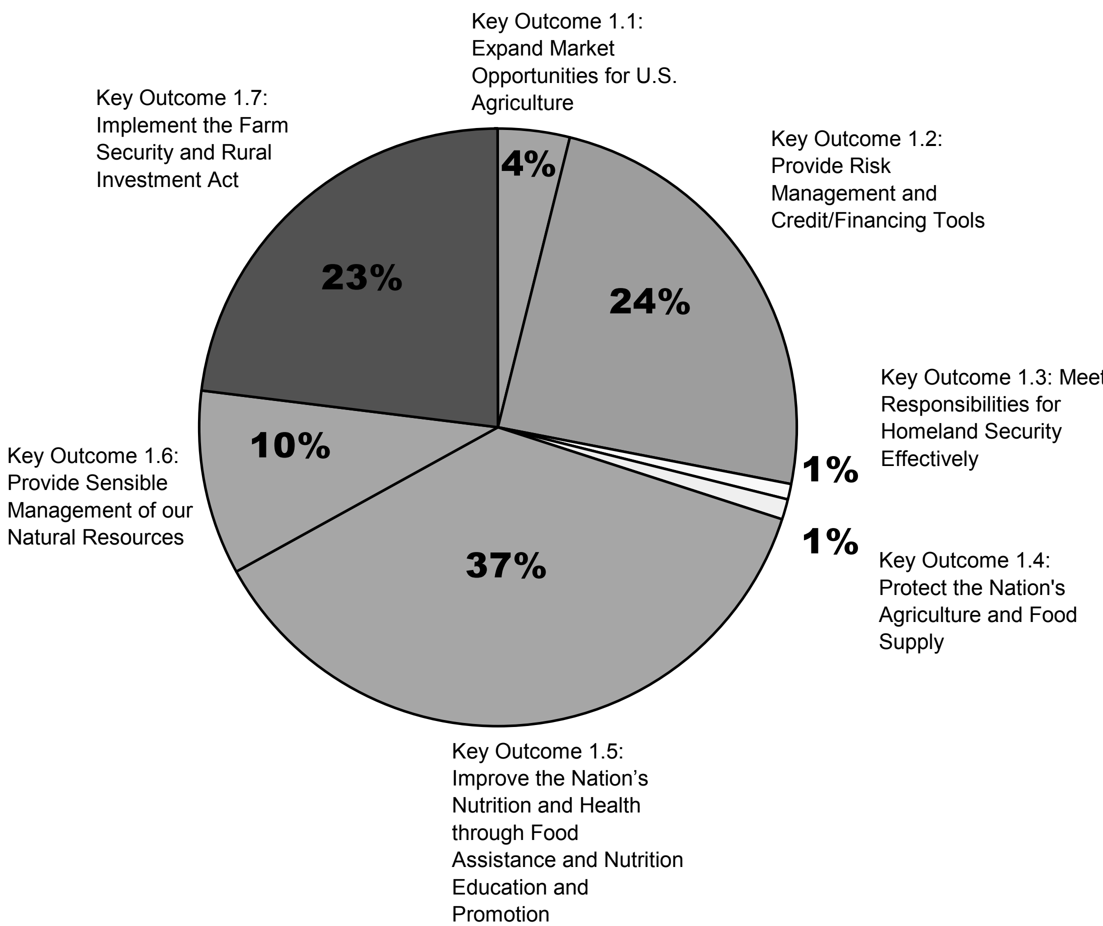
Department-level offices provide centralized leadership, coordination, and support for USDA's policy and administrative functions. They help agencies deliver services to all USDA customers and stakeholders.

Resources

USDA's operations are funded primarily by congressional appropriations. Total FY 2002 program obligations were $102,825 million, a decrease of $261 million compared to FY 2001. Staff year resources were 112,333, an increase of 4,123 compared to FY 2001. The following table identifies the key outcomes for our programs. The pie charts illustrate total resources and staff years for FY 2002.

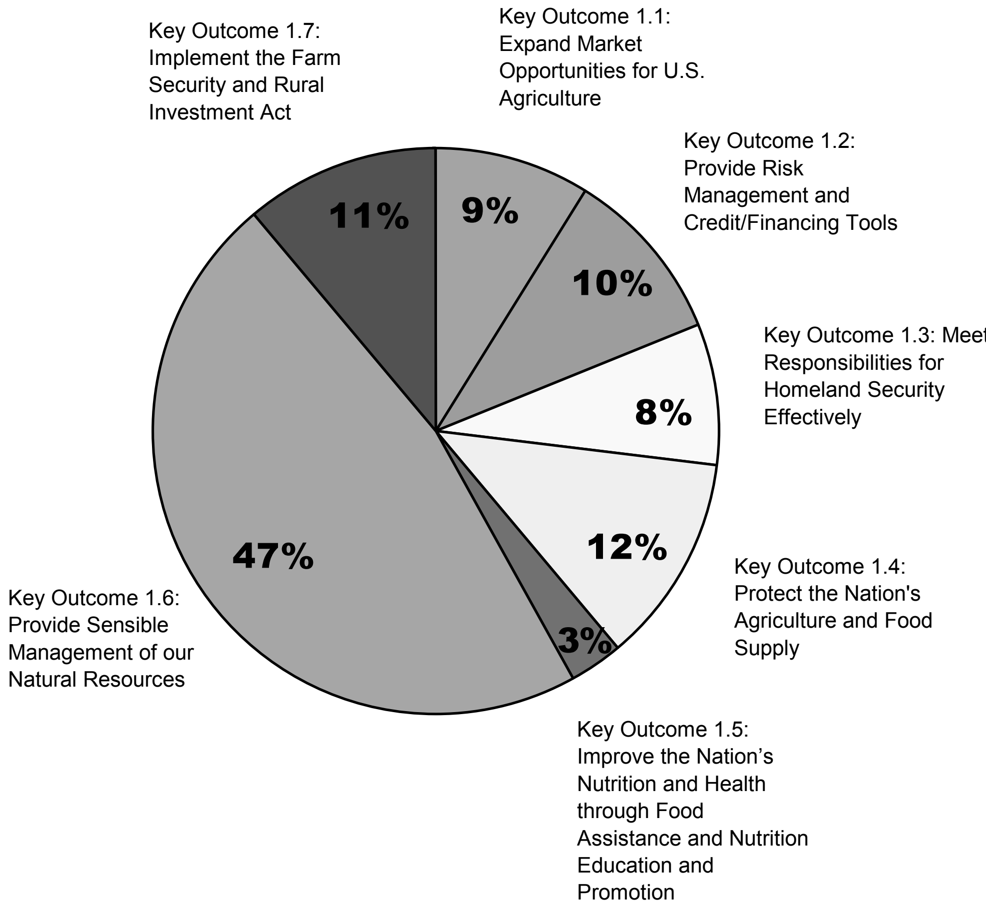
FY 2002 USDA Resources Dedicated to Program Outcomes

USDA Resources Dedicated to Program Outcomes	FY 2002 Actual
Program Obligation ($ Mil)	102,825



FY 2002 USDA Resources Dedicated to Program Outcomes

USDA Resources Dedicated to Program Outcomes	FY 2002 Actual
Staff Years	112,333



PERFORMANCE GOALS AND RESULTS

USDA has made progress in accomplishing the goals and challenges described in its revised FY 2002 annual performance plan. In summary, of the Department's 33 core performance goals, 23 were met or exceeded, five were reported as preliminary (incomplete data) or deferred (unable to report progress until date specified), leaving five unmet. Analyses of these results are provided in the Performance Section of this report. Information supporting these performance goals is of sufficient quality and reliability except where otherwise noted in this document. Only federal employees were involved in the preparation of the performance information contained in this section.

Performance Scorecard for FY 2002			
Key Outcomes*		Annual Performance Goals	Result
1.1	Expand Market Opportunities for U.S. Agriculture	• Increase U.S. agricultural trade	Met
		• Increase U.S. food aid exports under Public Law (P.L.) 480, Title I and Food for Progress in supporting world food security	Unmet
		• Promote research, training and technical assistance activities that support sustainable food supplies worldwide	Met
		• Increase the efficiency of U.S. grain marketing	Met
1.2	Provide Risk Management and Credit/Financing Tools to Support Production Agriculture, and Improve Quality of Life in Rural Areas	• Producers have economically sound risk management tools available, and they use them to meet their needs	Met
		• Improve the standard of living in rural communities	Unmet
		• Maintain the percentage of small farms in relation to total U.S. farms at the 1999 level	Met
		• Increase the amount of farm operating and ownership loans made or guaranteed to beginning and socially disadvantaged farmers	Met
1.4	Continue to Use the Best Available Science, Information and Technology to Protect the Nation's Agriculture and Food Supply	• Reduce the number and severity of pest and disease outbreaks in the U.S.	Deffered
		• Maintain a coordinated food safety risk analysis system to ensure the safety of U.S. meat, poultry, and egg products from farm to table	Met
		• People reached with food safety information through media stories, circulation reports, incoming website visits, and incoming hotline calls	Met
1.5	Improve the Nation's Nutrition and Health through Food Assistance and Nutrition Education and Promotion	• Expand program access and benefit delivery for USDA nutrition assistance programs	Met
		• Promote better diet quality among children and caregivers eligible for Federal nutrition assistance programs	Exceeded
		• Improve access to fruits and vegetables	Met
		• Individuals using the Healthy Eating Index to assess and improve their diet	Exceeded
		• Copies of the 2000 Dietary Guidelines disseminated to help individuals improve their diet	Met
1.6	Provide Sensible Management of Our Natural Resources	• Maintain the productivity and health of the Nation's non-Federal cropland and grazing lands	Met
		• Treat wildlands with high fire risks on National Forests and Grasslands to reduce the risk of loss of life, property, and natural resources from catastrophic wildfire	Unmet
		• Protect water and air quality against the risk of impairment as a result of agricultural production	Met
		• Restore or improve rangeland and forestland watersheds in the National Forests and Grasslands	Unmet

*Key Outcomes 1.3, 1.7 and 2.4 are new for 2002; performance measures have been developed and will be reported in FY 2003.

Performance Scorecard for FY 2002		
Key Outcomes*	Annual Performance Goals	Result
2.1 Improve Human Capital Management	• Major USDA programs reviewed each year	Met
	• Reduction in the average number of days it takes to resolve USDA civil rights complaints	Exceeded
	• USDA employee satisfaction rate above U.S. Government worker satisfaction	Deferred
	• Reduction in cost and/or increased productivity of commercial activities	Met
	• Use of performance-based service contracts of total eligible service contracts	Exceeded
2.2 Improve Financial Management	• Achieve an unqualified opinion on the USDA's Consolidated Financial Statements for FY 2002	Met
	• Implement the Foundation Financial Information System USDA-wide	Met
	• Improve program design and delivery	Met
	• Maintain benefit accuracy in the food stamp and the school meals programs	Deferred
2.3 Expand Electronic Government	• Movement toward a fully integrated eGovernment environment	Met
	• Simplify and reduce number of financial assistance program forms and application kits	Met
	• Improve electronic processes for financial assistance program announcements and application kits	Deferred
	• Develop, implement, and maintain a secure and confident IT environment while protecting privacy	Unmet

*Key Outcomes 1.3, 1.7 and 2.4 are new for 2002; performance measures have been developed and will be reported in FY 2003.

Actions on Unmet Goals

USDA is working to improve performance in those areas where our goals were unmet. A further discussion of our actions on unmet goals is provided in the Performance Section of this report. A brief summary of our ongoing and future actions follows:

- Implementing the Farm Security and Rural Investment Act to increase access to credit programs for minority and socially disadvantaged farmers and ranchers;
- Expanding rural and minority homeownership;
- Assessing vulnerability to terrorist threats;
- Providing the general public with food safety and bio-security information and education;
- Continuously advancing the science of nutrition;
- Improving fire suppression decision-making training;
- Implementing a department-wide accountability system for Human Resource programs;
- Enhancing internal control, data integrity, management information, and decision-making as reflected by an unqualified audit opinion;
- Educating, advocating, and communicating through eGovernment marketing materials; and
- Ensuring that the planning/evaluation and budget staff works with program managers to develop and implement budgets linked with program performance.

FINANCIAL STATEMENT HIGHLIGHTS

Budgetary Resources and Outlays

Appropriations, combined with other budgetary resources made available and adjustments, totaled $129.9 billion in FY 2002, while total outlays were $70.8 billion.

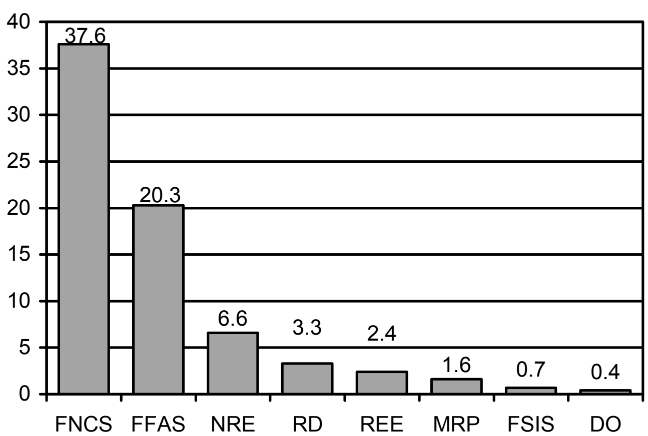
Assets and Liabilities

USDA's total assets and liabilities as of September 30, 2002 were $123.4 billion and $112.7 billion, respectively. Loans receivable of $75.5 billion, or 61 percent of total assets remained the single largest asset. Consequently, Intragovernmental Debt of $75.9 billion, or 67 percent of total liabilities, representing borrowings used to make loans, remained the single largest liability.

Net Cost of Operations

USDA's net cost of operations for FY 2002 was $72.9 billion. The net cost of operations for Food Stamps, Income Support, and Child Nutrition of $21.8 billion, $10.5 billion, and $10.1 billion, respectively, are the single largest program costs.

Net Cost of Operations by Mission Area



(in billions)

Debt Management

USDA is the Federal government's single largest provider of direct credit. USDA's credit portfolio has been about $100 billion over the past three fiscal years. This represents approximately 32 percent of the non-tax debt owed to the Federal government. USDA's average delinquency rate remains stable at approximately seven percent but varies by program purpose and type of loan. Our current $7.0 billion delinquent receivables represents a decrease of about 20 percent from the $8.8 billion in delinquencies reported for fiscal year 1996, in which the Debt Collection Improvement Act (DCIA) was passed. Of this $7.0 billion, only $1.4 billion is eligible for collection using Debt Collection Improvement Act tools. The use of these tools is precluded from the remaining delinquent debt due to statutory or administrative requirements, such as bankruptcy, litigation, or debt owed by foreign/sovereign entities (approximately $3.7 billion of delinquent debt is foreign debt). Through concentrated management attention in the past year, USDA's referral rate to the Treasury Cross-Servicing program increased substantially from 14% in FY 2001 to 96% in FY 2002.

Limitations of the Financial Statements

The 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).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by Office and Management and Budget (OMB), 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. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

SYSTEMS, CONTROLS, AND LEGAL COMPLIANCE

For the first time in more than 10 years, USDA can provide reasonable assurance that the Department is in compliance with the objectives of both Section 2 and Section 4 of the Federal Managers' Financial Integrity Act (FMFIA) except for the material weaknesses described in this report. A major achievement this year is the removal of the Central Accounting System as a material financial system nonconformance for the Department. As of September 30, 2002, all but two USDA agencies were converted from the Central Accounting System to the Foundation Financial Information System (FFIS). For the remaining two agencies, the effective date of conversion was the next day, October 1, 2002.

USDA's management controls program ensures compliance with the requirements of the FMFIA and the OMB Circulars A–123, "Management Accountability and Control," and A–127 "Financial Management Systems," except for the weaknesses described in exhibit 67 of this report.

Within USDA, Subcabinet Officials, Agency and Staff Office Heads are responsible for ensuring that their programs are operating efficiently, effectively, and in compliance with relevant laws; and that financial management systems conform to applicable laws, standards, principles, and related requirements. Our goal is to eliminate material deficiencies by the end of FY 2004. In conjunction with the Office of Inspector General, USDA's management is working aggressively to determine the root causes of our material deficiencies and moving quickly to remedy them.

Four USDA agencies did not meet key milestones for seven material deficiencies, six material weaknesses, and one nonconformance. The reasons for revising estimated completion dates are provided in the summary below, where applicable.

Summary of Material Deficiencies

Integrity Act Material Deficiencies				
Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Estimated Completion
DA	USDA agencies lack appropriate internal controls over the Purchase Card Management System.	Issue revised guidance and develop oversight queries. Complete deployment on upgraded software and provide training.		FY 2004
FNS	Deficiencies in management of Recipient Claims.	Evaluate and monitor procedures and systems to establish and report claims. Implement better subsystems and link databases.		FY 2005
	Over- and under- issuance of program benefits.	Implement revised guidance and forms to improve States' quality and control data coding and analysis. Implement monitoring.	Program changes brought about by reau-thorization have created a need to adjust prior plans. Congress has established a new baseline for sanctioning States.	FY 2003
	Some organizations have received excessive Federal funding.	Publish revised regulations. Conduct evaluations, reassess, revise, and implement training on final regulations.	Publication of the initial interim regulation did not occur in FY 2002.	FY 2004
	Need better determination of household eligibility for school food programs.	Develop and implement legislative provisions requiring State agencies to collect and report on data verification.		FY 2004
	Improper procurement of goods and services occurred in some programs.	Revise procurement guidance and evaluate its effectiveness against improper procurement of goods and services.		FY 2004
	Administrative cost reimbursements made to partner agencies operating Food Assistance Programs	Develop, implement, and evaluate the effectiveness of guidance on WIC cost allocations and ADP approval processes to ensure that cost reimbursements made to States are appropriate.		FY 2004
FS	Inadequate financial systems	Ensure transactions are entered into FFIS promptly. Develop reconciliation procedures for FFIS interfaces with subsidiary systems.		FY 2003
	Lands Special Use Permits are not being administered to a standard consistent with law, regulations, or policy.	Solicit, analyze, and publish comments on proposed revisions to categorical exclusions on Special Uses. Issue guidance and provide training. Publish and implement final rule for recovery of costs.	Publication of the cost recovery regulations is pending completion of the economic analysis required by OMB.	FY 2003
	Ineffective internal controls of performance data.	Implement new performance measures as a tool to assess and report on agency performance.	Linkages to outcome measures will be further developed during the FY 2003 strategic planning process. For the FY 2005 budget formulation process, the FS expects to present an integrated budget justification with improved output/outcome measures.	FY 2004

Integrity Act Material Deficiencies				
Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Reason for Change in Estimated Completion Date	Estimated Completion
FS (cont'd)	Ineffective administrative controls of the analysis and preparation of environmental documents and implementation of mitigation measures applicable to timber sales.	Revise manual and handbooks. Implement corrective actions. Provide training and tools for effective analysis.		FY 2004
FSA	Reimbursement Claims Not Made for Excess Ocean Freight Payments.	With USAID, revise procedures for submitting semi-annual apportionment requests to OMB.	Agreements have not been reached on outstanding billing issues between FAS, FSA, the Agency for International Development, and the Department of Transportation—Maritime Administration.	FY 2003
	Foreign credit subsidiary and credit reform systems are not fully automated and integrated.	Implement new system to interface with the general ledger.	Other IT resource priorities preempted completion of Phase I and Phase II of the system.	FY 2004
OCFO	Financial statement preparation is not timely or reliable. *	Design and implement data extraction and cross-walking functionality. Select and implement better reporting.		FY 2003
OCIO	Information Security Weaknesses.	Improve controls in risk assessment and mitigation, logical and physical access, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation, and security awareness.		FY 2003
	National Information Technology Center has weaknesses in access controls, identifying vulnerabilities on systems, controlling access to its network from the Internet, and compliance with existing Federal security guidelines.	Identify NITC common resources requiring Public Internet access and migrate them to Demilitarized Zone (DMZ), and encrypt all sensitive data transported in and out of the DMZ through securing services. Implement improved access management and improve encryption use.		FY 2003
	Control Weaknesses in Security of Website Content	Finalize guidance defining sensitive data to be excluded from USDA websites and ensure that agencies have reviewed their sites and expunged sensitive data.		FY 2003
RD	The Multi-Family Housing (MFH) Program lacks adequate oversight and internal controls.	Publish final rule for the MFH Loan Programs.	Publication of the final rule has been delayed.	FY 2003
	Direct Loan Servicing and Reporting system not in compliance with OMB policy.	Complete incremental implementation of the Rural Utilities Loan Servicing System to replace legacy loan systems.		FY 2003

* On January 15, 2003, USDA obtained a clean audit report on the FY 2002 Financial Statements.

The FMFIA Report on Management Controls is presented in full in Part II of this report.

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

USDA is influenced by many of the same forces that shape the American economy—globalization of markets and culture, technical advances in information, biology, and other technologies, and fundamental changes in our family structure and workforce. Our farmers and food companies operate in highly competitive markets and must respond to constantly changing demand for high quality food with a huge variety of characteristics including convenience, taste, and nutrition.

Along with these long-term trends, the events of September 11th have made Homeland Security an immediate priority for USDA. We are working to ensure that our programs protect agriculture from intentional and unintentional acts that might affect our food supply or natural resources.

External factors that will challenge USDA's ability to achieve our desired outcomes include the following:

- Weather and other growing conditions at home and abroad.
- Domestic and international macroeconomic factors including consumer purchasing power, the strength of the U.S. dollar and competing currencies, and political changes in other countries can have major impacts on domestic and global markets in any year.
- The uncertainty of research, which makes it a challenge to define goals more specific than fuller knowledge and understanding of the phenomena under study.
- Availability of funds for financial assistance provided by Congress and the local and national economies. Bad weather, sharp fluctuations in farm prices, interest rates, and unemployment also impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage their debts.
- The impact of future economic conditions, and actions by a variety of Federal, state and local governments, that will influence the sustainability of rural infrastructure.
- Increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across spatial and national boundaries.
- Hazardous substances, which may pose a threat to human health and to the environment. Collaboration between the public and private sectors plays a large role in food safety, food security, and emergency preparedness.
- Efforts to reduce hunger and improve dietary habits, which depend on coordination between USDA and its Federal, State and local partners, and effective compliance by partners with program standards and rules.
- eGovernment goals and initiatives, which we pursue in the context of a wide range of competing priorities.

USDA'S IMPLEMENTATION OF PRESIDENT'S MANAGEMENT AGENDA

USDA has taken steps that will lead to improvements in all five agenda items:
- Human Capital,
- Competitive Sourcing,
- Financial Performance,
- eGovernment, and
- Budget and Performance Integration.

The following summarizes our latest quarterly report.

Human Capital

USDA has made this initiative a priority, and we have made significant progress in aligning our Human Capital team to develop a sound strategy. USDA continues to initiate a number of human capital initiatives outside of its Human Capital Plan development effort. New initiatives, such as a Senior Executive Service Candidate Development Program, a Mentoring Program, and a Career Intern Program, strengthen USDA's management ability.

Competitive Sourcing

USDA has accomplished much to improve our program:
- Updated Competitive Sourcing Plan.
- Directly converted and competed positions.
- Established competitive sourcing office in OCFO staffed by an experienced A–76 practitioner.
- Established competitive sourcing program staffs in several agencies.
- Formed a Department-wide A–76 working group.

Financial Performance

USDA has made significant progress in this area.
- USDA obtained a clean audit opinion for 2002.
- All agencies use the Foundation Financial Information System (FFIS) to provide accurate and timely financial information. USDA is now focused on data integrity and feeder system improvement.
- USDA continues efforts to reduce the error rate in the Food Stamp program.

Electronic Government

USDA continues to move forward in the eGovernment arena.
- USDA has provided a project plan for Enterprise Architecture, is improving business cases, and is working on several eGovernment initiatives.
- Office of the Chief Information Officer is actively involved in strengthening business cases and project management for systems.

Budget and Performance Integration

USDA plans significant progress in this area in FY 2003.
- Have developed a revised strategic plan with improved performance measures.
- Will pilot new means of improving budget and performance integration for at least 40 percent of USDA's budget.

- Will work with OMB and other Federal agencies to complete common performance measure evaluations.
- Will begin evaluations of additional USDA programs

II. PERFORMANCE SECTION

ANNUAL PERFORMANCE GOALS AND RESULTS

Performance management at USDA is comprised of three principal elements: 1) a strategic plan that depicts the long-term goals and strategies for the Department; 2) an annual performance plan that lays out year-to-year strategies and targets for making progress toward achieving the Department's long-term goals; and 3) a performance and accountability report that relays to Congress and the American people how well the Department did in reaching the goals established in the previous fiscal year.

In addition to comparing actual performance with the performance goals for FY 2002, an analysis of results, strategies, and revised timelines are provided, as appropriate. Actual performance data is presented for fiscal years 1999, 2000, 2001, and 2002 to show performance trends.

To determine whether or not a performance goal was met, agencies considered the applicable performance indicator(s). If agencies concluded that they had successfully met the intent of the performance goal, this report categorizes the goal as "met." In some instances goals are considered to be "met" although some component indicator was not achieved.

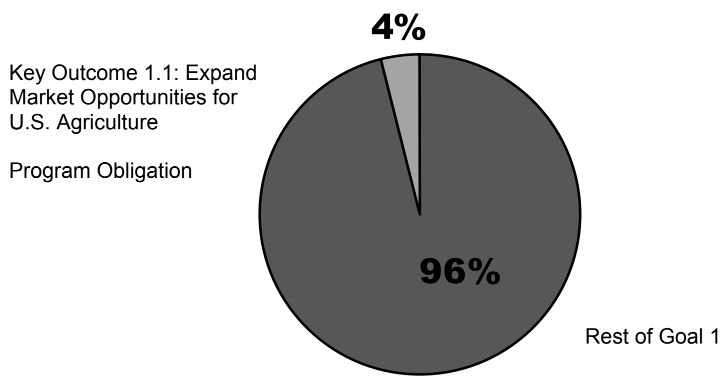
Most of the Department's programs and activities are represented in specific performance goals and targets. However, USDA's Research, Education, and Economics (REE) Mission Area conducts and supports a broad range of research, educational, and statistical activities that contribute to the achievement of our overall goals. The creation of scientific knowledge at the frontiers of biological, physical, and social science and the application of that knowledge to agriculture, consumers, and rural America are core processes for USDA. Accordingly, selected accomplishments in research are found throughout this section.

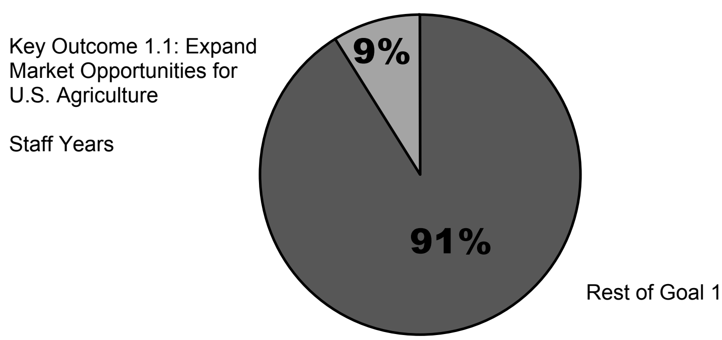
STRATEGIC GOAL 1: Effectively Carry Out USDA Program Responsibilities with Decisions Based on the Best Available Science and Efficient Program Delivery Systems

Key Outcome 1.1: Expand Market Opportunities for U.S. Agriculture

Exhibit 1: Resources Dedicated to Expanding Marketing Opportunities

USDA Resources Dedicated to Key Outcome 1.1	FY 2002 Actual
Program Obligation ($ Mil)	4,000.4
Staff Years	10,353





Performance Measure: Improving International Marketing Opportunities

Expanding markets for agricultural products is critical to the long-term health and prosperity of our food and agricultural sector. U.S. farmers have a wealth of natural resources, cutting edge technologies, and a supporting infrastructure that can benefit from expanding global markets and developing new uses for agriculture in industrial and pharmaceutical markets. Expanding sales is key as our farmers and ranchers continue to increase capacity while facing a mature U.S. market.

To expand international opportunities, USDA worked with the Office of the U.S. Trade Representative to pursue new trade agreements and to enforce provisions of existing agreements. We also worked with the U.S. Agency for International Development (USAID) to alleviate hunger and malnutrition.

Exhibit 2: Increasing U.S. Marketing Opportunities

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Increase U.S. agricultural trade:			Met
• Estimated trade opportunities preserved annually by assuring implementation of existing trade agreements by signatory countries through the World Trade Organization (WTO) notification process ($ Mil)	2,200	1,327	
• Gross trade value of markets created, expanded, or retained annually due to market access activities other than WTO notifications ($ Mil)	2,700	3,818	
• Annual Sales reported by U.S. exporters from on-site sales at international trade shows ($ Mil)	250	332	
• U.S. agricultural exports supported by USDA export credit guarantee programs ($ Bill)	3.9	3.4	

Analysis of Results. Despite a year of challenges on the trade front, the upward trend in U.S. agricultural exports continued in FY 2002. We expect exports to reach $53.3 billion this year, an increase of $600 million. This increase is particularly noteworthy given the number of trade disputes that resulted in major trading partners temporarily blocking the entry of U.S. products into their countries in FY 2002. Keeping markets open for U.S. food and other agricultural products remains a major USDA priority. We continued to ensure that trade agreements aimed at creating and expanding opportunities for U.S. exporters were fully implemented.

Exhibit 3: Upward Trade Trends

Trends	FY Actual			
	1999	2000	2001	2002
Estimated trade opportunities preserved annually by assuring implementation of existing trade agreements by signatory countries through WTO notification process ($ Mil)	1,995	837	1,329	1,327
Gross trade value of markets created, expanded, or retained annually due to market access activities other than WTO notifications and/or standards ($ Mil)	2,527	4,349	2,684	3,818
Annual sales reported by U.S. exporters from on-site sales at international trade shows ($ Mil)	315	367	360	332
U.S. agricultural exports supported by USDA export credit guarantee programs ($ Bill)	3.0	3.1	3.2	3.4

We achieved success in our overseas advocacy for market access for U.S. products not covered by the World Trade Organization (WTO) notification process. Preliminary estimates indicate USDA exceeded its FY 2002 target of $2.7 billion by 41 percent ($1.1 billion). USDA exceeded its FY 2002 target of $250 million for on-site sales at international trade shows with sales equaling $332 million. USDA missed its target for trade opportunities preserved through the WTO notification process in FY 2002 but results paralleled those of FY 2001. USDA also missed its target of $3.9 billion for General Sales Manager (GSM) export credit guarantee registrations, but we exceeded FY 2001's $3.2 billion by six percent ($190 million).

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002: The USDA Office of Inspector General (OIG) reviewed the export credit guarantee programs as part of the annual Commodity Credit Corporation (CCC) financial audit and identified no major issues. The Foreign Agricultural Service's Compliance Review Staff (CRS) reviews approximately five percent of CCC's Export Credit Guarantee Program activity each year. During FY 2002, CRS performed 224 GSM and Supplier Credit reviews covering over $170 million in sales activity.

On a quarterly basis, USDA assesses the use of the export credit guarantee programs by country and commodity and estimates the use in relation to our Government Performance and Results Act (GPRA) goals and in comparison to total U.S. exports of agricultural products to that market. USDA began a program review of the Supplier Credit Guarantee Program in October 2001 in response to industry requests to increase guarantee coverage under the program. USDA is currently developing an analysis of the risk portfolio that CCC incurs in the export credit guarantee programs to review the history of the programs and examine program volume, fees collected, claims paid, recoveries made, claims rescheduled, claims forgiven and program management costs to determine program sustainability. The primary aim of the portfolio analysis is to assist in making risk decisions for programming to address market opportunities that exceed country risk or bank risk guidelines.

Performance Measure: <u>Reducing Hunger and Malnutrition Around the World</u>

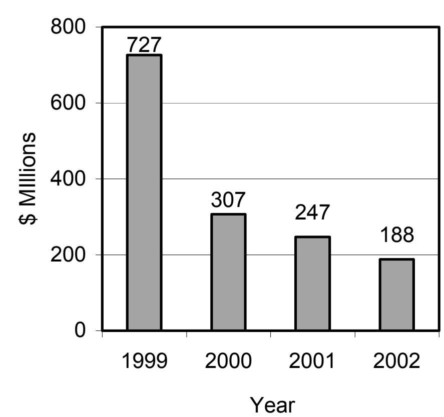
The U. S., along with the 185 other nations participating in the Food and Agricultural Organization (FAO) World Food Summit of 1996, pledged to reduce world hunger and malnutrition through a multi-national approach. Each nation will prepare an action plan and dedicate resources in pursuit of the long-term goal of reducing hunger and malnutrition by 420 million people by the year 2015. The FAO has determined that, on average, the annual reduction in the world's population suffering from hunger should be about 20 million people in order to reach the 2015 goal.

Exhibit 4: Food Aid Exports

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Increase U.S. food aid exports under Public Law 480, Title I and Food for Progress in supporting world food security ($ Mil)	224	188	Unmet

Analysis of Results. The U.S. is the world leader in international food aid, providing more than 50 percent of total worldwide assistance. During the past year, the Administration has carried out a comprehensive management review of all U.S. foreign food assistance activities to rationalize and reform their administration and to strengthen their effectiveness. As a result of the review, the Administration intends to reduce the number of programs through which assistance is provided and to redefine roles to eliminate program overlap. Accordingly, donations by USDA that rely on the purchase of surplus commodities by CCC will be phased out in 2003 while funding in donations through Public Law (P.L.) 480, Title II (administered by USAID) will be increased. This explains the decrease in food aid shipments under P.L. 480, Title I and Food for Progress and the fact that USDA failed to meet its projected target of $224 million by approximately $36 million.

Exhibit 5: Decline in Food Aid Exports



Description of Actions and Schedules. The internationally sponsored long-term goal of reducing hunger and malnutrition by 420 million people by 2015 is not on track, despite encouraging improvements and USDA's success in achieving a high level of its funded performance targets. In June of 2002, the FAO hosted a midterm review of progress made toward achieving the 2015 goal. USDA will continue to mitigate this trend, primarily via trade capacity building and projects to enhance food security in at-risk countries.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- USDA received the results of an evaluation of USDA program activities to promote global food security in the summer of FY 2002.
- The General Accounting Office (GAO) and USDA OIG regularly audit food-aid agreements and evaluate our overall performance.

Performance Measure: Supporting Sustainable Food Supplies Worldwide

USDA's research, training, and technical assistance activities related to building trade and economic capacity via sound science and technology—especially agricultural biotechnology—expanded the goals outlined in our *U.S. Action Plan on Food Security*. We advised on domestic and export policy to meet America's existing international obligations yet retained ample latitude in pursuing ambitious goals in ongoing and future negotiations. We also sought to achieve consistent and mutually reinforcing domestic farm and international trade policies.

Exhibit 6: Promoting Assistance on Sustainable Food Supplies

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Promote research, training and technical assistance activities that support sustainable food supplies worldwide:			Met
• Projects underway	1,000	795	
• Amount invested ($ Mil)	56.0	44.5	

Analysis of Results. USDA staff contributed expertise to the Partnership to End Hunger in Africa, a coalition of African and American leaders committed to improving food security and economic development in Sub-Saharan Africa. We also engaged in similar trade and economic capacity-building activities worldwide and expect to continue investing in an average of 1,000 projects each year. While it appears we missed our target for food aid shipments and concessional sales, this target was based on proposed 2002 funding of $56 million. Actual funding in this area required USDA to adjust these targets. Therefore, based on the actual funding of $44.5 million, USDA met its performance obligations in this area.

Exhibit 7: Investments on Food Supply Research

Trend	FY Actual			
	1999	2000	2001	2002
Projects underway	789	967	1,005	795
Amount invested ($ Mil)	39.9	53.8	56.0	44.5

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- An evaluation of USDA program activities to promote global food security is available.
- The GAO and USDA OIG regularly audit food-aid agreements and evaluate our overall process.

Performance Measure: Improving Domestic Agricultural Marketing Opportunities

Today, approximately 150,000 farmers in the U.S. produce most of the nation's food and fiber and are among the world's most competitive, meeting domestic needs and supplying large quantities to foreign markets. These farmers are the foundation of the Nation's food security and underpin the agricultural economy.

USDA facilitates the efficient marketing of U.S. agricultural products through marketing standards and by carrying out a variety of information, technical assistance, grading, certification, inspection, and laboratory services. The Department continues to deliver timely market information, even though the number of markets dramatically increased under newly instituted mandatory livestock price reporting. We plan to implement more sophisticated grain quality measurement methods. USDA also plans to improve wholesale and other direct marketing facilities to encourage farm markets and other endeavors that connect consumers directly with the men and women who produce their food, keeping a larger percentage of America's food dollar on the farm.

Exhibit 8: Improved Grain Marketing and Financial Trade Practice Protection

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Increase the efficiency of U.S. grain marketing:			Met
• Critical grain quality measurement methods evaluated for improvement (%)	100	100	
• New or improved grain quality measurement methods implemented	40	60	
• Investigations	1,800	1,435	
• Violations corrected/issues resolved within 1 year of investigation's starting date (%)	96	91	
• Monetary recovery to livestock producers and poultry growers resulting from enforcement of the Packers and Stockyards Act ($ Mil)	19	37.1	

Analysis of Results. New or improved grain quality measurements increased dramatically, from a target of 40 to an actual of 60. Most of the increase resulted from the accelerated implementation of new digital reference images for measuring grain quality.

Exhibit 9: Success in Monitoring Grain Quality and Providing Financial and Trade Practice Protection

Trends	FY Actual			
	1999	2000	2001	2002
Critical grain quality measurement methods evaluated for improvement (%)	94	107	97	100
Number of new or improved grain quality measurement methods implemented	49	18	39	60
Investigations	1,218	1,898	1,619	1,435
Violations corrected/issues resolved within 1 year of investigation's starting date (%)	98	96	97	91
Monetary recovery to livestock producers and poultry growers resulting from enforcement of the Packers and Stockyards Act ($ Mil)	12.6	7.1	20.4	37.1

Targets for the Number of Investigations Conducted and the Violations corrected within one year of their Start Date were not met because of the following factors. In 2002, emphasis was placed on no investigative projects, such as the establishment of a hog contract library. Secondly, a greater number of packer trusts and bond claims were filed, which required reallocation of investigative resources. Finally, there was a 17 percent increase in the number of investigations referred to headquarters with a request for formal administrative action. The number of cases docketed by the Office of the Hearing Clerk increased 57 percent. Investigations requesting such formal administrative action are more complex and take longer than an average case to resolve. Therefore, fewer investigations were conducted and more of them could not be completed within one-year.

The monetary recovery target to producers, resulting from investigations and regulatory oversight of the livestock, meat, and poultry industries, was significantly exceeded. The large increase over FY 2001 was primarily the result of recoveries from investigations of several large firms that had failed to pay for livestock, and due to intensified USDA efforts to correct a greater number of financial insolvencies of subject firms.

Program Evaluation. No program evaluations were conducted related to this performance goal in FY 2002.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.1

USDA released over 500 national crop and livestock reports covering 120 crop and 45 livestock items critical to maintaining an orderly association between the consumption, supply, marketing, and input sectors of agriculture. Customer demands for readily accessible and timely information on the Internet—USDA's primary data dissemination channel—continued to grow in 2002. USDA updated and populated additional data sets in its online database, which contains published crop, livestock, and price information. The online database allows customers to create customized tabulations at the National, State, and county level.

Overall, USDA was able to keep its customers and stakeholders up-to-date on important marketing and statistical information by releasing its *Market News* and *National Agricultural Statistics Service* reports in a timely manner. In meeting its deadlines, USDA kept information flowing, which makes agriculture markets more efficient. It also improved the efficiency of food marketing by funding research and technical assistance projects. Such projects assist localities to develop new or upgraded wholesale, collection, and farmers market facilities, and improve food distribution and marketing methods.

USDA provided the following new agricultural statistics to customers:

- *Annual Crop Production* included detailed fruit counts by month. For the first time, the number of wheat heads, corn ears, soybean pods, and cotton bolls are being published for months when fruit are present as well as season final counts. This provided users additional data to evaluate the current month's forecast and to relate the current forecast to the current crop conditions, final end of season counts, and historic yields. Additional plant population data were also provided for corn. USDA published information on maple syrup, the number of taps and yield per tap, and a breakout on the percent of sales by bulk and wholesale.
- *Nursery and Floriculture Chemical Usage* reported detailed information on chemical applications to nursery and floriculture crops, including information on common pest management practices.
- *U.S. Dairy Herd Structure* reported on the composition of the U.S. dairy herd by size of operation and location.
- *Catfish Production and Trout Production* was combined into one release.

USDA released satellite image maps depicting crop areas in eight states. These images, referred to as the cropland data layer, can be used in geographic information systems (GIS) applications. The crop maps include Arkansas, Illinois, Indiana, Iowa, Mississippi, North Dakota, and portions of Missouri and Nebraska. When the satellite image maps are used in a GIS application and are combined with other data such as soil, transportation networks or weather contours, the image maps are an important tool for watershed analysis, soil utilization evaluations, and crop rotation analysis.

USDA announced the availability of published chemical use statistics through a new website developed by North Carolina State University's Center for Integrated Pest Management. Data users can now:

1) search agricultural chemical usage data based on crop, year, region, or active ingredient; 2) extract chemical use statistics from previously published data; and 3) create U.S. maps or descriptive charts based on these data. Data are available for crop years 1990–2001.

USDA developed economic analyses of the factors shaping major international markets through published reports on China, Brazil, Argentina, Russia, and Ukraine. The reports evaluated the driving forces—including agricultural policy reform, infrastructure and resource constraints, technology adoption—and provided guidance on the likely future impact on U.S. exports and imports of grains, oilseeds, livestock products, and horticulture.

Using novel bioconversion approaches, USDA scientists have improved the production of fermentable sugars from corn fiber, an abundant corn wet-milling coproduct. These sugars are potential feedstocks for fermentation to produce ethanol and such value added bioproducts as xylitol. Portions of this effort will be conducted in conjunction with collaborators at Cornell University and the Slovak Academy of Sciences. A new bacterial strain that can improve conversion of biomass sugars to ethanol was developed and patented. The development of this organism will lead to more efficient and lower cost ethanol production.

USDA transferred sorting technology enabling the U.S. tree nut industry to consistently meet foreign import standards for quality and aflatoxin presence. These systems were marketed to the U.S. pistachio industry during the summer of 2002. If implemented industry wide, the systems will increase U.S. open shell pistachio production by approximately eight percent and have a payback period of about three months for the required capital investment.

USDA scientists and their university or private sector partners, released scores of more nutritious, more productive, healthier, disease-, toxin- and pest-free cultivars of grains, oilseeds, forages, vegetables, fruits, and ornamentals. These new cultivars will provide a safe and secure supply of food, feed, fiber, ornamentals, and industrial products to U.S. consumers.

USDA researchers developed and introduced value added fruit and vegetable germplasm with enhanced phytonutrient content. These value added cultivars will contribute to improved human health and nutritional status. Candidate releases include carotenoid-enriched tomato and carrot breeding lines and calcium-enriched broccoli germplasm.

With USDA funding, Virginia State scientists promote organic certification for small-scale farmers. In the past two years, the number of new Virginia certified organic farms has grown by more than 30 percent to 120 farms encompassing 6,483 acres. One new crop may be vegetable soybeans. Virginia State researchers have developed 17 new breeding lines. Seventy percent of the U.S. vegetable soybeans are now imported. If the vegetable soybean crop continues to grow, at the current rate, it may replace tobacco as Virginia's small farmers' best crop.

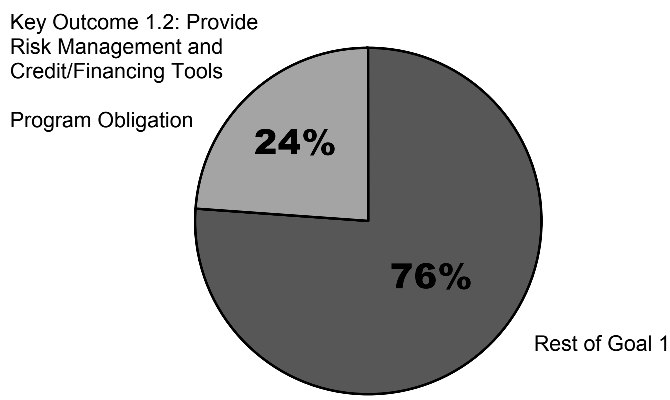
With USDA funding, Nebraska and Florida meat scientists provided the scientific foundation for new products developed from traditionally undervalued beef chuck and rounds. They identified higher value potential in numerous muscles traditionally used for roasts and ground beef. The best-known new cut is the flat iron steak. These new cuts sell for $2.99 to $5.99 per pound compared with roasts and ground beef that typically sell for $1.19 to $1.99 per pound.

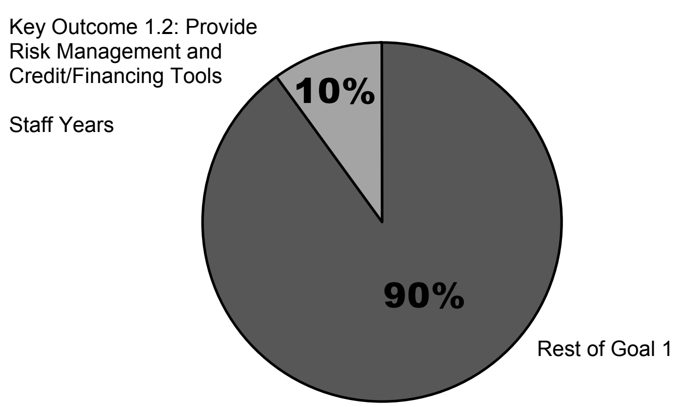
With USDA funding, an Ohio State food scientist found that removing chlorophyll during soybean oil processing prevents the oil's undesirable "grassy" flavor. Major soybean oil processors adopted the practice of producing stable, high-quality soybean oil. Also, with USDA funding, Arkansas researchers developed a soy, whey, cellulose, and wheat gluten coating for eggshells that minimizes egg microbial contamination. As an added benefit, the coating strengthens shells, which reduces egg breakage that currently costs U.S. producers $37 million annually.

Key Outcome 1.2: Provide Risk Management and Credit/Financing Tools to Support Production Agriculture, and Improve Quality of Life in Rural Areas

Exhibit 10: Resources Dedicated to Providing Risk Management and Credit/Financing Tools

USDA Resources Dedicated to Key Outcome 1.2	FY 2002 Actual
Program Obligation ($ Mil)	24,303.6
Staff Years	11,719





Performance Measure: Improving the Safety Net for Farmers and Ranchers

In FY 2002, America's farmers used a variety of USDA's financial risk management tools, including crop insurance, direct USDA payments, marketing assistance loans, farm storage loans, market diversification, contracting inputs and outputs. They established prices, and futures and options markets to bridge agricultural market highs and lows. USDA aggressively pursued research and education to help producers better manage their risks, and we explored options to further expand growing markets for their biobased products.

Exhibit 11: Increasing Use of Risk Management Tools

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Producers have economically sound risk management tools available, and they use them to meet their needs:			Met
• Participation rate for acres covered by all insurance plans (%–crop year* data)	77.7	80.0	
• Participation rate for acres covered by revenue insurance plans (%–crop year* data)	42.4	43.7	

*For most crops, crop year is defined as the period within which the insured crop is grown and it is designated by the calendar year in which the insured crop is harvested.

Exhibit 12: Increase in Producers Using Risk Management Tools

Trends	FY Actual			
	1999	2000	2001	2002
Participation rate for acres covered by all insurance plans (%)[1]	72.5	76.5	78.0	80.0
Participation rate for acres covered by revenue insurance plans (%)	27.0	31.7	42.2	43.7

[1] Participation rates are calculated from the Risk Management Agency Budget Baseline (October 2001). Changes from previous performance reports reflect more complete reporting of Federal Crop Insurance Corporation data and updates to National Agriculture Statistics Service acreage estimates.

Analysis of Results. Crop insurance met its performance goal. Additionally, 157 crop insurance plans were available compared to the target of 149; over $2.9 billion in crop insurance premiums was booked compared to the target of approximately $2.8 billion; insurance in force exceeded $37.3 billion compared to the target of $34.9 billion. In addition, USDA continued efforts to increase the risk management education activity and participation in revenue insurance plans in underserved States.

Farm sector gross cash income is projected to be $229.2 billion in 2002, a decrease from the $238.5 billion in 2001, but well above the 1992-2001 average of $215.3 billion. Total cash receipts from the sale of farm products are projected to be $196.5 billion, so 86 percent of gross cash farm income was from the market. The remaining 14 percent of gross cash income was from direct government payments and other farm-related income.

As indicated above, government assistance in the form of direct payments and marketing loans continued to be an important factor in stabilizing farm income in FY 2002. During FY 2002, more than 1.2 million farmers received production flexibility contract payments totaling almost $4 billion. USDA also issued more than 2.2 million Loan Deficiency Payments (LDPs) totaling about $5.4 billion for crop year 2001. Slightly more than 67 percent of the eligible production of major commodities including barley, corn, oats, grain sorghum, wheat and soybeans received a LDP. In addition to direct payments, USDA provided short term financing through the marketing assistance loan program. In crop year 2001, USDA issued 171,000 marketing assistance loans totaling over $7 billion.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

Through the County Operations Review program and program compliance activities, FSA evaluated various components of its farm programs. In addition, OIG completed four audits on select FSA programs.

Performance Measure: Improving the Standard of Living in Rural Communities

More than one-fifth of rural America had persistently high poverty rates in each of the last four decades. Greater investment in public services, jobs, and housing is essential to improve the rural standard of living. To help ensure that all rural communities have equal opportunities to prosper, USDA provided substantial financial and technical help tailored to each community's unique challenges. Our housing programs made affordable credit available to lower income, rural residents. Our Empowerment Zone and Enterprise Communities (EZ/EC) initiative targeted America's neediest rural communities. EZ/EC channeled Federal seed money to areas where citizens worked to develop and implement strong community improvement and economic development strategies. Our Water and Electric Programs provided basic infrastructure to many underserved communities. Lack of basic infrastructure is a barrier to economic development. Our increased outreach to communities experiencing persistent-poverty conditions ensured they had equal access to USDA rural development resources.

Exhibit 13: Standard of Living in Rural Communities

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Improve the standard of living in rural communities:			Unmet
• Communities located in persistent-poverty counties receiving financial assistance to establish or improve a system for drinking water or waste disposal	230	255	
• Jobs created or saved through USDA financing of businesses in rural areas	96,264	76,301	
• Rural households receiving USDA financial assistance to purchase a home	55,800	42,069	
• Ratio of non-Empowerment Zone and Enterprise Communities (EZ/EC) grants to EZ/EC grants invested in EZ/EC communities	7:1 or greater	16.65/1	

Exhibit 14: Rural Standard of Living Continued to Improve

Trend	FY Actual			
	1999	2000	2001	2002
Communities located in persistent-poverty counties receiving financial assistance to establish or improve a system for drinking water or waste disposal	247	219	236	255
Jobs created or saved through USDA financing of businesses in rural areas	79,839	73,502	105,222	76,301
Rural households receiving USDA financial assistance to purchase a home	55,941	45,420	44,073	42,069
Ratio of non-EZ/EC grants to EZ/EC grants invested in EZ/EC communities	8.4:1	10.7:1	17.77:1	16.65:1

Analysis of Results. The target for homes financed through the Single Family Housing program was not met because fewer guaranteed single family housing loans were obligated than anticipated. The target for jobs created or saved was not met because fewer loan funds were obligated than anticipated. Some 750 rural water systems were developed or expanded to provide safe drinking water compared to the target of 600. Sixty-nine borrowers serving persistent-poverty counties received financial assistance to establish or improve the local electric service compared to the target of 89. Seventy borrowers serving counties experiencing out-migration received financial assistance to establish or improve local electrical service compared to the target of 90. The targets in the Annual Performance Plan were based on the funding initially requested and were not adjusted when the appropriation was received. The adjusted targets, although not met, are included in this report. The persistent poverty and out-migration numeric targets for the Electric Program were not met because the amount of the average loan was much higher than projected; therefore, fewer loans were made. Although fewer counties were served by the electric program, the amount of money provided was significantly more than projected because of the larger average loan size. The target for EZ/EC was exceeded.

Description of Actions and Schedule. For most unmet targets, loan funds were not fully expended. In FY 2003, we plan to use all allocated loan funds. The guarantee fee for Single Family Housing Guaranteed loans has been lowered, which will have a substantial impact on fund utilization. For other Rural Development programs, a return to normal loan levels is anticipated or targets have been adjusted to compensate for fluctuations.

Program Evaluation. It was concluded from Program Assessment Rating Tool (PART) reviews conducted in Summer 2002 that better long-term and annual measures are needed to evaluate program performance.

Performance Measure: Sustaining Family Farms

Beginning farmers, socially disadvantaged farmers, limited-resource farmers, and/or farmers who have suffered financial setbacks from natural disasters or adverse market or production conditions cannot obtain needed credit from conventional sources at reasonable rates and terms. USDA's farm loan programs make credit available to these farmers. Individual, rural-residence farms are small but collectively control 29 percent of America's farmland and have considerable impact on the contributions to the national design of conservation and environmental programs. Most rural-residence farmers lose money on farming and have to subsidize these activities with nonfarm earnings or retirement income. Their off-farm income, aided by favorable tax policies, permits them to continue farming.

Exhibit 15: Success in Sustaining Family Farms

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Maintain the percentage of small farms in relation to total U.S. farms at the 1999 level (%)	93	93	Met
Increase the amount of farm operating and ownership loans made or guaranteed to beginning and socially disadvantaged farmers ($ Mil)	1,120	1,144	Met

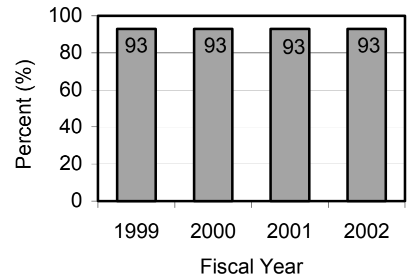
Analysis of Results. USDA funded technical assistance to almost 450 small and limited-resource farmers in 14 counties. We also helped farmers obtain private bank and/or government loans to finance their struggling farm operations or to reevaluate their farm operations to decide whether to continue farming.

USDA accomplished its goal of providing additional financial assistance to beginning and socially-disadvantaged farmers in FY 2002 by making or guaranteeing 12,175 farm loans totaling $1.144 billion, surpassing our target of $1.12 billion. Loans were used to acquire, enlarge, or improve a farm (farm ownership loans) or provide short- to intermediate-term production or chattel financing (farm operating loans). USDA took additional actions during FY 2002 to strengthen programs aimed at minority and socially-disadvantaged farmers. One such action was establishing an Office of Minority and Socially-Disadvantaged Farmers Assistance within FSA. This office works with minority and socially-disadvantaged farmers who have questions or concerns regarding loan applications filed in local USDA offices, and enhanced our efforts to ensure fair and equitable treatment for all farmers.

USDA's direct farm loans, which are made to farmers and ranchers who are temporarily unable to obtain commercial credit, carry a high level of risk. During FY 2002, the loss rate on direct loans was 7.3 percent. The increased loss rate can be attributed to the continued economic difficulties facing the farm sector.

Program Evaluation. FSA, through its National Internal Review program and the County Operations Review program, evaluates the farm loan programs each year.

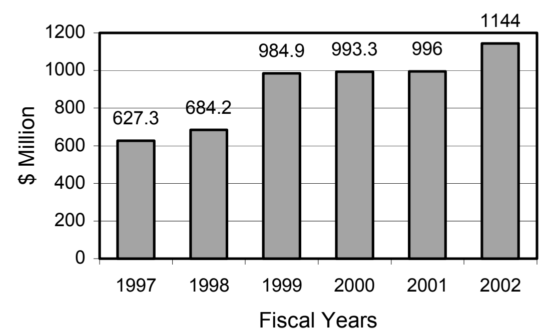
Exhibit 16: Maintained Small Farms in Relation to all Farms at 1999 Levels (%)



Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.2

Northern Tennessee Farmers Association received funding for the construction of a greenhouse used to produce tobacco seedlings and to experiment with alternative crops. Association members reduced their production costs by almost 60 percent, or an average of $187.50 per acre. Similar efforts are underway in middle and western Tennessee.

Exhibit 17: Loans to Beginning and Socially Disadvantaged Farmers and Ranchers ($ Mil)



USDA helped North Carolina farmers evaluate alternative production practices to ensure continued farm productivity and enterprise profits. This support improved how selected fields, seed varieties, and harvesting techniques; controlled pests, and adapted equipment improved the financial return on investment of 3,446 producers on 388,290 acres by an estimated $452 million.

USDA published *U.S. Agricultural Growth and Productivity: An Economywide Perspective* and co-sponsored the Agricultural Productivity: Data, Methods, and Measures Workshop. Workshop papers explored new methodologies for measuring agricultural productivity, highlighted advances in linking productivity growth to research and development expenditures, and examined the impact of accounting for adverse environmental impacts on productivity growth. This USDA work is being used both nationally and internationally.

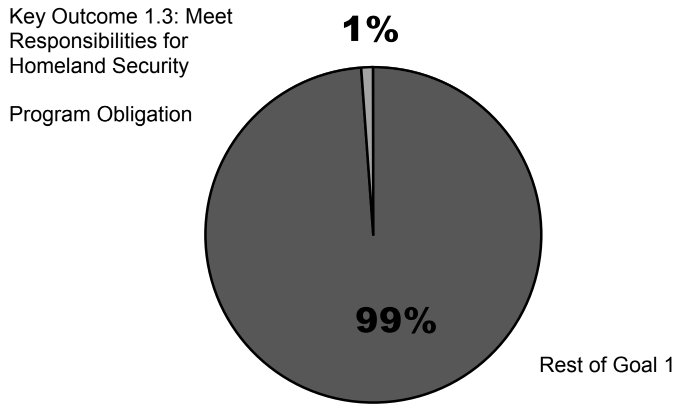
In preparation for conducting the December 2002 Census of Agriculture, USDA mailed the 2002 Farm Identification Survey to 1.2 million potential farms and ranch properties across the country to help determine their agricultural status. This survey will lead to substantial savings because only qualifying farms will receive the full census package.

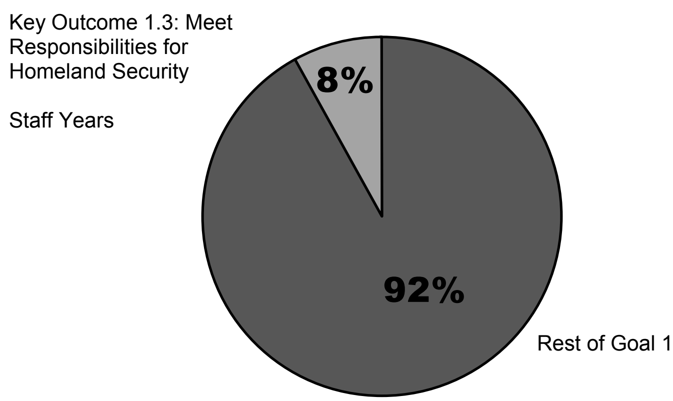
USDA-sponsored research reviewed the rural dimensions of welfare reform and found that many rural areas have not shared in the success of welfare reform. Employment in rural areas is often concentrated in low-wage industries; unemployment and underemployment rates are higher; residents have less formal education; distances to work sites are greater; and work support services such as child care and public transportation are less available. As a result, efforts to move low-income adults into the workforce, off of welfare and out of poverty, have been less successful in many rural areas.

Key Outcome 1.3: Effectively Meet Responsibilities for Homeland Security

Exhibit 18: Resources Dedicated to Homeland Security Responsibilities

USDA Resources Dedicated to Key Outcome 1.3	FY 2002 Actual
Program Obligation ($ Mil)	1,389.7
Staff Years	8,998





No performance measures specific to this Key Outcome were contained in USDA's FY 2002 Annual Performance Plan. The Key Outcome, Effectively Meet Responsibilities for Homeland Security, was first introduced in USDA's Revised Strategic Plan for FY 2002–2007. Relevant measures will be reported in next year's Performance and Accountability Report.

USDA programs implemented prior to the events of September 11, 2001, are tied to performance measures found throughout this document. The terrorist attacks had a significant impact on the operations in a number of USDA mission areas. The resulting effect placed additional demands and challenges on both funding and human resources to implement various program and security enhancements to ensure the safety of our Nation and its citizens.

USDA has unique, critical responsibilities to help provide for the security of the U.S. and its citizens:

- Ensuring the safety of the U.S. food supply and the security of the U.S. agricultural production system.
- Protecting the Nation's natural resource base and environment.
- Participating in Government-wide efforts to plan for, and respond to, releases or threatened releases of hazardous substances.
- Ensuring the availability of an adequate supply of affordable food and fiber to meet the needs of our citizens.
- Developing guidance on security countermeasures to protect against threats to farms and ranches.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.3

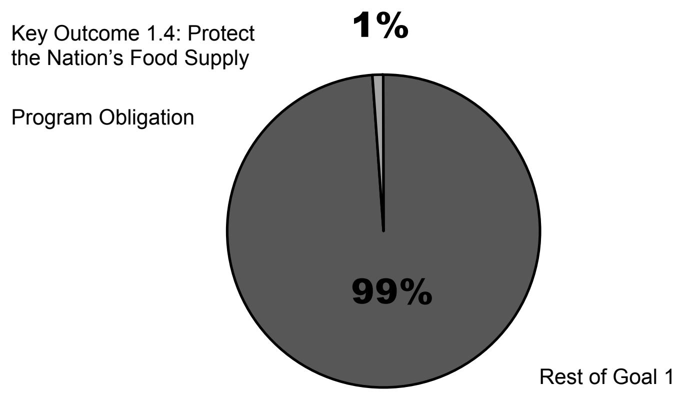
USDA, in collaboration with the Department of Defense, has developed rapid on-site tests that detect and identify important animal, plant and foodborne pathogens. Development of these new rapid detection technologies enhanced the ability of animal health officials in regulatory capacities (Animal and Plant Health Inspection Service [APHIS] and State Departments of Agriculture) to determine if a disease agent is present, where it is located and when it is eradicated, if possible. This will reassure our trading partners of our ability to detect and control disease agents.

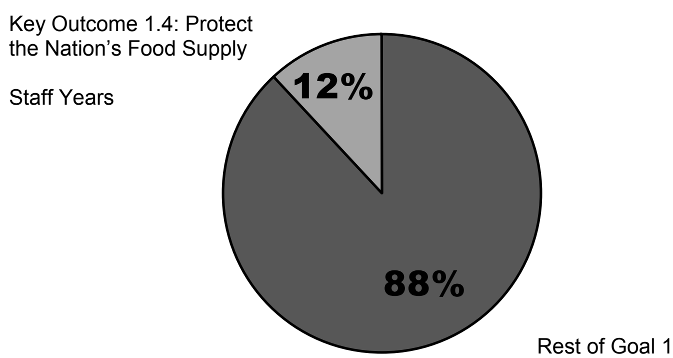
With USDA funding, the Extension Disaster Education Network (EDEN), a multi-state coalition of extension services across the country that responds to a wide range of disasters, is playing a pivotal role in responding terrorist threats and the homeland security efforts. EDEN, with its more than 30 Land-Grant University members, helps plan and coordinate local, state, and federal responses to disasters—natural or human-made. It also works closely with the U.S. Office of Homeland Security.

Key Outcome 1.4: Continue to Use the Best Available Science, Information and Technology to Protect the Nation's Agriculture and Food Supply

Exhibit 19: Resources Dedicated to Protect the Nation's Agriculture and Food Supply

USDA Resources Dedicated to Key Outcome 1.4	FY 2002 Actual
Program Obligation ($ Mil)	1,315.8
Staff Years	13,607





Performance Measure: Reducing the Number and Severity of Pest and Disease Outbreaks

Safeguarding America's animal and plant resources from invasive pests and diseases is essential to enhancing the agricultural trade that underlies much of America's prosperity and to housing, feeding, and clothing our Nation. To keep crop and animal pests and diseases out of the U.S. and to manage those inside our borders, USDA sponsored prevention activities that reduced the number of pest and disease outbreaks and coordinated effective pest and animal disease emergency response systems that reduced the severity of pest and disease outbreaks. We partnered with Federal and State agencies, industries, and professional organizations to develop and maintain effective emergency response systems to detect, respond to, and eliminate outbreaks of invasive pests and diseases. We also partnered with other nations and Federal agencies in research and operations that proactively prevent such outbreaks.

Exhibit 20: Number and Severity of Pests and Diseases

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Reduce the number and severity of pest and disease outbreaks in the U.S.:			Deferred
• International air travelers not complying with restrictions to prevent the entry of pests and diseases (%)[1]	3.3	3.3	
• States and territories meeting standards for state animal health emergency management systems (# cumulative)	5	5[2]	

[1] Actual compliance rates may vary as much as 0.5% due to the margin of error associated with statistical sampling.

[2] Preliminary Data - Results for this measure will not be verified or validated until FY 2003 or 2004 since Animal and Plant Health Inspection Service has just received the funding necessary to hire emergency veterinary managers in the field to work with the states to verify and validate the national self-assessment results. While the assessment tool is to be completed jointly by State and Federal veterinary officials, objective oversight and review is needed and will be done in late 2003 or early 2004. At that time, a comprehensive review will be completed.

Exhibit 21: Reducing Pest and Disease Outbreaks

Trend	FY Actual			
	1999	2000	2001	2002
International air travelers not complying with restrictions to prevent the entry of pests and diseases (%)	4.2	4.8	4.0	3.3*
States and territories meeting standards for state animal health emergency management systems (# cumulative)	0	0	1	5*

* Preliminary data

Analysis of Results. This goal has been deferred because 1) results for the compliance of international air travelers cannot be verified or validated until approximately six months after the end of the previous fiscal year (March) because of time required to aggregate and validate the data, and 2) results for the Number of States and Territories meeting standards for state and Animal Health Emergency Management will not be verified or validated by APHIS until FY 2003 or 2004.

USDA improved travelers' compliance with agricultural restrictions by: 1) adding inspection and outreach activities at many Ports-of-Entry nationwide; 2) gathering better risk assessment data for non-U.S. agricultural products; 3) adding new inspection tools, such as improved X-ray technology that more accurately detects agricultural products in passenger baggage; 4) increasing dog detection teams at many Ports-of-Entry; and 5) expanding our cooperation with other Federal inspection service agencies, such as U.S. Customs Service and Immigration and Naturalization Service. We helped States and territories verify the data collected on meeting standards for state animal health emergency management systems and collected success stories and best practices from high-performing states to assist low-performing states.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- International air traveler compliance: We completed a comprehensive external review of the Plant Protection and Quarantine program's Agricultural Safeguarding System, including Agricultural Quarantine Inspection data and the Work Accomplishment Data System. Results showed good year-to-year uniformity for most pathways.

- Animal Health Emergency Management System: An external panel of experts completed a comprehensive review of the Veterinary Service's Agricultural Safeguarding System. The panel suggested that a process be developed to review a States' emergency preparedness capacity. USDA, in conjunction with state and industry officials, developed a State self-assessment tool. There are plans to hire USDA personnel to verify and validate State self-assessment data. These personnel will be trained to conduct reviews and provide objective analysis of the self-assessment process.

Performance Measure: Reducing the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.

An estimated 76 million persons contract foodborne illnesses each year in the U.S. In April 2002, the Centers for Disease Control and Prevention (CDC) released data showing a 21 percent decrease in major bacterial foodborne illnesses during the last six years, indicating significant progress towards meeting the national health objectives to reduce the incidence of foodborne diseases. The decline in the rate of *Salmonella* infections in humans coincided with a decline in the prevalence of *Salmonella* isolated from USDA-regulated products to levels well below baseline levels before Hazard Analysis and Critical Control Point (HACCP) implementation. Although the incidence of infection for several foodborne diseases has declined, the overall incidence of foodborne diseases remains high, indicating that increased knowledge, efforts, and communication are needed. USDA worked toward reducing foodborne hazards by focusing on new research and better scientific methods to: 1) reduce or eliminate food hazards, 2) determine the root causes of food safety problems, and 3) quickly detect and eliminate these problems. Our regulations, voluntary efforts, compliance inspection, and enforcement activities helped manage foodborne risks by influencing those who produce, process, transport, and prepare food. We also communicated data on food safety hazards and risks. The prompt distribution and use of this information helps prevent future risks. We used our more than 7,600 inspectors and veterinarians in meat, poultry, and egg products plants every day, and at Ports-of-Entry to prevent, detect and respond to food safety emergencies.

Exhibit 22: Ensuring the Safety of Meat, Poultry, and Egg Products

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Maintain a coordinated food safety risk analysis system to ensure the safety of U.S. meat, poultry, and egg products from farm to table:			Met
• Risk assessments used to inform risk management decision making and policy (# cumulative)	4	4	
• Reduction in the prevalence of Salmonella on raw meat and poultry products as illustrated by:			
- Prevalence of *Salmonella* on broiler chickens (%)	9.0	11.6	
- Prevalence of *Salmonella* on market hogs (%)	5.5	4.3	
- Prevalence of *Salmonella* on ground beef (%)	3.0	2.8	
• Reduction in the prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products:			
- Samples testing positive for *Listeria monocytogenes* (%)	1.40	1.02	
People reached with food safety information through media stories, circulation reports, incoming web site visits, and incoming hotline calls (Mil)	89	90	Met

Analysis of Results. Overall, the food safety analysis system met its goals. In April 2002, a scientific symposium on *E. coli* O157: H7 was held. In the area of food safety we met our goals. In October 2002, we announced new meat safety directives to control pathogens in ground beef processing plants. Under these new directives, inspectors will determine whether plants have specifically addressed *Salmonella* and *E. coli* O157: H7 in their HACCP plans and have effective control measures for these pathogens. Ground

Exhibit 23: Declining Instances of *Salmonella* and *Listeria*

Trends	FY Actual			
	1999	2000	2001	2002
• Risk Assessments used to inform risk management decision-making and policy (# cumulative).	2	2	2	4
• Reduction in the prevalence of Salmonella on raw meat and poultry products as illustrated by:				
- Prevalence of Salmonella on broiler chickens (%)	11.3	8.7	11.9	11.6*
- Prevalence of Salmonella on market hogs (%)	6.6	7.6	4.5	4.3*
- Prevalence of Salmonella on ground beef (%)	4.4	3.6	2.6	2.8*
• Reduction in the prevalence of *Listeria monocytogenes* in ready-to-eat meat and poultry products				
- Samples testing positive for *Listeria monocytogenes* (%)	1.91	1.45	1.26	1.02
People reached with food safety information through media stories, circulation reports, web site visits, and USDA Meat & Poultry Hotline calls (Mil)	83	85	150	90

*Data from October 1, 2001 through approximately September 15, 2002. USDA considers them final and reliable for FY 2002.

beef plants that do not employ effective strategies, or that do not require their suppliers to do so as part of their HACCP systems, will be targeted for increased USDA verification testing. USDA currently tests for *Salmonella* and *E. coli* O157:H7 in grinding plants to verify that the plants' food safety systems are controlling microbial hazards. Under the HACCP rule, if a plant does not have an adequate HACCP plan or an adequate sanitation program, the USDA can withhold marks of inspection or suspend inspection at a plant, which effectively shuts down the plant. To further guide policy making, several risk assessments have been conducted or are underway to evaluate the risk associated with certain microbiological pathogens.

During 2002, we completed a comparative risk assessment of intact and non-intact (blade tenderized) steaks that yielded greater insight into the effects of various cooking methods and temperatures. We completed a risk assessment regarding nitrosamines in bacon to evaluate the risk to public health from nitrosamines in bacon based on consumption analyses data and compared these risk estimates to those of other allowed resides in meat and poultry products. We also conducted a quantitative risk assessment for Bovine Spongiform Encephalopathy (BSE) in collaboration with scientists from the Harvard School of Public Health and Tuskagee University School of Veterinary Medicine. The external peer review has been completed and the assessment is being revised in response to comments received. This revised assessment will be used to evaluate various risk scenarios to further reduce the potential risk of BSE and to ensure that potentially infectious materials do not enter the U.S. food supply. We are continuing our efforts to issue a final rule on *Listeria monocytogenes* in ready-to-eat products. Our efforts include an analysis of *Listeria* contamination of ready-to-eat products, the development of a *Listeria* risk assessment to take into account post-lethality contamination during processing and in-plant mitigation strategies.

While the data on prevalence of pathogens shows a continuation of downward trends, the presence of certain pathogens, like *E. coli* O157:H7 on raw products and *Listeria monocytogenes* on ready-to-eat products, can result in serious foodborne illness. When foodborne illness outbreaks occur, FSIS works with the Centers for Disease Control and Protection (CDC) to match molecular subtyping of pathogens isolated from patients with pathogens from products. As public health agencies are able to link specific products to specific human illnesses and to link sporadic cases to a common source, it is possible to identify outbreaks that might previously have been missed. In 2002, efforts of this type, combined with food safety assessments in plants with positive results for pathogens, enabled FSIS to secure the evidence necessary to take regulatory action that resulted in two of the largest recalls ever. Based on information obtained through the food safety assessments and the pattern of these recalls, FSIS has implemented major policy changes associated with the regulation of products found to have *E. coli* O157:H7 and *Listeria monocytogenes.*

We exceeded our targets in three of four indicators for reducing the prevalence of *Salmonella* and *Listeria monocytogenes.* This accomplishment not only exceeds FY 2002 targets but also exceeds two of the targets for 2005. However, prevalence fluctuates widely, and the prevalence of *Salmonella* on broiler chickens continues to be a concern. We are looking into the causes of fluctuation in rates. One rationale is that testing is conducted randomly and, depending upon the entity tested in any given year, results can vary. Given the history of the plants in question, we are considering increasing activities to include not only random sampling but also sampling when there is an indication that problems exist. For this reason, we have scheduled a risk assessment for *Salmonella* on broiler chickens.

We met our target for the numbers of people reached with food safety information. Of the millions of people potentially receiving food safety information, we estimate that 20 percent or 90 million were actually reached. We exceed our cumulative target of 51 for the number of stakeholder activities held. The actual number of stakeholder events conducted rose to 61.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- In December 2001, the Agency completed an evaluation titled “Changes in Consumer Knowledge, Behavior, and Confidence since the 1996 HACCP final rule.” The study provided an understanding of consumer knowledge, confidence and behavior of food safety.
- In March of 2002, the Agency concluded “Evaluation Interim Report: Recall System Recommendations.” This report clarified the goals, policies and procedures of the recall system.
- The General Accounting Office (GAO) issued an audit report regarding the HACCP-Based Inspection Models Project (HIMP) in December 2001. The Agency has completed some activity to address the issues raised and plans to complete all corrective actions recommended during FY 2003.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.4.

Within the last five years, U.S. farmers have adopted the first generation of genetically engineered crop varieties at rates not usually seen for a new technology. USDA research has investigated the magnitude and distribution of benefits and risks associated with genetically engineered seed providing enhanced pest protection. The research addressed the farm-level effects of adopting the seed on costs, yields, profits, and pesticide use, the factors affecting observed and projected patterns and rates of adoption, and how measurable benefits and costs of adoption are distributed among farmers, input suppliers, and consumers. This information helps policymakers carry out their roles as co-regulators of these new technologies, and informs the broader public of their benefits and costs.

USDA scientists have developed a same-day, on-site portable molecular assay for the Pierce’s disease bacterium, which threatens the five billion dollar California grape industry. Field tests demonstrate that infected grape stock can be diagnosed within 1–2 hours. Conventional identification of the pathogen takes ten days to two weeks because the organism is difficult to isolate.

USDA scientists have developed new vaccines against Foot and Mouth disease, respiratory disease in cattle, and swine influenza. These vaccines will help producers combat diseases where it exists and increase preparedness for foreign diseases should they occur in this country.

USDA scientists discovered several new human attractants and five new attractant inhibitors to mosquitoes. Both attractants and repellents have value in the control of insect borne diseases. Attractant inhibitors may lead to new classes of economically competitive, efficacious repellents for use on animals or humans. Attractants can be used to increase the efficiency and specificity of traps used for disease surveillance, as for the West Nile virus.

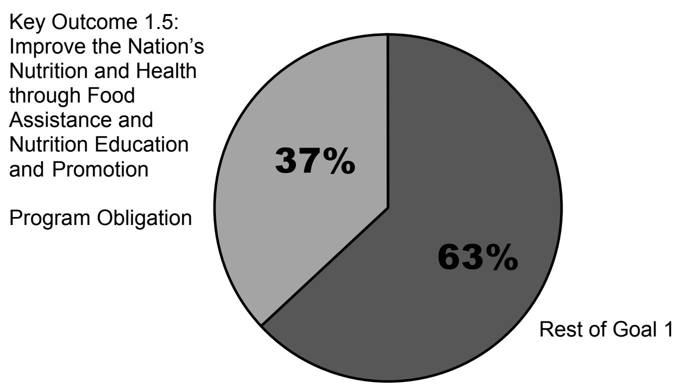
USDA scientists designed and evaluated treatment processes for the microbial decontamination of pork and beef trim. The treatment processes were shown to reduce and control fecal bacteria on beef and pork and in the resultant ground product without a large negative effect on meat quality.

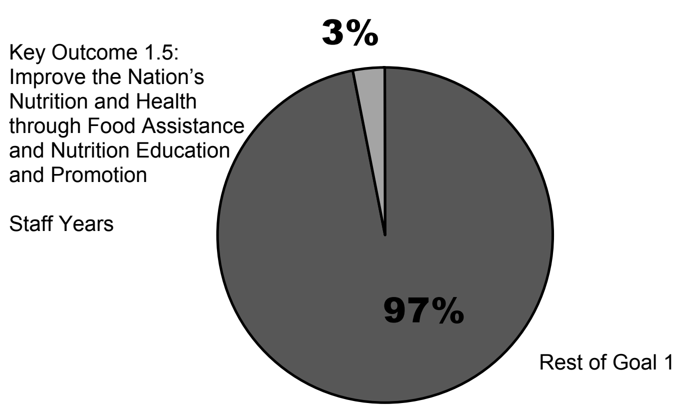
USDA scientists developed risk assessment models for *Listeria*, *Salmonella*, and *Campylobacter* in poultry products. These predictive and simulation models assist industry and regulatory agencies in making critical food safety decisions that affect public health.

Key Outcome 1.5: Improve the Nation's Nutrition and Health through Food Assistance and Nutrition Education and Promotion

Exhibit 24: Resources Dedicated to Improving the Nation's Nutrition and Health

USDA Resources Dedicated to Key Outcome 1.5	FY 2002 Actual
Program Obligation ($ Mil)	37,777.2
Staff Years	2,910





Performance Measure: Reducing Hunger and Improving Nutrition in the U.S. Through the Nutrition Assistance Programs

USDA policy has sought to ensure that all Americans have access to a healthy and nutritious food supply, regardless of income. A well-nourished population is healthier, more productive, and better able to learn. No child or family in need should be left behind for want of food.

USDA's nutrition assistance programs constitute the majority of the Federal government's effort to reduce hunger and improve nutrition in the U.S. By working with the States to maintain program access for those who are eligible and to ensure effective benefit delivery for participants, USDA seeks to ensure access to food for those with little income and few resources. The programs were generally successful in achieving this outcome in FY 2002.

Note: The number of people reached with food safety information is reported in the discussion of Key Outcome 1.4: Continue to Use the Best Available Science, Information and Technology to Protect the Nation's Agriculture and Food Supply, (see pp. 32-36).

Exhibit 25: Nutrition Assistance Results

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Expand program access and benefit delivery for USDA nutrition assistance programs (Millions):			Met
• Food Stamp Program participation (people)	19.8	19.1	
• Special Supplemental Nutrition Program for Women, Infants, and Children (people)	7.5	7.5	
• National School Lunch Program (people)	28.0	27.9	
• School Breakfast Program (people)	8.1	8.1	
• Child and Adult Care Food Program (meals)	1,754	1,740	
• Summer Food Service Program (people)	2.1	1.9	

Exhibit 26: Nutrition Assistance Programs Reached Those in Need

Trends (In Millions)	FY Actual			
	1999	2000	2001	2002
Food Stamp Program participation	18.2	17.2	17.3	19.1
Special Supplemental Nutrition Program for Women, Infants, and Children (people)	7.31	7.20	7.30	7.5
National School Lunch Program (people)	26.9	27.2	27.4	27.9
School Breakfast Program (people)	7.4	7.6	7.8	8.1
Child and Adult Care Food Program (meals)	1,638	1,671	1,678	1,740
Summer Food Service Program (people)	2.17	2.09	2.11	1.9

Analysis of Results. USDA met the FY 2002 nutrition assistance program participation goals. As program participation is voluntary, we based our participation performance projections on assumptions about economics and other factors such as State and local outreach efforts expected to affect the behavior of eligible populations.

The Special Supplemental Nutrition Program for Women, Infants, and Children (WIC); Child and Adult Care Food Program; and National School Lunch and School Breakfast programs performed substantially as expected.

The Summer Food Service Program (SFSP) did not perform as expected; participation fell significantly below the FY 2001 level. USDA targeted growth in this program as a major priority in FY 2002. The Department continued significant outreach and information efforts, and expanded waivers that simplify program operations for schools and for sponsors of programs in low-participation States. Despite these efforts, the anticipated growth did not occur. However, because provided access for children to nutritious food during the summer when school is not in session remains an important USDA objective, the Department plans to continue to work with program stakeholders on outreach and expansion efforts.

The Food Stamp Program average monthly participation did not reach the level projected. This reflects lower-than-anticipated participation at the beginning of the year and somewhat lower-than-expected unemployment rates through the course of the year (seasonally adjusted monthly unemployment rates averaged 5.7 percent instead of the predicted 5.8 percent). Participation nonetheless increased substantially—about ten percent—between FY 2001 and 2002, and the program served nearly two million more participants by fiscal year end.

Projection of Food Stamp Program participation is based in large part on macro-economic factors, rather than specific policy or administrative actions. USDA remains committed to ensuring that all eligible people have access to nutrition benefits afforded by the Food Stamp program. USDA is pursuing a range of efforts in the current fiscal year to reach out to targeted groups of non-participants that are hardest to reach and possibly most in need, including immigrants, the elderly, and working families. The Department is also testing potential policy and program changes to improve access to the program, and developing and using new tools, such as web-based eligibility "pre-screening," and a toll-free information number, to make more people aware of their potential eligibility.

As part of the Farm Security and Rural Investment Act of 2002 (2002 FSRIA), USDA restored funding in FY 2002 to serve additional seniors, women, infants, and children in the Commodity Supplemental Food Program for Vermont and Montana, and increased by $2.5 million funding for Community Food Security Grants helping low-income households gain access to fresher, more nutritious food supplies and assisting communities in responding to their own nutritional issues.

Program Evaluation. The following analyses and evaluations related to this outcome were completed in FY 2002:

- Household Food Security in the U.S., 2000
- Family Child Care Home Participation in the Child Adult Care Food Program (CACFP)—Effects of Reimbursement Tiering: A Report to Congress on the Family Child Care Homes Legislative Changes Study
- Summer Feeding Design Study: Final Report
- The Food Stamp Program and Food Insufficiency
- Second Food Security Measurement and Research Conference, Volume II: Papers
- The Well-Being of the Poor: Demographics of Low-Income Households
- Explaining Recent Trends in Food Stamp Program Caseloads: Final Report
- The Effects of the Macro economy and Welfare Reform on Food Stamp Caseloads
- Pre-1997 Trends in Welfare and Food Assistance in a National Sample of Families
- Imposing a Time Limit on Food Stamp Receipt: Implementation of the Provisions and Effects on Food Stamp Participation
- Household Food Security in the U.S., 1995–1997: Technical Issues and Statistical Report
- Characteristics of Food Stamp Households, FY 2001
- Reaching Those In Need: Food Stamp Participation Rates in the States in 1999

Performance Measure: Improving Diets in U.S. Through the Nutrition Assistance Program

To improve diet quality among those eligible for Federal nutrition assistance programs and their caregivers, USDA advanced an integrated approach to nutrition education through and across these programs in FY 2002, and improved access to fruits and vegetables.

Exhibit 27: Improving Diet Quality Through Assistance

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Promote better diet quality among children and caregivers eligible for Federal nutrition assistance programs:			Exceeded
• USDA nutrition education materials and education interventions disseminated (# Mil)	4.8	13.2	
• Women, Infants, and Children (WIC) mothers initiating breastfeeding (%)	45	Available FY 04	
Improve access to fruits and vegetables:			Met
• Fruits and vegetables provided to schools ($ Mil)	171	199	
• Sites on Indian reservations receiving fresh fruits and vegetables	83	86	

Analysis of Results. USDA was generally successful in implementing its nutrition education strategies to promote healthy eating behaviors among those eligible for Federal nutrition assistance programs and their caregivers. Disseminating significantly more materials than originally anticipated, we also met our goal to improve participants' access to fruits and vegetables in schools and in the Food Distribution Program on Indian Reservations. (Note: USDA tracks the implementation of nutrition promotion and education efforts during the year; mechanisms to evaluate the annual impact on the diets of those targeted by these efforts generally are not available.)

Exhibit 28: Better Diet Quality and Access to Fresh Fruit/Vegetables Grew Among Target Segments

Trend	FY Actual			
	1999	2000	2001	2002
USDA nutrition education materials and education interventions disseminated (#Mil)	N/A	1.6	2.7	13.2
WIC mothers initiating breastfeeding (%)	N/A	45	N/A	Available FY 04
Fruits and vegetables provided to schools ($ Mil)	155	221	245	199
Sites on Indian reservations receiving fresh fruits and vegetables	58	59	83	86

Highlights include:

- Delivered over 13 million nutrition education materials and interventions for all major nutrition assistance programs in all 50 States.
- Completed four train-the-trainer programs on techniques that foster behavioral change and that improve the effective use of USDA nutrition education materials.
- Trained 40 WIC State agencies on updated WIC Nutrition Services Standards to provide information and support their efforts to enhance the provision of nutrition services.
- Provided technical assistance in the form of grants to nine States to implement the Loving Support breastfeeding campaign, in support of their efforts to promote breastfeeding through WIC as the preferred infant feeding practice. (FY 2002 data on breastfeeding initiation will be available in FY 2004.)
- Worked with 20 State and regional dairy councils to promote healthy eating environments in schools by reinforcing the use of *Changing the Scene* resource kit.

- Completed as planned Team Nutrition demonstration project activity in four states. Due to their success, the projects were extended through February 2003. They are intended to develop and deliver national training on this comprehensive approach to school-based nutrition promotion.
- Conducted over 3,500 School Meals Initiative monitoring reviews, more than the 2,900 targeted. This level of effort indicates a continued high degree of commitment by States to provide oversight in this area. Variance between the target and actual review activity reflects flexibility in scheduling reviews during a multi-year cycle, as well as additional efforts by States to conduct follow-up reviews to ensure corrective action is undertaken.
- Purchased $199 million in fruit and vegetable commodities to support school programs, exceeding the FY 2002 target. It should be noted that $41 million of this amount represents bonus commodity purchases made during FY 2002.
- Distributed fresh fruits and vegetables to 86 sites on Indian Reservations exceeding the target of 83 sites. The increase reflects an expansion of sites administered by Indian Tribal Organizations participating in the Food Distribution Program on Indian Reservations (FDPIR). These organizations received the fresh produce program under an agreement between USDA and the Department of Defense. The President's FY 2003 Budget requests an additional $3 million for FDPIR equipment purchases. Much of this money would likely support efforts to expand fresh produce in the program.
- As part of the 2002 FSRIA, provided new funding for programs that allow seniors and low-income women, infants, and children to purchase fresh food at farmers' markets.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- Nutrition Education in Food Nutrition Service (FNS): A Coordinated Approach for Promoting Healthy Behaviors
- Effects of Food Assistance and Nutrition Programs on Nutrition and Health: Volume 1, Research Design
- The Economic Benefits of Breastfeeding: A Review and Analysis
- Reimbursement Tiering in the CACFP: Summary Report to Congress on the Family Child Care Homes Legislative Changes Study
- Meals Offered by Tier 2 CACFP Family Child Care Providers—Effects of Lower Meal Reimbursements: A Report to Congress on the Family Child Care Homes Legislative Changes Study

Performance Measure: Ensuring Better Diet Quality

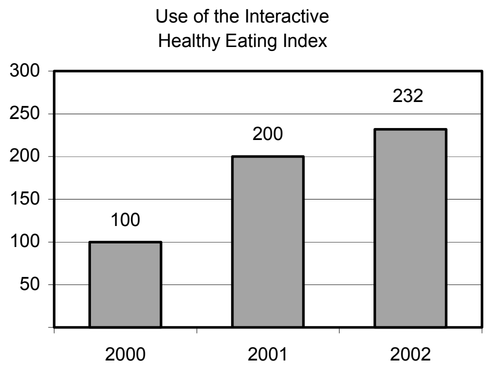
USDA applied education, promotion, research, and assistance program resources to improve diet quality. In addition to our *Dietary Guidelines for Americans (2000)*, we issued the *Healthy Eating Index*, which enables the general public to assess their diet and receive tailored recommendations for improvement via the Internet.

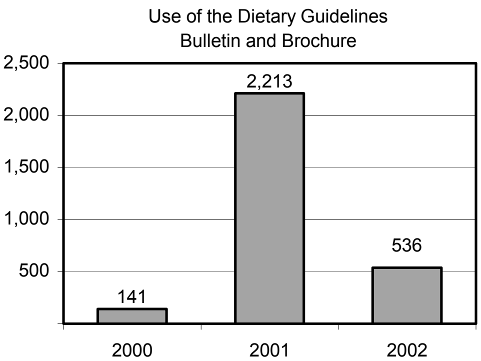
Exhibit 29: Improving Diet Quality

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Individuals using the Healthy Eating Index to assess and improve their diet	120,000	231,926	Exceeded
Copies of the 2000 Dietary Guidelines disseminated to help individuals improve their diet	550,000	536,461	Met

Analysis of Results. The target for FY 2002 for the *Healthy Eating Index* was exceeded. Over 231,926 visitor sessions were held, with individuals accessing the *Healthy Eating Index* at www.cnpp.usda.gov to ascertain whether they had a "good diet," a "diet that needs improvement," or a "poor" diet. Users of this index also received recommendations to help them improve their diets. Users spent, on average, 25 minutes per session.

Exhibit 30: People Using the Eating Index and Dietary Guidelines (thousands)





The target for FY 2002 for the *Dietary Guidelines* was an estimate, and actual distribution was within 2.5 percent of the estimate. The target was lower than that for the previous year, since the 2000 *Dietary Guidelines* materials, newly released in FY 2001, were disseminated extensively in their first year of release. However, there is continued widespread interest in the 2000 *Dietary Guidelines*, which provide scientifically-based guidance on nutrition and health related behaviors.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- *Interactive Healthy Eating Index*. Constituents using the index provided comments via the Internet.
- *Dietary Guidelines for Americans* (2000). No program evaluations were conducted.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.5.

USDA researchers have taken a new approach to developing econometric projections of food demand and expenditures to 2020 to explore how projected changes in the profile of the U.S. population will affect the markets for food categories and agricultural commodities. Empirical results from these projected changes have been integrated with qualitative and quantitative information on structural change in the food sector to explain how consumer markets are driving change in the food industry and creating new marketing relationships and opportunities for agricultural producers.

USDA researchers developed a tool to document directly the extent of food insecurity and hunger caused by income limitations and refined and extended the measurement of food security by developing a children's food security measure and a 30-day food security scale. New measures of food security were introduced based on food expenditures and participation in emergency food pantries and emergency kitchens.

USDA scientists have examined the biological activity of phytonutrients that may be protective against the development of certain chronic diseases. Oolong tea was found to increase energy expenditure, relative to water, and was effective in increasing preferential oxidation of fat. Compounds in blueberries and cranberries may have beneficial actions against the development of vascular disease and may contribute to the reduction of age-related deficits in neurological impairment.

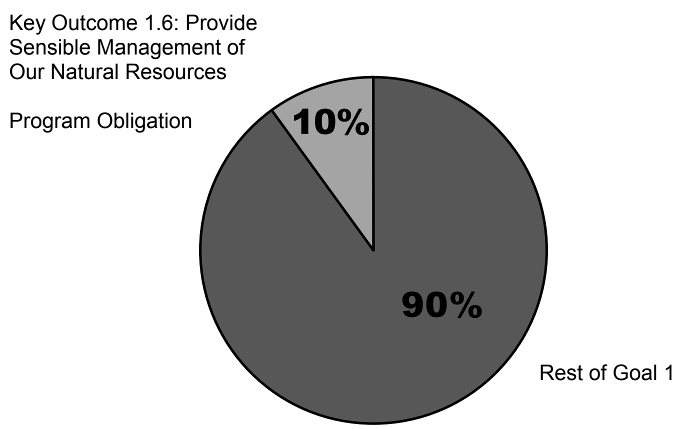
Expanded Food and Nutrition Education Program (EFNEP), a USDA-funded Extension program, targets two primary audiences: low-income youth and low-income families with young children. EFNEP reached 447,027 youth and 164,154 adults last year. Moreover, 600,930 family members were indirectly reached through the adult participants. As a result, out of 106,062 adult graduates, 83 percent improved in one or more food resource management practices.

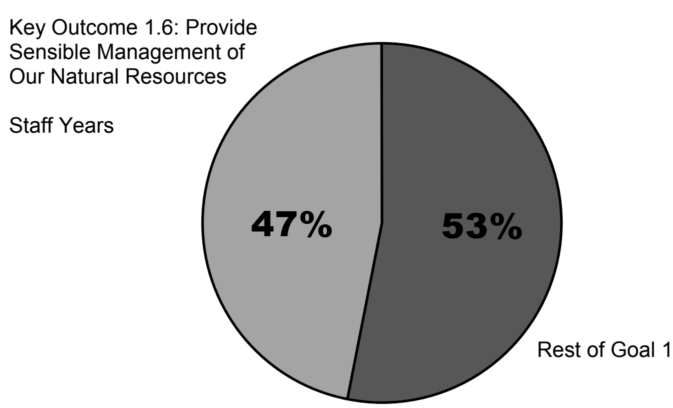
With USDA funding, Iowa State researchers found that a single daily dose of plant sterols, the plant version of cholesterol, added to lean ground meat lowers blood cholesterol. Plant sterol-supplemented lean ground meat reduced Low Density Lipoprotein (LDL), or so-called bad cholesterol, by 15 percent when eaten once a day.

Key Outcome 1.6: Provide Sensible Management of Our Natural Resources

Exhibit 31: Resources Dedicated to Managing Our Natural Resources

USDA Resources Dedicated to Key Outcome 1.6	FY 2002 Actual
Program Obligation ($ Mil)	10,641.5
Staff Years	52,144





Performance Measure: Maintaining Resource Health and Productive Capacity

Healthy cropland, grazing land, and forestland are essential to the Nation's agricultural economy. Maintaining and improving the quality of the Nation's soils and plant communities increases farm productivity, minimizes nutrient and pesticide use, protects water and air quality, and helps store greenhouse gases. USDA helps agricultural and forestland managers develop natural resources for long-term sustainability. Assistance to producers for working lands includes providing technical assistance; sharing the cost of applying conservation practices; conducting natural resource inventories and research; and developing and transferring up-to-date technology. USDA also provides rental payments to retire sensitive land from crop production and protect it under permanent vegetation.

USDA and the U.S. Department of the Interior (DOI) jointly released the report, *Managing the Impact of Wildfires on Communities and the Environment*. This report presented the National Fire Plan (NFP) strategy to reduce catastrophic wildfire risks, protect rural communities, and increase firefighting readiness. To implement NFP, the USDA and DOI worked with the States to develop a ten-year Comprehensive Strategy and a collaborative Implementation Plan framework for implementing the strategy. The NFP, Comprehensive Strategy, and the Implementation Plan will guide USDA's future efforts to protect communities and manage wildland fire on and around the 192 million acres of National Forests and Grasslands.

Exhibit 32: Maintaining Productivity and Health of the Land

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Maintain the productivity and health of the Nation's non-Federal cropland and grazing lands:			Met
• Acres of working cropland and grazing land protected against degradation by application of improved conservation systems (Mil annually)[1]	17.0	17.0[2]	
• Acres of highly erodible and environmentally sensitive cropland and grazing land retired from production and protected against degradation under Conservation Reserve Program (CRP) contracts (Mil cumulative)	34.2	33.9	
Treat wildlands with high fire risks on National Forests and Grasslands to reduce the risk of loss of life, property, and natural resources from catastrophic wildfire:			Unmet
• Hazardous fuel treatments (acres)	1,750,496	718,290	
• Maximize firefighting production capability—Most Efficient Level (MEL) (%)[5]	100	95	
• Communities and volunteer fire departments assisted[3]	9,232	8,170	

[1] Acres are those on which the practices applied during the fiscal year resulted in complete application of a full conservation system. Cropland does not include acres enrolled in the Conservation Reserve Program

[2] Includes 0.2 million acres of non-Federal forestland

[3] The "Most Efficient Level" of wildland firefighting resources is a formula-driven calculation (using 10-year averages of fire occurrence and weather patterns) of the resources needed to be prepared for an average year of fires on a specific unit. MEL varies from unit to unit on the ground. It is usually reported as the percentage of funding received compared to the calculated level.

[4] These figures include State and Private activities and National Fire Plan activities

[5] For FY 2003, this measure will be changed to Fire Chains per hour.

Analysis of Results. The indicator for working cropland and grazing land includes only land on which the producer finished applying a conservation system that considered all of the site's resource concerns: soil, water, air, plants, and animals. USDA also provided assistance on an additional nine million acres of working cropland and grazing land where resource concerns were treated at a less

Exhibit 33: Improving the Land

Trend	Fiscal Year Actual			
	1999	2000	2001	2002
Acres of working cropland and grazing land protected against degradation by application of improved conservation systems (Mil annually)	N/A	15.6	16.2	17
Acres of highly erodible and environmentally sensitive cropland and grazing land retired from production and protected against degradation under CRP contracts (Mil cumulative)	29.8	31.5	33.6	33.9

comprehensive level. The conservation on these acres, although not comprehensive, provides significant environmental benefits. In FY 2002, USDA helped producers apply erosion reduction practices on 4.6 million acres of working cropland.

In FY 2002, grazing land made up slightly more than 11.7 million acres of the 17 million acres of working land on which USDA provided assistance to the resource management level. Slightly more than one-third of these grazing land acres received both financial and technical assistance. Financial assistance was primarily through USDA's Environmental Quality Incentives Program (EQIP). Of the five million acres of working cropland where producers applied treatment to the full resource management system level, about 29 percent received financial assistance under EQIP.

Exhibit 34: Fluctuations in Wildland Fire Activities Due to Fire Season Severity (2000 and 2002 Experienced Severe Wildland Fire Seasons).

Trend	Fiscal Year Actual			
	1999	2000	2001	2002
Hazardous fuel treatments (acres)	1,412,281	772,375	1,361,697	718,290
Maximize firefighting production capability —MEL (%)	69	74	97	95
Communities and volunteer fire departments assisted[1]	2,450	2,990[2]	3,062	8,170[3]

[1] A change in data tracking methodology occurred between 2000 and 2001. Data from 1999 and 2000 did not distinguish between communities and volunteer fire departments assisted, thus leading to underreporting. Beginning in 2001, these items are being tracked separately and added together to produce this performance measure.

[2] An estimate based on eight of nine Regions reported from the Forest Service.

[3] This figure includes State and Private activities and National Fire Plan Activities.

Land retired from cropping and planted with protective covers represents the total acreage enrolled in Conservation Reserve Program (CRP), which is currently 33.9 million acres. The CRP helps farm owners and operators conserve and improve soil, water, air, and wildlife resources by converting highly erodible and other environmentally sensitive land to long-term resource conserving cover.

Hazardous fuels treatments were 650 thousand acres less than FY 2002 targets for two related reasons: lack of available staff and drought conditions across much of the U.S. During severe fire seasons, staff and resources were reassigned to fire suppression. The reduced acreage in FY 2000 and FY 2002 reflect both drought conditions and severe fire seasons.

Estimated most efficient level (MEL) was five percent less than originally projected. Not meeting MEL was a conscious decision based on the cost of achieving the target. The large increase in MEL in FY 2001 was because of the large increase in preparedness funding appropriated to USDA to implement the NFP.

The number of communities and volunteer fire departments assisted was measurably less than projected due to a redirection of funds to wildland fire suppression. The large increase in the number of community and volunteer fire departments assisted in FY 2002 results from counting the outputs associated with NFP activities.

Description of Actions and Schedules. Drought and a severe fire season—factors external to USDA's control—caused us to fall short of FY 2002 targets for hazardous fuel treatment. Not meeting the target slows the process of protecting communities and the environment and helping our National Forests return to historic levels of fire severity and frequency. In FY 2003, we will resume projects delayed because of the severe fire season and drought, based on available funding. We adjusted our FY 2002 target of funding 100% of calculated MEL because the cost was too high. This resulted in hiring 530 fewer firefighters and maintaining 170 fewer fire engines than if we had full funding equaling the calculated MEL. No action can be taken to make up this shortfall since the MEL target reduction relates only to the FY 2002 funding needs calculation and FY 2002 funding availability. Despite this, firefighting support by the USDA to communities or volunteer fire departments only fell short of planned programs by two communities.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- USDA conducted program evaluations via its Natural Resources Conservation Service (NRCS) national oversight and evaluation staff. In FY 2002, we also conducted a major study to determine, at the sub-State level, the cost of implementing each of the key conservation practices in local field office technical guides. NRCS conducted more narrowly-focused studies of the agency's technology structure and preparatory activities to implement the third-party Technical Service Provider provision of the 2002 Farm Security Rural Investment Act (2002 FSRIA). All of these studies provided data that is critical to ensuring efficient delivery of the expanded conservation programs authorized by the 2002 FSRIA.
- USDA evaluates components of its conservation programs each year through program compliance activities and the County Operations Review Program.
- USDA reviews have provided both on-the-ground accountability and a tool to make course corrections for the NFP in the future.
- USDA reviews included overall program function assessment (DOI collaboration) and annual financial accountability.
- USDA evaluates annually the National Fire Management Analysis System (NFMAS) certification process for technical and financial programs of Regional fire management planning and operations to ensure consistent and credible organizational and budget information across regional boundaries.
- USDA also collaborated with DOI and other partners to finish FY 2001 efforts to review and develop new joint performance measures; reviewed and initiated recommendations made by National Academy of Public Administration (NAPA) in the report "Managing Wildland Fire: Enhancing Capacity to Implement the Federal Interagency Policy"; and contracted with NAPA to review wildland fire suppression strategies and costs.

Performance Measure: Protecting the Environment

Americans expect their environment to provide adequate supplies of clean water, clean air, and pleasant and healthy places to live. USDA plays a vital role in ensuring that these expectations are met. We manage the National Forests and Grasslands, work with private landowners and natural resource managers to ensure that their activities do not create hazards to human health or the environment, and work closely and cooperatively with other governmental and non-governmental entities to improve the environment in rural and urban communities.

During FY 2002, USDA worked with producers, rural communities, and State and local agencies to plan and implement resource development and management that protect the environment yet meet the varied needs of the community. We worked to restore and improve watersheds on private land and on and near the National Forests and Grasslands to secure all of the benefits healthy watersheds provide—from contributions to clean air and water to opportunities for abundant wildlife habitat. We also worked to reduce the large potential liabilities for sites releasing or threatening to release hazardous substances to the environment on USDA managed lands.

Exhibit 35: Protecting and Improving the Environment

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Protect water and air quality against the risk of impairment as a result of agricultural production:			Met
• Animal feeding operations with comprehensive nutrient management plans (CNMP) developed or applied	7,854	8,566	
• Acres with conservation measures applied to reduce potential for off-site pollution by nutrients (Mil annually)	4.6	5.5	
• Acres in conservation buffers (Mil)[1]	2.35	2.27	
• Reduced sheet and rill erosion on cropland and grazing land entered into Conservation Reserve Program (CRP) (Mil tons annually)	179.9	179	
• Reduced wind erosion on cropland and grazing land entered into CRP (Mil tons annually)	250.6	251	
• Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (Mil metric tons annually)	16.4	16.4	
Restore or improve rangeland and forestland watersheds in the National Forests and Grasslands:			Unmet
• Soil and watershed improvements (acres)	21,256	36,417	
• Terrestrial habitat restored or enhanced (acres)	284,738	227,356	
• CERCLA[2] cleanups completed	17	29	
• Abandoned mine sites reclaimed	20	42	

[1] Includes both Farm Service Agency cumulative and Natural Resources Conservation Service annual data
[2] Comprehensive Environmental Responses, Compensation, and Liability Act

Analysis of Results. USDA joined with local partners to help develop 5,214 comprehensive nutrient management plans (CNMPs) and to install 3,352, slightly exceeding the target. FY 2002 was the first year in which performance was reported in terms of the new CNMP guidance; performance in past years was reported for waste management systems, which were not as complex as the new CNMPs.

USDA increased its technical assistance to producers to respond to the public's concerns about the effect of fertilizer and animal wastes on water quality.

Conservation buffers were applied under several USDA programs. The total for FY 2002 includes 114,400 acres of buffers applied with Conservation Technical Assistance

Exhibit 36: Soil Improvements

Trend	FY Actual			
	1999	2000	2001	2002
Animal feeding operations with CNMP developed or applied	6,170 facilities applied	11,000 waste systems	10,520 waste systems	8,566 CNMPs
Acres with conservation measures applied to reduce potential for off-site pollution by nutrients (Mil annually)	2.7	4.3	5.4	5.5
Acres in conservation buffers (Mil)	1.2	1.5	1.75	2.27
Reduced sheet and rill erosion on cropland and grazing land entered into CRP (Mil tons annually)	N/A	166.2	178.0	179.0
Reduced wind erosion on cropland and grazing land entered into (Mil tons annually)	N/A	240.6	249.8	251
Carbon sequestered in soil and vegetation through long-term retirement of crop and grazing land (Mil metric tons annually)	14.6	15.4	16.0	16.4

only, 2.1 million acres of land retired and established in conservation buffers in CRP, and 60,000 acres established with other USDA cost-share and technical assistance. USDA's conservation partners play a significant role in encouraging buffer application.

USDA helped prevent 430 million tons of erosion on CRP lands, including 179 million tons of sheet and rill erosion and 251 million tons of wind erosion. We also sequestered 16.4 million metric tons of carbon on CRP lands.

Exhibit 37: Environmental Improvements

Trend	FY Actual			
	1999	2000	2001	2002
Soil and watershed improvements on National Forests and Grasslands (acres)	35,562	29,899	31,836	36,417
Terrestrial habitat restored or enhanced on National Forests and Grasslands (acres)	266,744	192,373	241,123	227,356
CERCLA cleanups completed	39	24	47	29
Abandoned mine sites reclaimed	15	N/A	154	42

On National Forests and Grasslands, changed work priorities, increased costs, and lowered work quality caused fluctuations in trends for soil and watershed improvements and terrestrial habitat restorations or enhancements over the past few years.

The trend for habitat restoration increased during the past two years after falling by 28 percent in 2000. This was the first year USDA used the Budget Formulation and Execution System (BFES) to develop targets.

USDA completed 29 comprehensive Environmental Response, Compensation, and Liability Act (CERCLA) cleanups in FY 2002. However, many of the 2,000 remaining environmental cleanups are larger, more complex, and more controversial than those completed to date, which will present new challenges to USDA's environmental cleanup program. Most sites subject to the Resource Conservation and Recovery Act, such as underground storage tanks (approximately 2,000), were addressed between 1988 and 1998.

Although individual site complexity can cause considerable variation in the number of abandoned mine sites reclaimed in one year, USDA consistently met its targets for reclaiming sites.

Additional accomplishments in FY 2002 include:

- Applied pest management practices on 5.2 million acres.
- Enhanced urban environments by acquiring 58,083 acres (31 out of 31 states reporting as of December 2002) through the Legacy Project Acquisition and assisting local governments and communities to develop 569 group and area plans that address farmland protection and the effects of non-agricultural activities on ground water and surface water quality.
- Protected or enhanced 2.925 million acres of wetlands and associated upland under multi-year contracts or easements.
- Enhanced wildlife habitat by retiring 18.2 million acres from cropping and planting to vegetative cover best suited to wildlife.
- Improved habitat for fish and wildlife by application of practices on 9.9 million acres of working cropland, grazing land, forest, and other land (annually).
- Operated developed sites to standard, which served 95.07 million Persons At One Time (PAOT).
- Provided benefits to property and safety through flood damage reduction as a result of completing 79 watershed protection structures.

- Provided assistance to Resources Conservation and Development Councils to complete 4,145 projects that improved communities.
- Assisted 11,780 communities through the Urban and Community Forestry Program.

Description of Actions and Schedules. Using the new BFES process to estimate the output level, shifting priorities or emerging needs, and costs or quality of the outputs caused the actual acres of terrestrial habitat restored or enhanced to fall 57,382 below the target. In FY 2003 USDA expects to continue similar project work on National Forests for the highest priority needs based on available funding. Not meeting the target will delay the anticipated benefits derived from treating watersheds, habitat, or abandoned mine cleanup.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:
- USDA conducted internal reviews and evaluations through a national Oversight and Evaluation Staff.
- In FY 2002 USDA conducted a study of National Resources Inventory, which is the major source of reliable trend data on conditions on non-Federal land.
- Forest Service initiated a review of its Management Attainment Report (MAR) reporting requirements to evaluate MAR relevancy to current needs and the need to develop a Project Work Planning System. The initial system would create a planned program of work, possibly integrating reporting accomplishments with costs and linking the Forest Service (FS) Strategic Plan with performance reporting requirements.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.6.

Nutrient enrichment is one of the major sources of water quality impairment. Large confined animal operations (CAFOs) have drawn special attention as an agricultural source of nutrients. USDA researchers assessed the economic and water quality implications of nutrient management policies. USDA findings were instrumental in USDA and Environmental Protection Agency (EPA) interaction and EPA's development of rules implementing the new CAFO management requirements and new rules for assessing and managing watershed Total Maximum Daily Loads (TMDL). These insights have shaped a more efficient rule that will reduce water quality impairment at least cost to agricultural production and the economy as a whole.

Herbicides and conventional management techniques cannot control Yellowstar thistle, a major Eurasian invasive weed of crops, rangeland, and natural areas. USDA scientists completed testing and applied for field release of a fungus (*Puccinia jaceae*). They determined that the fungus was specific and very damaging to Yellowstar thistle, obtained release approval from Californian regulators, and are awaiting final Federal release approval. This is the first time in the modern regulatory era in the United States that a plant pathogen has gone through the regulatory process. If the final regulatory hurdles are passed and the fungus is released, there is an excellent chance to reduce Yellowstar thistle populations that lower rangeland productivity and threaten valuable native plants.

Leaving some crop residue on the field following harvest can reduce soil erosion from farm fields. Tools to quantify crop residue cover are needed to assess the effectiveness of this conservation tillage practice. USDA researchers using ground-based and aerial hyper spectral sensors measured the reflectance spectra of green vegetation, crop residues, and bare soil. A spectral reflectance index was developed using the reflectance data that can separate soil from residue, and measure the amount of soil covered by residue. The results provide a means of mapping conservation tillage practices and assessing erosion susceptibility over large areas which can be used to further reduce soil erosion and improved water quality.

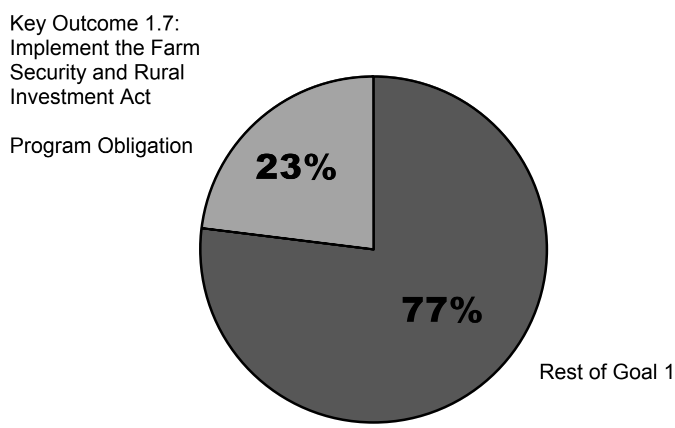
Forested lands adjacent to agricultural fields have been shown to reduce nitrogen concentration of water moving from the fields to adjacent streams and waterways. USDA has determined that forested zones bordering agricultural fields can be harvested for lumber, fuel wood, or pulpwood, and still function as filters for groundwater nitrate reduction. This indicates that these forested areas can be managed with long-term strategies to provide wood products or bio-fuels while maintaining water quality, and enabling producers to meet nutrient TMDL limitations.

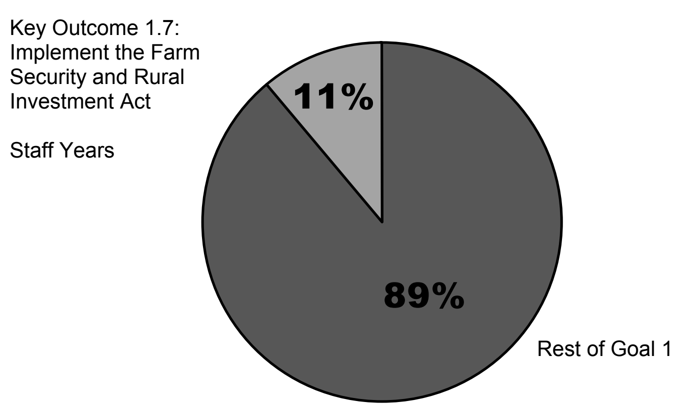
To reduce harmful phosphorus levels in surface water, Wisconsin researchers, with USDA funding, have altered the diets of dairy cows, cutting their phosphorus intake by one-third. As a result, the amount of phosphorus in manure was reduced by 50 percent. Moreover, runoff from fields fertilized with low-phosphorus manure contained just one-tenth as much phosphorus as runoff from fields fertilized with conventional manure. In addition, the new low-phosphorus diet allows producers to save $12 to $15 per cow per year. With 1.3 million cows in the state, Wisconsin will save $16 million each year.

Key Outcome 1.7: Effectively Implement the Farm Security and Rural Investment Act of 2002

Exhibit 38: Resources Dedicated to Implementing the Farm Security and Rural Investment Act

USDA Resources Dedicated to Key Outcome 1.7	FY 2002 Actual
Program Obligation ($ Mil)	23,396.3
Staff Years	12,602





No performance measures specific to this Key Outcome were contained in USDA's FY 2002 Annual Performance Plan. The Key Outcome, Effectively Implement the Farm Security and Rural Investment Act of 2002, was first introduced in USDA's Revised Strategic Plan for FY 2002–2007. Relevant measures will be reported in next year's Performance and Accountability Report.

The Farm Security and Rural Investment Act of 2002 (2002 FSRIA) was passed in May 2002. The 2002 FSRIA mandated many changes to existing programs and required the creation of new ones. For example, the new law allows producers to update historical acreage bases and yields; creates a new system of counter cyclical payments; establishes new loan rates for traditional program crops; creates new payment programs for dairy, wool, mohair, honey, and pulse crops; and requires significant changes to the peanut program.

The 2002 FSRIA provides rebalanced loan rates and is consistent with our international trade obligations. The Act contains record-level support for environmental stewardship, a renewed commitment to renewable fuels programs, and additional investments to help expand international markets, rural community programs, and food stamp assistance for low-income Americans.

For the first time, an Energy Title IX was included in the 2002 FSRIA. The Title has features that will increase economic opportunities for farmers, ranchers, and rural communities by providing new markets for agricultural commodities.

Section 9002 established a new program requiring all Federal agencies to purchase biobased industrial products made from agricultural raw materials and a USDA labeling program for biobased products. Other provisions make loans and grants available for developing biorefineries and for renewable energy projects. The CCC will continue the bioenergy subsidy program for using agricultural feedstocks to make ethanol and biodiesel. The Agricultural Research Service will receive small increases in research directed to bioenergy.

USDA took immediate steps to execute the 2002 FSRIA effectively and efficiently. We launched a new website (www.usda.gov/farmbill), cross-linked with major USDA agencies' websites, that focused on providing farmers, ranchers, and other stakeholders with the latest information and announcements on the 2002 FSRIA, and explaining its provisions and economic implications, as well as comparing it to the Act it succeeded. The Secretary established a Board of Directors (the Board), consisting of Subcabinet members and chaired by the Secretary and a working group to coordinate implementation of the 2002 FSRIA. The Board oversees the Farm Bill Implementation Working Group, which includes members from all USDA mission areas. Field and headquarters personnel are working together to develop policy and implement programs. The Working Group oversees implementations and makes regular progress reports on nearly 500 actions undertaken to implement the 2002 FSRIA. USDA also makes regular program announcements to inform USDA constituents about our progress on implementing the 2002 FSRIA and providing faster, more efficient and accurate services to the farmers, ranchers, and other stakeholders.

Selected Examples of Accomplishments in Research, Extension, and Statistics that Contribute to Achieving Key Outcome 1.7.

USDA has refocused reporting of aggregate farm income to reflect a broader set of measures that present a truer picture of the well-being of farm households than any single income measure. Most farmers have multiple jobs and dual careers, with both farm and non-farm income and investments. USDA reporting now reflects a more complete picture of a household's well-being; it examines levels of farm and non-farm income, sources of wealth, and ability to support family consumption needs.

STRATEGIC GOAL 2: Enhance the Integrated Operation of USDA Through Execution of the President's Management Agenda

Key Outcome 2.1: Improve Human Capital Management

Performance Measure: <u>Ensuring Fair and Equitable Service to Customers and Upholding the Civil Rights of Employees</u>

Constant surveillance and periodic major reviews instituted by USDA's agencies have helped us ensure that our programs reach all who are eligible for them. USDA is making long-term improvements in processing civil rights cases. Applying increased resources and business process improvements has accelerated our case processing. We expect to reduce the time required to investigate an employment civil rights complaint case to within 180 days. Effective systems to process program and employment civil rights complaints will help us to carry out investigations in a fair and timely manner.

Exhibit 39: Civil Rights of Employees

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Major USDA programs reviewed each year (%)	20	20	Met
Reduction in the average number of days it takes to resolve USDA civil rights complaints (%)	5	27	Exceeded

Analysis of Results.
The data shows that major USDA programs have been given a civil rights review every five years. The data on civil rights case processing show that significant progress was made in FY 2002 in reducing processing times. USDA also reviewed all major program and administrative regulations for their impact on civil rights.

Exhibit 40: Civil Rights Case Processing Improved.

Trend	FY Actual			
	1999	2000	2001	2002
Major USDA programs reviewed each year (%)	N/A	20	20	20
Reduction in the average number of days it takes to resolve USDA civil rights complaints (%)	N/A	N/A	1	27

A baseline was not established for minority participation in USDA programs in 2002. In this area, the outreach programs are being reevaluated in FY 2003 and the Outreach for Socially-Disadvantaged Farmers Program is being transferred to the Cooperative State Research, Education, and Extension Service.

Program Cases–Average processing time for program complaints was reduced 38 percent in 2002.
Employment Cases–Average processing time for employment complaints was reduced 22 percent in 2002.

Program Evaluations. The following evaluations, reviews, and/or audits took place during FY 2002:

- USDA agencies review major programs and regulations for Civil Rights Impact and Minority Participation and report their findings annually. Since reviews are principally carried out by program operators in different locations at different times, the results are subject to the different conditions and interpretations; however, the reports are generally considered to be complete and accurate.

Performance Measure: Employee Engagement and Satisfaction

USDA's human capital management goals focus on restructuring and competing for talent. Competition for the best talent is keen; employees want organizations that offer challenging work, opportunities for professional growth, inspiring leadership, quality work-life, and fair treatment. USDA's workforce satisfaction exceeds the national average, positioning us to achieve our workforce restructuring goals.

Exhibit 41: USDA Rates Above U.S. Government Worker Satisfaction

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
USDA employee work satisfaction rate above U.S. Government worker satisfaction (%)	5	TBD	Deferred

Exhibit 42: Employees Reported Above Average Job Satisfaction

Trend	FY Actual			
	1999	2000	2001	2002
USDA employee work satisfaction rate above U.S. Government worker satisfaction (%)	N/A	3	4	Available 12/31/02

Analysis of Results. Data to assess or measure the accomplishment of the employee satisfaction rate is found in the Office of Personnel Management's (OPM) Government-wide Survey on Human Capital (GWS). This survey has several dimensions and allows us to explore employee perceptions on many important issues, e.g. Strategic Alignment, Strategic Competencies, Leadership, Performance Culture, and Learning (Knowledge Management). The data will allow us to compare our results with private sector as well as government-wide norms. Personal Experience and Job Satisfaction were also areas of the survey. The survey was administered in March 2002. While the survey has closed, OPM has not yet released survey results to agencies. OPM will be using a sequenced or phased information release strategy. A high level, relatively brief report, which provides Government-wide findings on broad information, is scheduled for release in 2003.

Program Evaluations. No program evaluations were conducted in FY 2002.

Performance Measure: Ensuring USDA Acquires Recurring Commercial Services in the Most Cost Effective Way

In accordance with the President's government-wide initiative to determine if the private sector can perform functions more effectively and efficiently than government employees, USDA submitted a plan to the OMB in FY 2002 for taking competitive bids on approximately 15 percent of the full-time equivalents listed in our Federal Activities Inventory Reform Act (FAIR) inventory of commercial functions. USDA has agreed with OMB to compete approximately 15 percent of our FY 2000 commercial inventory by September 2003.

Exhibit 43: Competitive Sourcing Activities

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Reduction in cost and/or increased productivity of commercial activities:			Met
• Provide timely annual update of FAIR Act Inventory	Yes	Yes	
• Develop plan for incremental competitions/conversion of FAIR Act inventory	Yes	Yes	

Analysis of Results. All USDA agencies are working with OMB to obtain approval of our 2002 Inventory. USDA has a plan for conducting competitions for a portion of our FAIR Act inventory on an ongoing basis.

Program Evaluations. No program evaluations were conducted in FY 2002.

Performance Measure: Increasing the Use of Performance-Based Service Contracting

USDA promoted performance-based contracting focusing on identifying those contracts where making an investment in developing performance-based standards can yield big improvements in contractor performance. USDA has made strides in converting traditional service contracts to performance-based ones. In recent years, the value of USDA contracts eligible for service-based contracting has been over $700 million. The Department is also moving toward the Integrated Acquisition System. A pilot to test an Integrated Acquisition System on a web-based eProcurement solution was completed in FY 2002.

Exhibit 44: USDA's Eligible Service Contracts

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Use of performance-based service contracts of total eligible service contracts (%)	20	40	Exceeded

Analysis of Results. The contracting offices executing the contracts entered the data on Performance-Based Service Contracts (PBSC) into a procurement data management system. Based on that data, USDA used PBSC in 40 percent of the eligible contracts. USDA utilized FedBizOpps to advertise procurement opportunities.

Exhibit 45: Increased Use of Performance-Based Contracts

Trend	FY Actual			
	1999	2000	2001	2002
Use of performance-based service contracts as a percent of total eligible service contracts (%)	1.9	4.6	13	40

Program Evaluation. No program evaluations were conducted in FY 2002.

Key Outcome 2.2: Improve Financial Management

Performance Measure: Provide Timely and Reliable Financial Management Information

USDA works with its component agencies to ensure that our financial policies reflect sound business practices. Achieving a clean audit opinion on USDA's Consolidated Financial Statements and agency specific financial statements will assure the users of our financial information as well as constituents that USDA's internal control and financial systems are sound and generate consistent, reliable, and useful information. Implementation of the Foundation Financial Information System (FFIS) and its associated data warehouses, provided the integration and capabilities needed to improve the delivery of timely and meaningful financial management information, and will allow USDA to comply with legislation, including the CFO Act of 1990.

Exhibit 46: Financial Management Information Timely and Reliable

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Achieve an unqualified opinion on the USDA's Consolidated Financial Statements for FY 2002	Unqualified Opinion	Unqualified Opinion	Met
Implement the Foundation Financial Information System USDA-wide: • Total USDA workforce served by the financial system (%)	98	98	Met

Note: The final two agencies in USDA were connected to FFIS on October 1, 2002.

Exhibit 47: Financial Management Programs Showed Improvement

Trend	FY Actual			
	1999	2000	2001	2002
Achieve an unqualified opinion on the USDA's Consolidated Financial Statements for FY 2002	Dis-claimer	Dis-claimer	Dis-claimer	Unqualified Opinion
Total USDA workforce served by the financial system (%)	31	46	78	98

Note: The final two agencies in USDA were connected to FFIS on October 1, 2002.

Analysis of Results. The Office of the Chief Financial Officer (OCFO) provided effective leadership and talent to USDA's agencies and the National Finance Center (NFC) to capture break-through rather than incremental value from extensive changes in financial management accountability and accounting operations. We implemented effective operational accounting processes within NFC and problem agencies, while transferring knowledge through documentation and training. We also enhanced decision-making and cash management of USDA's Working Capital Fund.

The FS was transformed in FY 2002 to operate as an effective, sustainable, and accountable financial management organization.

The OCFO guided USDA to full reconcilement of USDA's Fund Balance with Treasury.

Two major factors in USDA's goal to obtain a clean audit opinion are our efforts on Property and Credit Reform. OCFO worked with USDA agencies to implement a process for accounting for real property and related depreciation expense, to conduct personal and real property inventories, and to reconcile all property records to the general ledger. All USDA agencies corrected real and personal property accounting and stewardship inadequacies and installed sustainable processes for the future. Also, OCFO worked with USDA agencies to maintain progress on Credit Reform and continue improvements.

With an integrated budget and standard general ledger accounting system implemented in all USDA agencies, we add value to financial management information and improve corporate administrative computer systems. This emphasis will further advance managers' ability to measure results and to make good decisions.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- The OIG has conducted various audits of USDA's financial systems.
- The OIG conducted annual audits of five stand-alone agency financial statements and the USDA Consolidated Financial Statements.

Performance Measure: Improving Stewardship of the Food Assistance Programs

USDA is strongly committed to prevent abuse or waste of taxpayer dollars, and to ensure that nutrition programs serve those in need at the lowest possible costs. In FY 2002, USDA continued to improve stewardship, with further deployment of improvements to program delivery and management, as well as, continued progress in reducing program error.

Exhibit 48: Better Stewardship of the Food Assistance Programs

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Improve program design and delivery:			Met
• Food stamp benefits issued electronically (%)	89	89	
Maintain benefit accuracy in the food stamp and the school meals programs:			Deferred
• Food stamp benefit accuracy rate (%)	91.3	Available 4/03	
• School Food Authorities in compliance with school meals counting and claiming rules (%)	87	Available 9/03	

Analysis of Results. Because key results-oriented data is not yet available, a full assessment of USDA's performance in improving food assistance program stewardship goals cannot yet be made. However, available data indicates the need for continued action to improve stewardship with increased delivery of food stamp benefits through electronic benefits transfer (EBT), implementation of commodity program improvements, and strong oversight in the CACFP.

Exhibit 49: Food Assistance Indicators Show Improved Program Delivery and Design

Trend	FY Actual			
	1999	2000	2001	2002
Food stamp benefits issued electronically (%)	70.3	76.3	82.8	89
Food stamp benefit accuracy rate (%)	90.1	91.1	91.3	Available 4/03
School Food Authorities in compliance with school meals counting and claiming rules (%)	N/A	86.8	86.6	Available 9/03

Highlights related to nutrition assistance program stewardship include:

- Electronic Benefits Transfer: 89 percent of Food Stamp Program benefits were issued through EBT.
- Benefit Accuracy in the Food Stamp and School Meals Programs: While data for FY 2002 is not yet available, the Food Stamp Program achieved its highest-ever benefit accuracy rate in FY 2001 (91.3 percent). FY 2002 data related to the counting and claiming of school meals will be available in November 2003. FY 2001 data indicates that the program substantially met its goal to continue strong performance in counting and claiming accuracy. The benefit accuracy goal was deferred; data will be provided on the dates indicated in exhibit 48.
- Child Care Integrity: During FY 2002, USDA adjusted its review strategy to conduct more in-depth reviews for a two-year cycle. Thus, during FY 2002 and FY 2003, all States must be reviewed, but there is no per year target. Management evaluations appear to be proceeding appropriately on this adjusted schedule. Progress on management improvement training has been hampered by delays in publishing new regulations; an interim rule was published in June 2002. State agency training is now scheduled for the beginning of FY 2003, and State agency sponsor training will occur throughout the remainder of the year.
- Food Distribution Reinvention Milestones: USDA met 90 percent of these milestones, rather than the 100 percent originally targeted. USDA is still developing and/or pursuing actions related to two FY

2002 milestones: 1) processing commodities with limited demand into more usable forms; and 2) developing a single, web-based point of public contact on commodity issues for the Department.

- Commodity Program Computer Connectivity: Two States, rather than the 15 States originally projected, initiated a USDA-sponsored system that facilitated computer connectivity to the school district level in FY 2002. Food Nutrition Service (FNS) decided to temporarily limit the newly developed system, called the Electronic Commodity Ordering System, to four States until it has been adequately tested. FNS plans to offer the system to all States during school year 2003.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- Among Staff and Participants in the WIC Program: Volume I
- Final Report Reimbursement Tiering in the CACFP: Summary Report to Congress on the Family Child Care Homes Legislative
- Family Child Care Homes and the CACFP–Participation After Reimbursement Tiering (An Interim Report of Family Child Care Homes Legislative Changes Study)
- Plate Waste in School Nutrition Programs: Final Report to Congress
- Methods to Prevent Fraud and Abuse Among Staff and participants in the WIC Program
- Food Stamp Program: Use of Options and Waivers to Improve Program Administration and Promote Access
- Financial Management: Coordinated Approach Needed to Address the Government's Improper Payments problem
- Food Stamp Program: Implementation of EBT.
- Food Stamp Program: States' Use of Options and Waivers to Improve Program Administration
- Fruits and Vegetables: Enhanced Federal Efforts to Increase Consumption Could Yield Health Benefits for Americans
- Analysis of CACFP Large Sponsoring Organizations

Key Outcome 2.3: Expand Electronic Government

Performance Measure: Improving Information Management Using eGovernment

In FY 2002, USDA began transforming and enhancing our programs, services, and information to deliver them electronically with the necessary security safeguards. USDA's strategic and enabling eGovernment "smart choices," together with our Government Paperwork Elimination Act (GPEA) and Freedom to E-File activities, serve as a foundation for more efficient delivery of the increased services called for in this legislation. At the same time, we began strengthening our information survivability and information security and awareness programs as part of our response to the Nation's homeland security threats. Together these programs enable improved customer service, make employees more productive, and save taxpayer dollars.

In concert with the President's Management Council, USDA launched an internal eGovernment Program in October 2001. An interagency eGovernment Executive Council, led by the Deputy Secretary, manages the program. The Council developed a USDA eGovernment Strategic Plan (www.egov.usda.gov) as part of an overall eGovernment Framework incorporating the vision, strategy, marketing, and tactical activities for our transition away from traditional paper-based processes and single-agency service delivery approaches. Together with agency tactical plans, these activities support collaborative Information Technology (IT) investments in FYs 2002, 2003, and 2004, and we expect them to reduce redundant investments serving single-agency requirements. As an example of USDA's eGovernment progress, USDA fully met the requirements of the Freedom to E-file Act (P.L. 106–222) by establishing an Internet-based system that enables agricultural producers to access all USDA forms electronically.

USDA established the Federal Financial Assistance Committee (FFAC) to oversee the implementation of the Federal Financial Assistance Management and Improvement Act (P.L. 106–107) and monitor eGovernment initiatives within USDA.

Exhibit 50: Integrated eGovernment Environment

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Movement toward a fully integrated e-Government environment:			Met
• Meet legislative mandates of the Freedom to E·File Act and GPEA	Yes	Yes	
• Reduce duplicative investments for enabling information technologies and related services	Yes	Yes	
Simplify and reduce number of financial assistance program forms and application kits	Establish Baseline	640	Met
Improve electronic processes for financial assistance program announcements and application kits	Establish Baseline	Available 4/03	Deferred

Exhibit 51: Improving eGovernment Process

Trend	Fiscal Year Actual			
	1999	2000	2001	2002
Meet legislative mandates of the Freedom to E·File Act and GPEA	N/A	N/A	Yes	Yes
Reduce duplicative investments for enabling information technologies and related services	N/A	N/A	Yes	Yes
Simplify and reduce number of financial assistance program forms and application kits	N/A	N/A	N/A	640
Improve electronic processes for financial assistance program announcements and application kits	N/A	N/A	N/A	Establish Baseline

Analysis of Results. In support of USDA's activities for legislative mandates of the Freedom to E-file Act and GPEA, USDA established the Electronic Government (eGovernment) Program, hired the USDA eGovernment Executive to provide leadership and oversight for USDA's eGovernment planning and implementation, and established an eGovernment governance structure that includes a senior-level executive council and working group. The eGovernment Program is responsible for leading implementation of the Government Paperwork Elimination Act, Freedom to E-File Act, the Paperwork Reduction Act, and the Expanding Electronic Government component of the President's Management Agenda.

The FFAC inventoried 640 USDA forms and application kits as the baseline for reduction efforts. Additionally, FY 2002 interagency efforts to establish a common set of data elements and eGovernment efforts to reduce the number of unique electronic systems supporting financial assistance will assist in the streamlining effort. USDA committed to using the interagency announcement site called FedBizOpps (http://www.FedBizOpps.gov) to co-locate USDA funding announcement summaries with all other Federal agencies. The FFAC began defining requirements for a single USDA website to find and exchange financial assistance information which will better serve our customers and staff. Work is under way to identify all USDA financial assistance web sites and then make them accessible through one web location by April 2003.

USDA also successfully deployed the Common Computing Environment (CCE), which serves as the IT infrastructure foundation necessary to support the Service Center Agencies' (SCA) use of modern business processes and electronic government tools. We reached our goal of providing every SCA employee with a modern, secure workstation with updated software and access to the Internet. As planned, network servers were also installed in the Service Centers to enable sharing of applications and Geographic Information Systems (GIS), customer and other program data.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- We continuously reviewed our approach and adjusted accordingly.
- OCIO provides regular eGovernment progress reports to the Secretary.
- USDA provides OMB annual reports on GPEA and PRA implementation.
- USDA provides the Congress quarterly progress reports on CCE implementation.
- GAO and OMB assessed USDA progress in implementing the Freedom to E-File Act and GPEA.

Performance Measure: Expanding Information and Cyber Security

The focus on homeland security in FY 2002, combined with expanded public access to more USDA online services, increased the importance of our information security program. In FY 2002, we made considerable progress in this area.

Exhibit 52: Securing the IT Environment

Annual Performance Goals and Indicators	Fiscal Year 2002		
	Target	Actual	Result
Develop, implement, and maintain a secure and confident IT environment while protecting privacy:			Unmet
• Implement a Risk Management Methodology (%)*	100	90	
• Develop and implement information and telecommunications security architecture (%)*	50	50	
• Develop and implement an Information Survivability Program (%)*	20	5	
• Develop and implement a Sensitive System Certification Program (%)*	20	5	

* % of Department-wide implementation completed.

Exhibit 53: IT Security/Confidence Grew

Trend	FY Actual			
	1999	2000	2001	2002
Implement a Risk Management Methodology (%)	N/A	10	25	90
Develop and implement information and telecommunications security architecture (%)	N/A	N/A	10	50
Develop and implement an Information Survivability Program (%)	N/A	N/A	N/A	5
Develop and implement a Sensitive System Certification Program (%)	N/A	N/A	N/A	5

Analysis of Results. In FY 2002, we completed our USDA Risk Management Methodology to guide agencies through risk analysis and risk mitigation. This methodology includes training, standard forms and procedures, and business case development. These guides have been distributed across the department and are being used by the agency as a regular part of their assessment and analysis programs. USDA completed the first phase of the security architecture strategy, which includes the blueprint for deployment of appropriate security products and a methodology for matching controls to specific technical environments and business processes. Full production and usage of the plan will be achieved during fiscal year 2003. USDA also initiated a base level Information Survivability Program. Initial steps included the establishment of a Departmental level planning Council to ensure awareness and understanding of the initiative. During fiscal year 2003, the program will design and deploy a standard methodology and tool that agencies will use to develop and test disaster recovery and business resumption plans. The methodology will create a common approach that will be standardized across USDA. Limited progress was made toward the development and deployment of a sensitive system and certification program. Some progress was achieved in the identification of specific systems where certification was required, but not as a part of a regularly structured program implemented across the department. During fiscal year 2003, greater emphasis will be placed on implementation of a structured methodology and plan.

Description of Actions and Schedules. During the coming year, the following actions, including time-frames, will be taken regarding the USDA Information Survivability program and the establishment of a sensitive system and certification program.

The Information Survivability Program will have three phases:

- First quarter of FY 2003: 1) development and delivery of a broad contingency planning and awareness program for a multiple level audiences of USDA employees (Executive, Technical and Worker), and 2) assessment, selection, and deployment of an enterprise software application to facilitate disaster planning and recovery across USDA will be completed.
- Second quarter of FY 2003: 1) conduct a Pilot demonstration of the software tool and assess its adequacy to meet departmental needs using real agency based planning, and 2) develop and deploy policy guidance that establishes the program and its reporting requirements.
- Third quarter of FY 2003: 1) evaluate recovery strategies and alternative backup and recovery solutions on a departmental basis, and 2) independently assess the planning efforts of USDA agencies in satisfying policy requirements and the actual development of executable plans.

The Sensitive System and Certification Program will begin the second quarter of FY 2003 to: 1) begin the process of structuring a consistent methodology regarding certification of systems across USDA, and 2) establish, through policy, the need, and requirements for system certification. Coordinate efforts with the physical security staff regarding sensitive locations and facilities. This program was not funded or developed in FY 2002.

Program Evaluation. The following evaluations, reviews, and/or audits took place during FY 2002:

- The Office of the Chief Information Officer conducts an annual review of USDA's information security status for the annual Government Information Security Reform Act submission to OMB.
- GAO and OIG both conducted cyber-security related audits at USDA in FY 2002.
- The Office of the Chief Information officer conducted a cyber-security review of the Ames, Iowa, research facility.

Key Outcome 2.4: Establish Budget and Performance Integration

No performance measures specific to this Key Outcome were contained in USDA's FY 2002 Annual Performance Plan. The Key Outcome, Establish Budget and Performance Integration, was first introduced in USDA's Revised Strategic Plan for FY 2002–2007. Relevant measures will be reported in next year's Performance and Accountability Report.

USDA made a number of strides forward in budget and performance integration during FY 2002. In January 2002, USDA prepared a draft Budget and Performance Integration plan. The draft highlighted steps toward integration, such as preparing a new strategic plan, and preparing a model budget justification using APHIS as a pilot agency. Following are highlights of some specific actions taken to improve integration during FY 2002.

- In Spring 2002, a draft revised budget presentation for APHIS was developed to show how performance information could be presented in the context of resource requests. After discussion with OMB, this format was incorporated into the Department's instructions to agencies for the development of FY 2004 budget proposals.

- Budget materials used by policy makers during the FY 2004 budget process included performance information shown side-by-side with budget proposals to clearly identify the linkages between changes in funding levels and performance.
- The Secretary and her Subcabinet developed a revised USDA strategic plan. The revised plan is more focused and results-oriented.
- The Department collaborated with OMB to conduct timely Program Assessment Rating Tool evaluations on 11 programs during the last quarter of FY 2002 and to update three additional evaluations that were made during the spring. These evaluations helped inform the FY 2004 budget process.
- The Department also worked with other Federal agencies and OMB to develop seven common performance measures for: wildland fire; disaster insurance; non-point pollution; wetlands; rural water projects; flood mitigation; and housing assistance.

DATA ASSESSMENT OF PERFORMANCE MEASURES

Strategic Goal 1: Effectively Carry Out USDA Program Responsibilities With Decisions Based on the Best Available Science and Efficient Program Delivery Systems

Key Outcome 1.1: Expand Market Opportunities for U.S. Agriculture

Improving International Marketing Opportunities

Data on trade opportunities created and expanded are based on trade figures from trade retention reports. In some cases, statistics on actual values of shipments are obtained directly from U.S. exporters. Values of current trade were applied for tracking Tariff Rate Quotas (TRQs). It is understood that the measured performance data reflecting potential export markets are by nature “not guaranteed” and may be arguable among economists. Nevertheless, they are estimated as they occur using a systematic approach designed to avoid overstatement.

These annual sales data reported have been collected for many years, and the collection processes and systems are highly reliable. However, the data that support these measures come directly from U.S. companies, which benefit from the specific activities. It is outside USDA’s authority and prohibitively costly to validate the actual exports reported.

Export credit guarantee program data are based on actual CCC export credit guarantee program sales registrations. Actual data reported are final and complete. Program sales registrations predict actual exports that occur under the program with 95 percent accuracy. Actual export figures under the program become available during the month of February following the September 30 closing date of each fiscal year.

Reducing Hunger and Malnutrition Around the World

Data are based on analyses completed by the Food and Agricultural Organization (FAO), of the United Nations. FAO analysts perform these analyses for all of the countries that committed to the goal at the 1996 World Food Summit. The FAO analysis of current progress towards the long-term goal is conducted periodically, but not necessarily every year.

Not only are the data captured in official program/financial databases; these data are also audited as part of the CCC Annual Financial Report audit. Data are final and based upon program agreements signed and amended as required by law prior to the end of each fiscal year. Final shipment data can vary slightly, but it is usually within a one percent error margin. Data presented, unless otherwise noted, only represent commodity values, and do not include the cost of shipment and administration.

The research, training and technical assistance activities are tracked by an internal USDA accounting system and other internal program management databases.

Supporting Sustainable Food Supplies Worldwide

Research, training and technical assistance activities are tracked by an internal USDA accounting system and other internal program management databases.

Improving Domestic Agricultural Marketing Opportunities

The data contained in grain marketing is considered complete and reliable, and represents various analytical reference methods, official tests, and calibrations performed to support and ensure grain quality. Supporting data includes official notices, directives, bulletins, reports, Certificates of Conformance, Certificates of Performance, working instructions, and calibration review meeting minutes.

Key Outcome 1.2: Provide Risk Management and Credit/Financing Tools to Support Production Agriculture, and Improve Quality of Life in Rural Areas

Improving the Safety Net for Farmers and Ranchers

The data used for these measures is from audited external and internal sources, and contains no known limitations. A more comprehensive description of the data can be found in the RMA and FSA annual program performance reports.

Improving the Standard of Living in Rural Communities

Data on the number of water and waste systems developed or expanded are obtained from the Program Loan and Accounting System. Data on the number of jobs resulting from the business programs has come from the Rural Community Facilities Tracking System (RCFTS) in the past, but will be from the RD Application Processing Tracking System (RDAPTS) in the future. Data from RDAPTS will be considered significantly more reliable. Data on the number of households receiving USDA financial assistance to purchase a home comes from the Obligations Report 205, which is derived from Finance Office obligation records and is considered reliable. Data on the success of EZ/EC communities in obtaining funding from non-EZ/EC sources is derived from the Office of Community Development's benchmark management system. The EZ/EC program requires that a set of performance benchmarks be established and maintained for each EZ/EC community. All data is considered reliable for management purposes.

Sustaining Family Farms

The data assessing the number of small farms in the U.S. are based on USDA's National Agricultural Statistics Service (NASS) annual report *Farms and Land in Farms.* This report is released in February of each year and includes data for the previous three years. The February 2003 report, which will include data for 2002, is expected to be released on February 22, 2003.

Performance information on farm loan programs is collected from the Program Loan Accounting System and the Guaranteed Loan System. To help ensure data reliability and quality, internal controls are built into the systems. Additionally, FSA National Office management reviews systems reports to monitor program performance. Comprehensive internal control reviews are conducted in FSA State Offices each year to ensure loan making decisions are sound and that program implementation is in accordance with statutes and regulations. Data reported is also subject to OIG audit. There are no known data limitations.

Key Outcome 1.3: Effectively Meet Responsibilities for Homeland Security

This new Key Outcome has no relevant performance measures from the FY 2002 Annual Performance Plan.

Key Outcome 1.4: Continue to Use the Best Available Science, Information and Technology to Protect the Nation's Agriculture and Food Supply

Reducing the Number and Severity of Pest and Disease Outbreaks

To reduce the number and severity of pest and disease outbreaks in international air passengers who comply with the agricultural quarantine inspections, USDA takes steps both to prevent outbreaks, and to respond effectively to those occurrences. Data used to calculate this compliance rate is collected through the Plant Protection and Quarantine's (PPQ) Agriculture Quarantine Inspection (AQI) Monitoring System and its Work Accomplishment Data System (WADS). Data is collected at multiple Ports-of-Entry for the air passenger pathway by applying standard statistical sampling procedures. Although there is a small percentage of poor quality data (due to port personnel changes, equipment failure, and nonsupport by some local management), the quality and reliability of the monitoring data continues to be acceptable. PPQ national and regional managers are working with specific ports to improve data quality, support issues, and equipment problems.

In August 2001, the National Animal Health Emergency Management Steering Committee (NAHEMS) sponsored a self-assessment of State Animal Health Emergency Management Systems. The State Veterinarian and the Federal Area Veterinarian in Charge for each state and territory (including Puerto Rico and the U.S. Virgin Islands) jointly completed the assessments. The assessment was designed to determine if each state met the Standards for State Animal Health Emergency Management Systems published in January 2000. Since the January 2000 assessment, the NAHEMS Steering Committee has done a biannual assessment of states. Moving to a biannual schedule allows states and the Committee more time for data verification and for providing help to states trying to meet the standards. The next assessment is scheduled for September 2003.

Reducing the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.

Data included are from October 1, 2002, through approximately September 15, 2002, and are considered final and reliable. An automated system (MARCIS) provides information on microbiological, chemical, and pathological analyses of meat and poultry and their processed products. USDA uses the North American Precis Syndicate, Burrelles clipping service, and Media Distribution Services to monitor placement of consumer food safety articles, and print and broadcast media in North America and daily newspapers. For television tracking, USDA uses PCS Broadcast Services, which monitors public service announcements based on actual airtime and viewership of the announcement.

Key Outcome 1.5: Improve the Nation's Nutrition and Health through Food Assistance and Nutrition Education and Promotion

Reducing Hunger and Improving Nutrition in the U.S. Through the Nutrition Assistance Program

USDA uses projected annual participation levels as a proxy measure of performance in maintaining program access and benefit delivery for nutrition assistance programs. These projections reflect USDA's best estimates of voluntary program participation, rather than targets per se. Performance data is drawn from reports from State cooperating agencies that are collected and consolidated by USDA and reviewed for consistency and completeness. Since this data is used to support disbursement of program payments to States, they reflect the most complete record available of program participation and related costs. Final data for this objective will be available 2nd Quarter, FY 2003; final figures are expected to fall within two percent (±) of preliminary figures. Data will be updated in the FY 2003 Annual Performance Report, and analysis will be included of any data that changes beyond the two percent range.

Improving the Diets in U.S. Through the Nutrition Assistance Program

USDA tracks the implementation of nutrition promotion and education efforts during the year; annual mechanisms are generally not available to evaluate the impact of the efforts on the diets of those targeted.

Performance data involving the distribution of educational materials are collected from contractors, including the National Technical Information Services (NTIS), U.S. Department of Commerce, and the District of Columbia Archival Research Catalogue (DC-ARC), which distribute materials for USDA and from USDA-FNS administrative records when materials are distributed directly by the Agency. Contractors provide distribution reports to USDA, which can be verified through management reviews and other reporting mechanisms as resources permit. While this data tracks the overall number of materials disseminated as a result of the campaign, it does not permit determination of the number or proportion of participants reached by these events.

Performance information for WIC mothers initiating breastfeeding is derived from a biennial analysis of WIC participant data, which include data on breastfeeding initiation. The data used represent a census of WIC participants, and thus are not subject to sampling error; in addition, non-response is very low, minimizing bias. Data for FY 2002 will be available in April 2004, and will be included in the FY 2004 performance report.

Data on fruit and vegetable deliveries to schools are derived from the Processed Commodities Inventory Management System (PCIMS), which track commodity purchases for nutrition assistance programs. PCIMS data is reconciled monthly and annually by program analysts to ensure accuracy. Data on the Food Distribution Program on Indian Reservations (FDPIR) sites receiving fresh fruits and vegetables is derived from Defense Department billing information, and verified through USDA administrative records. Since the data maintained in these systems support the inventory of fruits purchased along with the corresponding program costs associated with procuring fruit and vegetable commodities, they reflect the most complete record of performance available in these areas. FY 2002 data will be made available during the second quarter of FY 2003, and will be reported in the FY 2003 Annual Performance Report. USDA is not aware of any significant limitations on the validity or accuracy of this data.

Ensuring Better Diet Quality

Internal records were used to compile data on the number of visitors to USDA's *Healthy Eating Index*. The data, obtained from the site's logs by using the software package WebTrends, consist of individuals who may have visited the site more than once during each reporting period. The data are highly reliable, providing accurate counts of the number of downloads, visitor sessions, most viewed pages, average daily use, as well as other information. Should this source no longer provide such information, Center for Nutrition Policy and Promotion (CNPP) will identify another source.

Key Outcome 1.6: Provide Sensible Management of Our Natural Resources

Maintaining Resource Health and Productive Capacity

The performance data for the indicator on application of conservation on working land are collected through the USDA-NRCS Performance and Results Measurement System. NRCS field employees and local conservation district employees in 2,500 offices across the country enter the data. NRCS state conservationists certify the accuracy of the data provided by their employees. The data for acreage retired from production comes from the USDA-FSA National CRP Contract and Offer Data files. These files are evaluated to determine the environmental benefits of CRP, and upon contract approval, the data is updated to reflect land use, land treatment, and environmental benefits. To help ensure program integrity, service center employees conduct on-site spot checks and review producer files prior to annual payment issuance to ensure conservation practices are maintained in accordance with program requirements.

Protecting the Environment

Data for the indicators for soil and watershed improvements and terrestrial habitat on National Forests and Grasslands are obtained through the FS's Management Attainment Report (MAR). To improve the quality of the data, the FS took several actions in FY 2001. A new reporting database was designed and implemented for the gathering of data in MAR. The new system is intended to minimize the risks of errors from manually consolidating data entry sheets; reduce the amount of time for data entry and tabulation; facilitate field review of accomplishment reports; and improve data analysis, control, and validation efforts.

Agency heads attest to the accuracy and completeness of their reported data. The data is prepared by employees with education and/or training in relevant environmental fields and is examined holistically by the senior environmental professionals.

The abandoned mine sites reclaimed data needs improved definitions to ensure that each unit is reporting the measure consistently. The data review and validation process in FY 2001 identified a discrepancy in how some units were reporting the abandoned mine sites reclaimed data. Several field units reported the elimination of physical hazards as mine reclamation activities. The measure will be formally redefined in FY 2002 to include both physical hazard removal and environmental clean-up activities.

The data for comprehensive nutrient management plans, and nutrient management are collected through the USDA-NRCS Performance and Results Measurement System. NRCS field employees and local conservation district employees in 2,500 offices across the country enter the data. NRCS state conservationists certify the accuracy of the data provided by their employees. The data are considered adequate.

Performance data for conservation buffers comes from the USDA-FSA National CRP Contract and Offer Data Files and from the NRCS Performance and Results Measurement System. Data for acres of land retired from cropping comes from the USDA-FSA National Conservation Reserve Program (CRP) Contract and Offer Data Files. Data for sheet and rill erosion, wind erosion, and carbon sequestered by CRP are estimated using a sample of data points from the National Resources Inventory applied to current CRP lands using CRP contract data. While this is a large sample that can be used to represent erosion reductions, it is an estimate. Future CRP general sign-ups will gather information that will permit the estimation of erosion reductions for each CRP contract, resulting in improved performance reporting.

Data for the indicators for soil and watershed improvements and terrestrial habitat on National Forests and Grasslands are obtained through FS's Management Attainment Report (MAR). To improve the quality of the data, the FS took several actions FY 2001. A new reporting database was designed and implemented for the gathering of data for MAR. The new system is intended to minimize the risks of errors from manually consolidating data entry sheets, reduce the amount of time for data entry and tabulation, facilitate field review of accomplishment reports, and improve data analysis, control and validation reports.

Agency heads attest to the Comprehensive Environmental Response, Compensation, and Liability Act cleanups to the accuracy and completeness of their reported data. The data is prepared by employees with education and/or training in relevant environmental fields and is examined holistically by the senior environmental officials.

The abandoned mine sites reclaimed data needs improved definitions to ensure that each unit is reporting the measure consistently. The data review and validation process in FY 2001 identified a discrepancy in how some units were reporting the abandoned mine sites reclaimed data. Several field units reported the elimination of physical hazards as mine reclamation activities. The measure will be formally redefined in FY 2002 to included both physical hazard removal and environmental clean-up activities.

Key Outcome 1.7: Effectively Implement the Farm Security and Rural Investment Act of 2002

This new Key Outcome has no relevant performance measures from the FY 2002 Annual Performance Plan.

Strategic Goal 2: Enhance the Integrated Operation of USDA through Execution of the President's Management Agenda

Key Outcome 2.1: Improve Human Capital Management

Ensuring Fair and Equitable Service to Customers and Upholding the Civil Rights of Employees

USDA agency reports are used to track civil rights reviews of major programs. Since the reviews are chiefly carried out by program operators in widely scattered locations during various periods of time, the results are subject to the different conditions and interpretations. However, the reports are generally considered to be complete and reliable.

The average reduction in civil rights case processing time was 27 percent during FY 2002. The data on civil rights case processing times were generated by the civil rights case tracking systems. Processing times were recorded based on the dates of case filing and of Reports of Investigation. The data is complete, reliable, and accurate to the extent that pertinent information was properly recorded. Processing times for program and equal employment opportunity cases are indicated below.

Program Cases–Average processing time for program complaints was reduced 38 percent in 2002.
Employment Cases–Average processing time for employment complaints was reduced 22 percent in 2002.

Employee Engagement and Satisfaction

The data on employee satisfaction will be derived from the Government-wide Survey on Human Capital to be published by the Office of Personnel Management in February 2003.

Ensuring USDA Acquires Recurring Commercial Services in the Most Cost Effective Way

The FAIR Act requires agencies to present to the OMB an annual inventory of commercial activities performed by Federal employees. USDA agencies presented their FAIR Act report to the Chief Financial Officer (CFO). The inventories were cleared for content, reasonableness, and adequacy of data. The reports were consolidated into a single submission and forwarded to OMB. Agencies were also required to provide plans for competition.

Increasing the Use of Performance-Based Service Contracting

The accomplishment data on performance-based service contracts (PBSC) is governed by the definitions and reporting criteria established government-wide for this Performance Goal in the Federal Procurement Data System. The percentage of accomplishment represents the ratio of dollars obligated on contracts reported to be using PBSC compared to the dollars obligated on all contracts awarded meeting the definition of PBSC. Data verification is not performed. These government-wide definitions were changed after the initial data reporting, and the definitions were changed again for FY 2002. While the accuracy of the data cannot be verified, the results are at least indicative of the extent to which PBSC is being utilized.

Key Outcome 2.2: Improve Financial Management

Provide Timely and Reliable Financial Management Information

Financial statements are not audited until after the close of the fiscal year. OIG issues a written audit opinion on USDA's Consolidated Financial Statements. The annual report for each fiscal year is issued at the conclusion of the financial statement audit that takes place the following fiscal year. The quality of the data is verified by using OIG's audit report of the FY 2002 Consolidated Financial Statements issued in February 2003.

The target for FY 2002 for implementation of the Foundation Financial Information System USDA-wide is 98 percent. Eight agencies were implemented on schedule, thus meeting the target for FY 2002. In addition to the eight agencies, the OCFO resolved major financial management issues related to cash reconciliation and the Fund Balance with Treasury. The source of the data to compile the number of employees and calculate the percentage of the total USDA workforce served by FFIS is a budget report entitled "Total FTE Employment: Max Schedule Q Detail," run in December each year. This report provides the total number of FTEs in USDA and the number of FTEs by agency.

Improving Stewardship of the Food Assistance Programs

The proportion of FSP benefits issued through EBT as of the end of the fiscal year is calculated from the issuance data provided by States on the USDA-FNS Form 388, which is entered into the National Databank after being reviewed for completeness and consistency. The Department's administrative structure and records provide the accountability necessary to verify completion of the work and thus ensures complete and reliable data in this area.

Key Outcome 2.3: Expand Electronic Government

Improving Information Management Using eGovernment

Data for meeting these performance goals and indicators is based on observation, meetings with USDA agencies, inter-agency groups, moratorium waiver requests, and information submitted through USDA's IT capital planning and investments control process and is believed to be reliable and accurate. Additional data is collected from the agencies for the Quarterly eGovernment Reports to the Secretary and the annual GPEA report submitted to OMB.

Expanding Information and Cyber Security

Data for meeting these performance goals and indicators is based on observation, meetings with USDA agencies, inter-agency groups, moratorium waiver requests, and information submitted through USDA's IT capital planning and investments control process and is believed to be reliable and accurate. Additional data is collected from the agencies for the annual Government Information Security Reform Act report submitted to the OMB. The GAO and USDA OIG have also released data in this area in the past fiscal year.

Key Outcome 2.4: Establish Budget and Performance Integration

This new Key Outcome has no relevant performance measures from the FY 2002 Annual Performance Plan.

Status of Management Challenges and Program Risks

To ensure strong performance, USDA must address its most significant management challenges and program risks. The U.S. General Accounting Office (GAO) report (dated October 2002) entitled *Observations on the Department of Agriculture's Efforts to Address its Major Management Challenges*, and the USDA's Office of Inspector General's (OIG) November 2002 report entitled *Major Management Challenges* identified management challenges and program risks as areas of vulnerability. In the following table, USDA summarizes its strategies for addressing these concerns and ensures accountability for real progress in these vital areas. Appendix C provides the OIG report in its entirety.

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
Farm Programs (OIG)	**Prior audits reported ineligible recipients resulting from comparable adjusted gross income caps in the disaster assistance programs, and recommended discontinuing some special crop programs that have been reintroduced in the current bill.** To help ensure accurate and timely delivery of services to eligible producers, FSA will continue to monitor program delivery and program management through its various review processes, including the County Operations Review program, National Internal Reviews, and program compliance activities.
Farm Service Delivery (GAO)	**USDA did not adopt a quantifiable measure for its efforts to transition to a fully integrated eGovernment environment and that USDA targets for its other two measures are to be determined.** Efforts to develop appropriate quantifiable measures began in FY 2002. During 2003, USDA plans reviews aimed at improving service delivery to farmers. Improving office locations and business processes, such as farm loan servicing, will be examined. The Department will accelerate its efforts to use reengineered business processes based on GIS. Electronic filing is already available for most crop insurance customers and will be available for loan programs and other services in 2003.
Conservation Programs (OIG)	**Compliance reviews will play a key role in ensuring program integrity, and past reviews indicate that the USDA agencies need to strengthen their monitoring and oversight activities.** A Farm Service Farm Bill Implementation Team was organized in synchronization with a USDA-wide Team. The Team includes members from the USDA Budget Office, Office of General Counsel, and OMB. Strengthened oversight and monitoring of the Act implementation strategies will be detailed in rule-making and agency policy statements and program planning, as appropriate, during in FY 2003. NRCS recognizes the need for strengthened monitoring and oversight and plans to focus the Oversight and Evaluation Staff activities on the Act's related reviews. Reviews are planned on Environmental Quality Incentives Programs, Wildlife Habitat Incentives Programs, Farmland Protection Programs, the Electronic Field Office Technical Guide, Nutrient and Pest Management Standard Implementation, Conservation Planning Certification, use of the State Technical Committees, and the Accountability System.
Oversight by Insurance Companies and RMA (OIG)	**Current assessment of the oversight and monitoring procedures titled "Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control (QC) Review System," recommends that USDA identify and report the absence of a reliable QC review system.** Crop Insurance has become a major USDA "farmer safety net." The Manual 14, "guidelines, and expectations for delivery of the Federal Crop Insurance Program," establishes the minimum training and quality control review procedures required by all insurance providers in the delivery of any policy insured or reinsured under the Federal Crop Insurance Act, as amended. The RMA conducts reviews of the insurance providers to determine their adherence to Manual 14 requirements. The results of these reviews are presented to RMA officials and insurance provider representatives in an effort to improve company operations and program integrity. Manual 14 is part of the Standard Reinsurance Agreement (SRA) with the insurance providers and has not been renegotiated since 1998. The SRA can only be renegotiated once between 2001 and 2005. The new SRA, when renegotiated, will contain new procedures and language to improve insurance providers quality control operations. The topic of conflict-of-interest among policyholders, sales agents, claims adjusters, and insurance providers' employees is one of the areas to be addressed.
Implementation of ARPA (OIG)	As a result of prevention efforts, RMA has prevented almost $15 million in improper payments during FY 2002. Many more cases are being investigated. Although implementation of the Agriculture Risk Protection Act of 2000 (ARPA) provisions and prevention activities have been major RMA Compliance priorities throughout the fiscal year, traditional investigation and criminal, civil and administrative processes have generated recoveries of approximately $29 million. In FY 2002, RMA Compliance reviewed more than 10,000 crop insurance policies representing more than $1 billion in liability. The referrals (to and from FSA) that support prevention/deterrence efforts alone now exceed 3,000 policies. This represents an increase of more than 500 percent since FY 2001. RMA expects that referrals will increase again during 2003. These partial first year results represent a dramatic increase in feedback systems, and we are extremely optimistic because of the positive results of ARPA implementation efforts.

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
Bio-security & Bio-safety (OIG)	**Controls and procedures are needed at USDA-funded laboratories (receiving USDA financial assistance). The OIG found minimal or no departmental guidance involving bio-security for these laboratories. The OIG audit found that the responsibility for security was fragmented among the laboratory units. There were no policies or procedures in place to identify the type and location of the pathogens. Security in general at the laboratories needed improvement, but laboratory managers also needed to restrict access.**
• USDA Laboratory Facilities	In the past, USDA has focused primarily on bio-safety, that is, ensuring that pathogens would not be released accidentally contaminating the environment. Now, USDA is focused on bio-security, that is, ensuring that our pathogens do not fall into the hands of individuals or groups that would use them against the United States. The most important laboratories in this regard are the biological safety level–3 (BSL–3) laboratories that work with pathogens such as foot-and-mouth disease and avian influenza. USDA developed security policies and procedures for BSL–3 laboratories (DM 9610–1, released August 30, 2002). The manual establishes policy to protect pathogen holdings against limited external threats and against insider theft. It addresses physical security, cyber-security, personnel suitability, inventory control and incident response plans. Concurrently, USDA contracted with Sandia National Laboratories to conduct security assessments and to recommend security strategies for each BSL–3 laboratory. USDA has allocated more than $10 million to meet the one-time cost of upgrading security at the BSL–3 laboratories. A contract has been let for security upgrades with oversight by the Sandia Laboratories. Initial phases of security upgrades are underway. USDA agencies are implementing the policies and procedures concurrently with the installation of security upgrades. For example, USDA agencies have created both local and national inventories to identify the pathogens held at all USDA laboratories. In addition, all of the agents are categorized by bio-safety level. While all phases of security have not been addressed, primary actions were taken to increase the security forces at each BSL–3 laboratory and in some cases to arm guards.
• USDA Funded Laboratory Facilities	A parallel effort to enhance security is underway for all other laboratories and technical facilities of USDA. Mission critical facilities have had security needs assessments, and measures to enhance their security have begun.
Inadequate Security Procedures over Aircraft (OIG)	**After September 11, OIG reviewed the security of Forest Service aircraft, including air tankers used for aerial dispersal of flame retardant chemicals and other fire suppression activities, because of their potential use as a weapon.** A team of security experts was assembled to review security at 14 air tanker bases, conduct threat assessments, and analyze the countermeasures needed to mitigate the threat. In FY 2002, Security measures such as security lighting, fencing, electronic gates, and internal building security systems at seven air tanker bases were installed as planned. Thirty-eight air tanker bases do not meet the current standards, but funding estimates for needed improvements have been identified. Funding to implement security measures for the remaining air tanker bases has been requested for FY 2003.
Food Supply (OIG)	**To ensure the safety of the American food supply, USDA agencies and particularly the two affected agencies, APHIS and FSIS, must increase coordination and communication among themselves.** The Plant Protection & Quarantine permitting unit has undergone recent staff reorganization. New management and additional personnel are being dedicated to more intense scrutiny of permit requests. New guidelines for containment facilities are being developed, including a policy on enhanced coordination with containment facility personnel, inspectors, and risk-evaluation specialists. The new policy emphasizes better communication with field personnel and headquarters staff. APHIS has begun a series of port reviews, which focus on, among many other things, staffing issues. These reviews will suggest how port managers can better align staff at high volume times and through high-risk pathways. In September 2001, APHIS and FSIS revised their Memorandum of Understanding. The revisions primarily focused on communications between FSIS and APHIS regarding the inspection, handling, and disposition of imported meat and poultry products. Other changes included clarification and reinforcement of FSIS and APHIS's respective authorities and communication channels for operations involving imported meat and poultry products.

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
Need to Strengthen Department-wide Information Security (GAO) Information Resources Management (OIG)	**Reviews found several weaknesses in the security of information technology within the Department. Increased cyber-security remains a priority for the Department. USDA is not fully compliant with OMB Circular A–130 and Presidential Decision Directive. Networks and systems are vulnerable to internal and external intrusion. There are inadequate physical and logical access controls to ensure that only authorized users can access critical agency data. Nine of 11 USDA agencies had not assessed the risks of their systems nor initiated a plan to eliminate or mitigate those risks. There is inadequate oversight to ensure that contractors have the proper security clearances and background checks and that they are sufficiently trained in Federal Security Requirements.** The Department is actively engaged in identifying and addressing its information vulnerabilities, through a strengthened risk management program, development of Department-wide policies and procedures, training, improved day-to-day network management, monitoring and reporting, and increased tracking and monitoring of agency program and system level weakness.
• Information Survivability	In FY 2002, the Department began an information survivability program to ensure disaster recovery and business resumption plans for all critical USDA systems have been prepared and tested. Working with Departmental Administration, OCIO began developing a program to provide agency managers with a standard methodology and appropriate tools to develop and test integrated physical and information technology disaster recovery and business resumption plans.
• Intrusion Detection	Throughout FY 2002, the Department continued to strengthen our intrusion detection capabilities by deploying more monitors and sensors and training technical staff. USDA currently installed all Tier I and Tier II sensors. Tier II sensors are scheduled to be installed in FY 2003. Contract support has been engaged to assist USDA as we expand our intrusion detection capabilities.
• Information Security Awareness/ Physical and Logical Access Controls	OCIO recognizes the critical importance of conducting ongoing awareness and training activities to educate employees, contractors, and clients who affect USDA's information security. Although some USDA agencies have fulfilled their requirement for annual security awareness requirements, there is no consistency across USDA in what training is provided. In FY 2002, USDA began developing a comprehensive awareness program that includes a Department-wide communication effort specifically designed to educate all employees about the security risks facing USDA. At the same time, OCIO is establishing standards and department-wide tools and techniques to ensure the safety of USDA's computing environment. These standards apply to both physical and logical security controls that provide assurance that computing environments are secure and available.
• Risk Management	The USDA OCIO Cyber-Security Program is addressing the issue of risk management on three fronts: 1) to help USDA agencies meet their requirement to assess risks to the information systems they use and manage, standard risk assessment tools have been developed for each of the computer platforms in use throughout USDA; 2) to provide risk assessment training and counseling to agency security managers by OCIO Staff and contracted risk management specialists; and 3) to assist purchasing independent risk assessments from a highly qualified and experienced contractor through an OCIO-established Blanket Purchase Agreement. OCIO is concurrently following a risk-based facility review program to fully assess USDA's critical IT infrastructure. This strategy involves on-site reviews of major USDA information management facilities based on how critical their missions are to the organization. This approach allows OCIO staff to assess existing security controls, security management and administration, and computing environments; to identify security weaknesses; and to provide guidance and counseling. OCIO takes its responsibility for overall security of USDA's information assets seriously. Where appropriate, OCIO is changing security policies and procedures, implementing mitigation actions when vulnerabilities are discovered, developing and implementing standard security tools and techniques, and managing USDA's information security program from an enterprise perspective.
Rural Rental Housing (OIG) • Portfolio Management • Guaranteed RRH Program • Rental Assistance	**Rural Housing Service (RHS) must maintain its current portfolio in good repair so that it will provide safe, decent, and affordable housing for rural Americans.** **The audit found that the pilot program had completed construction of only 222 units. RHS had reported apartment units that were obligated to be built, as being built. RHS restated the GPRA report to reflect the status of the units as proposed for construction rather than as built. RHS needs to continue monitoring the program's growth and success and whether RHS has implemented sufficient controls to ensure accurate reporting of units built.**

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
• RRH Projects Leaving the Program • Unallowable and Excessive Expenses Charged to RRH Projects	**The cost to the Government will increase because funding for rental assistance, which was recommended by OIG, will need to increase. RHS needs to plan for these increased funding requirements.** **RHS needs to monitor the number of incentive payments and ensure that once made, project owners continue to participate in the program and meet the conditions of the incentive payment.** **Unallowable and excessive expenses charged to Rural Rental Housing projects must be disclosed. Continued monitoring of the Agency's implementation of the new regulation is needed to ensure the desired results are achieved.** RHS has drafted a proposed rule to completely restructure its sections 515 and 514/516 loan and grant programs, to improve its ability to ensure properties are maintained, and to provide decent, safe and sanitary rental and farm labor housing. Performance and results reported under the section 538 guaranteed rental program has been revised to be more accurate. Future year appropriation requests will reflect additional funding needed for the Rental Assistance program because of inflation. Section 515 preservation administration has been improved by the implementation of automated preservation incentive underwriting, thereby ensuring that incentive payments are fair. Additional tracking systems for loans entering the prepayment process have been implemented, which will substantially improve the Agency's ability to determine the status of loans proposing prepayment and those that have been prepaid. During the FY 2003, Rural Development will take aggressive action to resolve the two management challenges.
Rural Business-Cooperative Service (OIG) • Business and Industry Loan-making and Servicing Procedures • Waivers of Internal Controls	**The audit found serious conditions with the Business & Industry loans including borrowers with insufficient collateral to secure their loans, businesses that defaulted within months after the loan was made, and loan proceeds used for unauthorized purposes.** **Future use of waiver authority needs to be monitored to ensure that these established controls are not circumvented.** OIG is currently working with the National Office officials to identify actions to be taken. RBS has established internal instructions regarding the waiver of loan regulation processes.
Food Safety Issues (GAO)	**The number of food-borne illnesses has heightened concerns about the effectiveness of the federal food safety system. GAO has found the current multi-agency federal food safety system needs to be replaced by the single food safety agency.** In the Federal government, food safety responsibilities are shared among several entities, most notably USDA, Health and Human Services and the Environmental Protection Agency. Concerns about the need for fundamental changes in food safety programs and about overcoming perceived fragmentation of food safety responsibilities are being addressed through cross-Departmental partnerships and program coordination activities. Recent statistics from the Centers for Disease Control and Prevention show a 21 percent drop in the incidences of foodborne illness during the last six years. Although these figures represent the efforts of several Departments and Federal agencies, State and local governments, regulated industries, schools, and consumers, the USDA FSIS contribution to the reduction of foodborne illnesses cannot be ignored. The creation of a single food safety organization addressing all foods, as suggested by GAO, is beyond the legal scope of USDA or any Federal department. The FSIS is a Federally-mandated program. It can take no independent action to dismantle itself, absorb, or to merge itself with other agencies. Therefore, this management challenge has not been incorporated into the USDA or FSIS GPRA documents.
• OIG Audits	**FSIS' reinspection process and whether it has effective procedures and controls to provide FSIS with a means of ensuring that only wholesome, unadulterated and properly labeled food products enter U.S. commerce. There are concerns about the equivalency determinations FSIS makes of foreign inspection systems, focusing on equivalency determinations for HACCP and Salmonella.** During the last few years, FSIS has enhanced its process to identify and review high-risk firms. FSIS has proceeded with a number of enhancements and prioritized its efforts consistent with available resources. FSIS makes every effort to identify and halt all activity involving contamination of meat, poultry, and egg products. As of the issuance of this report, OIG has not released the official draft reports for Agency comment.

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
Marketing & Regulatory (OIG)	**There is an OIG review underway focusing on APHIS' policies and procedures. The OIG found APHIS could not account for 60 pounds of strychnine-treated bait and over 2,000 capsules containing sodium cyanide. Transfers of agents between locations were not documented, and it cannot be determined if the missing strychorine and cyanide have been accounted for, as well as 13 other restricted-use compounds. An adequate control structure is needed to ensure that the pathogens and restricted materials are not made available to terrorists or others intent on harming U.S. citizens or agriculture.** Upon further examination, it was determined that the APHIS WS program could account for all chemicals. However, an adequate chemical inventory and tracking system was needed. Wildlife Services (WS) has been piloting a new Chemical Inventory and Tracking System in five states for the past six months, and made this tracking system fully operational in October 2002 in all states.
Food Assistance Must Reach Eligible People While Maintaining Program Integrity (GAO) Food Stamp Program (OIG) Child and Adult Care Food Program (OIG & GAO) National School Lunch and School Breakfast Program (OIG)	**Given the size and scope of USDA nutrition assistance programs, the Department faces a significant challenge in providing help to eligible people who need it while protecting the programs from those who would abuse them. GAO identifies three key challenges or risks under Federal nutrition assistance program management: the level of Food Stamp Program (FSP) payment accuracy; the persistence of retailer trafficking of FSP benefits; and the need to improve Child and Adult Care Food Program integrity. In addition, USDA's Office of Inspector General identifies as major management challenges improving eligibility certification accuracy in the National School Lunch and School Breakfast Programs and achieving full implementation of electronic benefit transfer (EBT) in the FSP.** Each of these issues is addressed below: 1. *Administration of the FSP at State Agencies: FSP Payment Accuracy:* Payment accuracy for FY 2001 (most current data available) reached its highest level ever. Although FY 2002 data is not yet available for inclusion in this report, corrective actions undertaken during FY 2002 are discussed in the Federal Managers' Financial Integrity Act (FMFIA) Report on Management Controls section of this report. 2. *Trafficking of FSP Benefits*: Corrective actions were taken during FY 2002. This issue has been removed from the FMFIA Report on Management Controls section of this report, but retailer integrity remains a focus for the Food and Nutrition Service. 3. *Child and Adult Care Food Program Integrity*: Management evaluation work is proceeding as scheduled; updated management guidance and training of sponsors have been slowed by delays in publishing new CACFP management regulations. Corrective actions undertaken during FY 2002 are also discussed in the FMFIA Report for FY 2002 in the Management Controls section of this report. 4. *National School Lunch and Breakfast Program Eligibility:* Although FY 2002 data is not yet available for inclusion in this report, corrective actions undertaken during FY 2002 are discussed in the FMFIA Report for FY 2002 in the Management Controls section of this report. 5. *FSP Electronic Benefits Transfer:* In Fiscal Year 2002, USDA expanded delivery of food stamp benefits through electronic benefits transfer (EBT) to 89 percent of all households and successfully encouraged states falling behind the mandated target of October 2002 to move forward.
Forest Service (FS) Improving Performance Accountability (GAO)	**FS will transition to a new, outcome oriented budget and planning structure that will showing linkages between resources, program activities and results.** The FS continued implementation of the Budget Formulation and Execution System (BFES) that incorporates a results-oriented budget structure and shows linkages between resources, program activities, and results. This approach will allow the FS to provide timely, credible data that demonstrates the impact of funding on actual on-the-ground work accomplished. The first full year of implementation of this effort will be completed with the execution of the FY 2003 budget. At that time, the results of this effort will be realized and evaluated.
Forest Service Management and Program Delivery Issues: (OIG) • FS administration of grants to State and nonprofit organizations	**FS administration of grants to State and nonprofit organizations show significant weaknesses in all aspects of program management. These weaknesses increase the likelihood that program objectives will not be achieved and that Federal funds are not being spent for authorized purposes.** Since FY 1997, the FS has made adjustments to the management of grants and agreements to nonprofit organization(s). Proper controls were implemented to ensure program integrity, program budget planning and accountability. Analysis and reviews occur regularly to protect resources and to ensure prudent use of all funds in achieving the agency mission within the scope of expectations, laws, regulations, and authority. Appropriate records and financial information are maintained and used for decision-making purposes. These actions will continue in FY 2003.

Exhibit 54: Management Challenge Accomplishments

Major Management Challenges and Program Risks	Accomplishments in FY 2002
• Environmental analyses required for timber sales	**There are serious weaknesses in the controls for the preparation and implementation of environmental analyses required for timber sales.** The FS responded to an OIG Audit (#08801–10–AT) by conducting a follow-up review of an expanded sample (51) of timber sales in FS regions. The results of the FY 2000–2001 review timber sale planning, analysis, and documentation problems. OIG concurred with an Administrative Control Plan that was developed in FY 2001. Regional and Washington Office annual reviews of regional timber sales and the associated analyses, documentation, and implementation are scheduled and ongoing. The most recent Regional Review (Region 3, Southwestern Region) occurred in October 2002.
• Polices for dealing with partnerships with private groups	**FS has not developed agency-wide policies for dealing with partnerships with private groups to meet its mission requirements. Direction is needed to ensure these relationships comply with existing laws.** In FY 2001, the FS completed a comprehensive review of existing partnerships, authorities, and policies. Thirteen specific areas were identified where congressional intent could be clarified, expanded, or better aligned with other land management agencies. Work on the improvement of partnership policy, procedures, budget and financial accountability will continue in FY 2003.
• Lacked meaningful goals and objectives with relevant performance measures.	**Strategic and Annual Plans have lacked meaningful goals and objectives with relevant performance measures. Past performance measurement data has been irrelevant and lacked accuracy.** "In FY 2001, the FS revised its strategic plan to better focus on outcomes and results to be achieved over time and to better link strategic goals and objectives to long-term performance measures and 5-year milestones. The agency's fiscal year 2002 performance plan begins to provide a bridge between the strategic plan and the on-the-ground activities funded through the annual budget process by linking annual performance goals and objectives." (P. 29, GAO–01–761, August 23, 2001) The update of the USDA FS Strategic Plan will be completed by September 30, 2003. The Montreal Process Criteria and Indicators will provide the framework for the update and the findings of the National Assessment of resources will be more completely integrated with the updated goals and objectives. In June 2002, the Chief of the FS directed the development of a Performance Accountability System (PAS), a system that integrates annual budget plans with the accomplishment of strategic plan goals. Implementation of PAS will occur between now and Fiscal Year 2005.[1]
• Forest Service National Fire Plan	**Authorized funds are vulnerable to waste and misuse.** The 10-Year Implementation Plan signed by the Secretaries of Agriculture and Interior outlines common performance measures for the FS and Department of Interior agencies. These measures cover all parts of the National Fire Plan, including fire suppression, hazardous fuels treatment, fire rehabilitation, and community assistance, and will be incorporated in the FY 2003 update of the Strategic Plan and in budget and accomplishment reports. The Office of Management and Budget is evaluating government-wide wildland fire management programs using the performance measures in the 10-Year Implementation Plan, the results of which will be published in the President's 2004 budget request.[2]
• Grant and Agreement Administration	**The FS has not effectively managed grants and agreements to ensure that funds appropriated by Congress were expended for their intended purposes and that grantees complied with applicable financial management standards.** The Project Cost Accounting System (PCAS) module, part of FFIS implementation in FY 2000, was established for consistent and accurate accounting of grants and agreements. To respond to the inconsistency with which PCAS was implemented, a full-time position has been dedicated to plan, and then, to manage, a national solution to the inconsistent implementation of PCAS. National FS CFO Bulletins will be issued to clarify PCAS processes and procedures. An on-site strike team will provide expertise in correcting PCAS accounting problems when warranted. Schedule of specific actions TBD.

[1] The U.S. General Accounting Office is currently conducting an extensive program and financial audit update of USDA Forest Service Management Challenges. Audit completion is expected sometime in the first quarter of calendar year 2003 and will likely result in a congressional hearing.
[2] See "A Collaborative Approach for Reducing Wildland Fire Risks to Communities and Environment: 10-Year Comprehensive Strategy Implementation Plan" at www.fireplan.gov/10yrIPfinal.cfm and for additional information go to www.fireplan.gov/

Exhibit 54: Management Challenge Accomplishments

<table>
<tr><th>Major Management Challenges and Program Risks</th><th>Accomplishments in FY 2002</th></tr>
<tr><td>Problems Persist in Processing Discrimination Complaints (GAO)
Civil Rights Complaints (OIG)</td><td>USDA agreed to establish timeframe goals for all stages of its process for addressing civil rights complaints, and to address staff turnover and morale problems in its Civil Rights (CR) Office. The Secretary of USDA will create the position of Assistant Secretary for Civil Rights in USDA as authorized under FSRIA.
• In October 2000, USDA completed a report on civil rights functions and barriers to efficient and timely processing of civil rights complaints. During FY 2002, the recommendations of the report have been implemented as available resources have permitted. These efforts will continue in FY 2003. These efforts include changes in business process, improved training, and improvements to the case tracking process. For FY 2004, a USDA performance measure targets a 25% reduction in civil rights case processing time below FY 2003 levels.
• CR has developed Management Decisions and/or resolved all remaining recommendations with the exception of the following partially completed recommendations:
  • Document-by-document sweep of EEO complaint case files. CR conducted a post OIG Audit inspection of EEO complaint files and submitted a report of its findings dated 02/12/02 to OIG. CR anticipates a file-by-file sweep (document-by-document) in FY 2003); and
  • Provide OIG with final Standard Operating Procedure for Conducting Agency Civil Rights Evaluations. An interim SOP has been completed and signed by the Deputy Director for Programs on 11/02/01. The Program Compliance Division completed its first Agency Civil Rights Evaluation on 05/20/02 and is reviewing the draft report.</td></tr>
<tr><td>Lack of Financial Accountability at USDA
(GAO)

Financial Management
(OIG)</td><td>GAO and OIG have questioned the accuracy of USDA's financial information to evaluate its financial performance and provide assurance that its consolidated financial statements are reliable and presented in conformity with generally accepted accounting principles.
• USDA achieved a clean audit opinion on its financial statements.
• The following steps were taken in FY 2002 to resolve these longstanding problems:
• Provided effective leadership and talent from OCFO to USDA's agencies and the National Finance Center (NFC) to capture break-through rather than incremental value from extensive changes in financial management accountability and accounting operations.
• Implemented effective operational accounting processes within the branches of the NFC, problem agencies and OCFO while transferring knowledge through documentation and training.
• Completed the successful implementation of a standard accounting system at USDA; renovating related corporate administrative systems during FY 2002 with focused, disciplined effective projects.
• Maintained progress on resolving Credit Reform deficiencies and improvements.
• Transformed the FS into operating as an effective, sustainable accountable, financial management function.
• Corrected real and personal property accounting and stewardship inadequacies.
• Enhanced decision-making and cash management of USDA's Working Capital Fund.</td></tr>
<tr><td>Human Capital Management (GAO)</td><td>GAO has identified shortcomings at multiple agencies involving key elements of modern strategic human capital management, including strategic human capital planning and organizational alignment; leadership continuity and success planning; acquiring and developing staffing whose size, skills, and deployment meet agency needs; and creating results-oriented organizational cultures.

In FY 2002, USDA did the following to address human capital management: completed a Skills Gap Analysis; formed a Department-wide Human Capital Team; and developed the Human Capital Framework for the Human Capital Plan. The framework addresses goals, action strategies for the key elements of modern strategic human capital management, e.g., organizational alignment, leadership continuity and succession planning, talent (knowledge management), recruitment, and creating results-oriented organizational cultures. USDA aligned the Human Capital framework with the USDA strategic plan.

To further address our recruitment and skills needs, USDA instituted the Federal Career Intern Program. USDA developed a new Department-wide mentoring program to help develop its workforce. A five-year workforce-restructuring plan was developed addressing workforce needs, deployment, staffing, and a citizen-centered organizational structure.

Employees of USDA participated in the Government-wide Survey on Human Capital. To date, OPM has not released results to the Departments and Agencies.</td></tr>
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Fiscal Year 2002 Program Obligations incurred

The following table depicts the component agencies and staff offices of the Department of Agriculture with total program level dollars for each account allocated to the USDA strategic Goal 1 key outcomes. The program levels have been rounded to the nearest million dollars. Many USDA accounts support multiple key outcomes. An account's funding was allocated to more than one key outcome when the amount for each outcome was significant and could be identified. As a result, the table provides a general indication of the funding dedicated to each key outcome. Administrative funding related to strategic Goal 2 supports all USDA Goal 1 key outcomes. For display purposes in this document, Goal 2 allocations have been reallocated equally among each Goal 1 key outcome.

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations									
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)						
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
OSEC	Office of the Secretary	9.5	1.3	1.3	1.4	1.3	1.3	1.3	1.4
	Homeland Security	60.4	8.5	8.5	9.1	8.5	8.5	8.5	9.1
	Gifts and Bequests	0.7	0.1	0.1	0.1	0.1	0.1	0.1	0.1
OCFO	OCFO	7.9	1.1	1.1	1.1	1.1	1.1	1.2	1.2
	Working Capital Fund	314.8	45.0	45.0	45.0	45.0	45.0	44.9	44.9
OCIO	OCIO	35.4	5.3	5.0	5.3	5.0	5.0	5.0	5.0
	CCE	63.1	-	13.3	-	-	-	24.6	25.2
DA	DA	51.3	7.2	7.2	7.7	7.2	7.2	7.2	7.7
	HMMG	21.3	-	4.7	0.2	-	-	16.4	-
	Buildings and Facilities	176.4	24.7	24.7	26.5	24.7	24.7	24.7	26.5
OC	OC	9.1	1.3	1.3	1.4	1.4	1.3	1.3	1.3
OIG	OIG	72.0	10.1	10.1	10.8	10.1	10.1	10.1	10.8
OGC	OGC	33.7	4.7	4.7	5.1	4.7	4.7	4.7	5.1
OCE	OCE	9.5	1.3	1.3	1.4	1.3	1.3	1.3	1.4
NAD	NAD	12.7	1.8	1.8	1.9	1.8	1.8	1.8	1.9
OBPA	OBPA	6.9	1.0	1.0	1.0	1.0	1.0	1.0	1.0
ERS	ERS	70.2	14.0	8.4	3.5	2.1	19.7	7.0	15.4
NASS	Ag. Estimates and Research	100.2	95.2	-	-	5.0	-	-	-

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations										
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)							
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
NASS	Census of Agriculture	25.8	-	25.8	-	-	-	-	-
Con'td	Trust Funds	0.5	0.5	-	-	-	-	-	-
ARS	ARS Salaries and Expenses	1,026.3	405.4	-	39.0	350.0	80.1	151.9	-
	Buildings and Facilities	55.5	20.9	-	20.4	7.0	2.3	4.8	-
	ARS-No Year Funds	11.0	4.3	-	0.4	3.8	0.9	1.6	-
	Miscellaneous Contributed Funds	20.3	8.0	-	0.8	6.9	1.6	3.0	-
	National Agricultural Library Misc. Contributed Funds	-	-	-	-	-	-	-	-
	Collaborative Research w/ the New Independent States (AID) FY01-02	2.5	1.0	-	0.1	0.9	0.2	0.4	-
	Collaborative Research with the New Independent States (AID) FY02-03	-	-	-	-	-	-	-	-
	Concessions, Fees, Volunteer Service	0.1	-	-	-	-	-	-	-
CSREES	Integrated Activities	42.8	1.5	3.4	10.3	9.4	5.1	12.8	0.2
	Research and Education Activities	610.8	73.3	73.3	24.4	30.5	152.7	109.9	146.6
	Extension Activities	429.0	51.5	51.5	17.2	21.5	107.3	77.2	103.0
	Outreach for Socially Disadvantaged Farmers	-	-	-	-	-	-	-	-
	Native American Endowment Fund	1.5	0.2	0.2	0.1	0.1	0.4	0.3	0.3
APHIS	Salaries and Expenses	1,121.6	-	-	1,121.6	-	-	-	-
	Buildings and Facilities	10.6	5.3	-	5.3	-	-	-	-
	Misc. Trust Funds	25.6	-	-	25.6	-	-	-	-
FSIS	Salaries and Expenses	757.1	-	-	-	757.1	-	-	-
	(FSIS No Year Funds)	5.4	-	-	0.9	4.5	-	-	-
	Trust Funds	4.9	-	-	-	4.9	-	-	-
GIPSA	Salaries and Expenses	33.1	33.1	-	-	-	-	-	-
	Inspection and Weighing	34.3	34.3	-	-	-	-	-	-
AMS	Marketing Services	111.7	111.7	-	-	-	-	-	-
	Payments to States & Possessions	1.3	1.3	-	-	-	-	-	-
	Perishable Ag. Commodities Act	0.1	0.1	-	-	-	-	-	-

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations									
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)						
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
AMS Cont'd	Section 32 Funds for Strengthening Markets	803.5	803.5	-	-	-	-	-	-
	Trust Funds	113.3	113.3	-	-	-	-	-	-
	Expenses, Refunds, Inspection & Grading of Farm Products	5.0	5.0	-	-	-	-	-	-
RMA	Administrative and Operating Expenses	73.7	-	73.7	-	-	-	-	-
	FCIC	3,845.5	-	3,845.5	-	-	-	-	-
FSA	Salaries and Expenses	1,374.7	12.1	374.4	-	-	-	120.8	867.5
	Dairy Indemnity Program	0.1	-	-	-	-	-	-	0.1
	Emergency Conservation Program	32.4	-	-	-	-	-	32.4	-
	State Mediation Grants	3.5	-	2.8	-	-	-	-	0.7
	Agriculture Conservation Program	5.7	-	-	-	-	-	5.7	-
	Conservation Reserve Program	-	-	-	-	-	-	-	-
	Rural Clean Water Program	-	-	-	-	-	-	-	-
	Ag. Credit Insurance Program Account	1,747.9	-	1,747.9	-	-	-	-	-
	Ag. Credit Insurance Liquidating Account	18.7	-	18.7	-	-	-	-	-
	Ag. Credit Insurance Direct Loan Financing Account	1,376.0	-	1,376.0	-	-	-	-	-
	Ag. Credit Insurance Guaranteed Loan Financing Account	198.4	-	198.4	-	-	-	-	-
	Ag. Resource Conservation Demo Direct Loan Financing Account	1.5	-	1.5	-	-	-	-	-
	Farm Storage Loan Program Financing Account	65.0	-	65.0	-	-	-	-	-
	Apple Loans Direct Loan Financing Account	5.0	-	5.0	-	-	-	-	-
	CCC Export Loans Program Account	223.0	-	223.0	-	-	-	-	-
	Commodity Credit Corporation	25,718.0	514.4	-	-	-	-	3,086.2	22,117.5
	P.L. 480 Direct Credit Financing Account	162.0	81.0	81.0	-	-	-	-	-
	P.L. 480 Liquidating Account	4.0	2.0	2.0	-	-	-	-	-
	Debt Reduction Financing Account	23.0	11.5	11.5	-	-	-	-	-
	P.L. 480 Title I Food for Progress, Financing Account	11.0	5.5	5.5	-	-	-	-	-
	Export Loans Program Account (fiscal year)	4.0	-	4.0	-	-	-	-	-

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations										
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)							
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
FSA	Export Guarantee Financing Account	259.0	-	259.0	-	-	-	-	-
Cont'd	Guaranteed Loans Liquidating Account	-	-	-	-	-	-	-	-
	Emergency Boll Weevil Direct Loan Financing Account	-	-	-	-	-	-	-	-
	Emergency Boll Weevil Loan Program Account	-	-	-	-	-	-	-	-
	Farm Storage Facility Loans Program Account	1.0	-	0.8	-	-	-	-	0.2
NRCS	Conservation Operations	921.3	-	-	-	-	-	921.3	-
	Watershed Surveys and Planning	11.3	-	-	-	-	-	11.3	-
	Watershed and Flood Prevention Operations	210.0	-	-	-	-	-	210.0	-
NRCS	Resource Conservation and Development	49.0	-	-	-	-	-	49.0	-
	Rehabilitation of Aging Infrastructure	9.8	-	-	-	-	-	9.8	-
	Forestry Incentive Programs	10.1	-	-	-	-	-	10.1	-
	Farm Security and Rural Investment Programs	554.6	-	-	-	-	-	554.6	-
RD	Administrative Expenses	611.6	-	611.6	-	-	-	-	-
	Rural Community Advancement Program	1,288.6	-	1,288.6	-	-	-	-	-
RHS	Rural Housing Assistance Grants	41.4	-	41.4	-	-	-	-	-
	Rental Assistance Program	704.6	-	704.6	-	-	-	-	-
	Farm Labor Program Account	36.8	-	36.8	-	-	-	-	-
	Mutual and Self-Help Housing Grants	28.8	-	28.8	-	-	-	-	-
	Rural Housing Voucher Program	-	-	-	-	-	-	-	-
	Rural Housing Insurance Fund Program Account	834.1	-	834.1	-	-	-	-	-
	Rural Housing Insurance Fund Liquidating Account	489.2	-	489.2	-	-	-	-	-
	Rural Housing Insurance Fund Direct Loan Financing Account	2,226.6	-	2,226.6	-	-	-	-	-
	Rural Housing Insurance Fund Guaranteed Loan Financing Account	154.5	-	154.5	-	-	-	-	-
	Rural Community Facility Direct Loans Financing Account	494.9	-	494.9	-	-	-	-	-
	Rural Community Facility Guaranteed Loans Financing Account	6.3	-	6.3	-	-	-	-	-

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations									
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)						
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
RBCS	EZ/EC Grants	13.2	-	13.2	-	-	-	-	-
	Rural EZ/EC Grants	8.2	-	8.2	-	-	-	-	-
	Rural Cooperative Development Grants	0.3	-	0.3	-	-	-	-	-
	National Sheep Industry Improvement Center	17.7	-	17.7	-	-	-	-	-
	Rural Development Loan Fund Program Account	-	-	-	-	-	-	-	-
	Rural Development Loan Fund Direct Loan Financing Account	46.8	-	46.8	-	-	-	-	-
	Rural Economic Development Loans Program Account	3.9	-	3.9	-	-	-	-	-
	Rural Economic Development Loans Liquidating Account	-	-	-	-	-	-	-	-
	Rural Economic Development Direct Loan Financing Account	20.9	-	20.9	-	-	-	-	-
	Rural Economic Development Grants	2.6	-	2.6	-	-	-	-	-
	Rural Business & Industry Direct Loans Financing Account	6.8	-	6.8	-	-	-	-	-
	Rural Business & Industry Guaranteed Loans Financing Account	123.8	-	123.8	-	-	-	-	-
RUS	Rural Electrification and Telecommunications Loans Program Account	76.1	-	76.1	-	-	-	-	-
	Rural Electrification and Telecommunications Loans Liquidating Account	1,064.0	-	1,064.0	-	-	-	-	-
	Rural Electrification and Telecommunications Loans Direct Financing Account	5,322.7	-	5,322.7	-	-	-	-	-
	Rural Electrification and Telecommunications Loans Guaranteed Financing Account	-	-	-	-	-	-	-	-
	Rural Telephone Bank Program Account	11.2	-	11.2	-	-	-	-	-
	Rural Telephone Bank Liquidating Account	22.5	-	22.5	-	-	-	-	-
	Rural Telephone Bank Direct Loan Financing Account	200.6	-	200.6	-	-	-	-	-
	Rural Development Insurance Fund Liquidating Account	265.4	-	265.4	-	-	-	-	-
	Rural Communication Development Fund Liquidating Account	2.8	-	2.8	-	-	-	-	-
	Rural Water & Waste Disposal Direct Loans Financing Account	1,456.5	-	1,456.5	-	-	-	-	-
	Rural Water & Waste Disposal Guaranteed Loans Financing Account	0.1	-	0.1	-	-	-	-	-
	Distance Learning and Telemedicine Program Account	30.8	-	30.8	-	-	-	-	-
	Distance Learning and Telemedicine Direct Loan Financing Account	99.0	-	99.0	-	-	-	-	-
	Local Television Loan Guarantee Program Account	2.0	-	2.0	-	-	-	-	-
	Local Television Loan Guarantee Financing Account	-	-	-	-	-	-	-	-

Exhibit 55: Funding by Key Outcome

USDA FY 2002 Program Obligations									
Agency	Account	FY 2002 Program Obligations ($ in Millions)	USDA Goal 1 Key Outcomes ($ in Millions)						
			1.1	1.2	1.3	1.4	1.5	1.6	1.7
RUS (Cont'd)	High Energy Cost Grants	-	-	-	-	-	-	-	-
FAS	Foreign Agricultural Services and General Sales Manager	197.1	197.1	-	-	-	-	-	-
	P.L. 480 Title I Subsidy	239.0	239.0	-	-	-	-	-	-
	P.L. 480 Title I Ocean Freight Differential Grants	28.0	28.0	-	-	-	-	-	-
	P. L. 480 Title II	1,014.0	1,014.0	-	-	-	-	-	-
FNS	Food Program Administration	131.0	-	-	-	-	131.0	-	-
	Food Stamp Program	22,017.0	-	-	-	-	22,017.0	-	-
	Child Nutrition Program	10,341.0	-	-	-	-	10,341.0	-	-
	WIC	4,480.0	-	-	-	-	4,480.0	-	-
	Commodity Assistance	174.0	-	-	-	-	174.0	-	-
	Food Donations	152.0	-	-	-	-	152.0	-	-
FS	Capital Improvement and Maintenance	469.2	-	-	-	-	-	469.2	-
	Forest and Rangeland Research	277.9	-	-	-	-	-	277.9	-
	State, Private and International Forestry	282.2	-	-	-	-	-	282.2	-
	Wildland Fire Management	2,197.0	-	-	-	-	-	2,197.0	-
	National Forest System	1,389.9	-	-	-	-	-	1,389.9	-
	Range Betterment Fund	2.0	-	-	-	-	-	2.0	-
	Management of National Forest Lands for Subsistence Uses	5.9	-	-	-	-	-	5.9	-
	Land Acquisition Accounts	218.7	-	-	-	-	-	218.7	-
	Other Accounts	0.6	-	-	-	-	-	0.6	-
	Permanent Appropriations	220.2	-	-	-	-	-	220.2	-
	Trust Funds	44.7	-	-	-	-	-	44.7	-
Totals By Key Outcome			4,000.4	24,303.6	1,389.7	1,315.8	37,777.2	10,641.5	23,396.3
USDA Total		102,824.6							

INSPECTOR GENERAL ACT AMENDMENTS OF 1988 MANAGEMENT'S REPORT ON FINAL ACTION (AUDIT FOLLOW-UP)

Highlights

During FY 2002, USDA agencies completed corrective actions on 107 audits. USDA began the year with 246 audits that had reached management decision and added an additional 87 audits during the year. By the end of FY 2002, the total audit inventory was 226 (including 11 audits in appeal status). This represents an eight percent decrease in the audit inventory as compared to the previous fiscal year. Over the past four years, our audit inventory has declined by over ten percent.

Introduction

The Office of the Chief Financial Officer (OCFO) is responsible for audit follow-up at USDA. USDA continues to improve oversight and timeliness of resolved audits by:

- Closely monitoring agencies' activities to address audit findings and
- Working with agencies and the Office of Inspector General (OIG) to identify and resolve issues that affect timely completion of corrective actions.

The Inspector General Act Amendments of 1988 require reporting on audit reports that remain open more than one year past the date of management decision. The report must include:

- 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);
- The number of new management decisions (MD) reached;
- The disposition of audits with final action; and
- For each audit report, the date issued, dollar value, and an explanation of why final action has not been taken. For audits that are in formal administrative appeal or legislative solution, reporting may be limited to the number of affected audits.

Audit Follow-up Process

Audit follow-up is a process used to ensure prompt and responsive action is taken once management decision has been reached on recommendations contained in final audit reports. USDA agencies are required to prepare combined time-phased implementation plans and interim progress reports for all audits that remain open one or more years beyond the management decision date. Time-phased implementation plans are submitted at the end of each semiannual period, and are updated to include new audits being reported for the first time. These plans contain corrective action milestones for each recommendation, and corresponding estimated completion dates.

Agencies also provide interim progress reports on the status of corrective action milestones listed in the time-phased implementation plan. Interim reports are produced quarterly. These reports show incremental progress toward completion of planned actions, changes in planned actions, actual or revised completion dates, and explanations for any revised dates. Exhibit 56 provides definitions for the terms used in this section.

Exhibit 56: Definitions

Disallowed Cost	A questioned cost that management sustains or agrees is not chargeable to the government.
Final Action	The completion of all actions that management has concluded are necessary in its management decision with respect to the findings and recommendations included in an audit report; and in the event that management concludes no action is necessary, final action occurs when a management decision is made.
FTBU	A recommendation by OIG that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: • reductions in outlays; • deobligation of funds from programs or operations; • withdrawal of interest subsidy costs on loans or loan guarantees, insurance, or bonds; • costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor, or grantee; • avoidance of unnecessary expenditures noted in preaward reviews of contract or grant agreements; or • any other savings, which are specifically identified.
Management Decision	Management's evaluation of the audit findings and recommendations and the issuance of a final decision by management concerning its response to the findings and recommendations, including necessary actions and an estimated completion date.
Questioned Cost	A cost OIG questions for the following: • an alleged violation of a provision of a law, regulation, contract, grant, cooperative agreement, or other agreement or document governing the expenditure of funds; • a finding that, at the time of the audit, the cost is not supported by adequate documentation; or • a finding that the expenditure of funds for the intended purpose is unnecessary or unreasonable.

Resolved Audit Inventory

Resolved audits are those audits where management decision has been reached on all recommendations in the audit report.

At the beginning of the fiscal year, USDA agencies and OIG had reached management decision on all recommendations in 246 audits. During the fiscal year, management decision was reached on an additional 87 audits. Management completed corrective actions on 107 audits. At the end of the fiscal year, the total resolved audit inventory is 226, which includes 11 audits in appeal status. This represents an eight percent decrease in the audit inventory as compared to the previous fiscal year. Exhibit 57 shows the decreasing trend in our audit inventory over the past four years.

Exhibit 57: Decrease in Total Resolved Audit Inventory

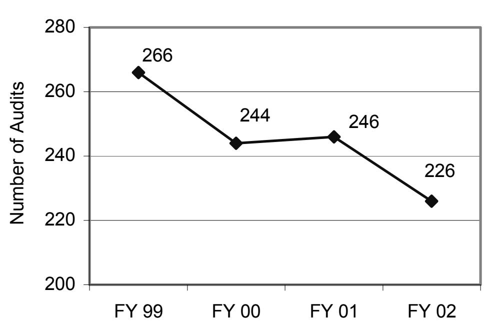
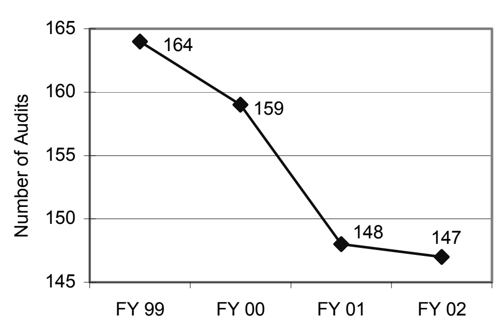


Exhibit 58: Decrease in Reportable Audits



The number of reportable audits (audits with management decision but without final action one or more years past the management decision date) has decreased slightly, by one percent. However, there were an additional 17 audits scheduled for completion by September 30, 2002, but final action documentation was not received and evaluated in time to meet this year's reporting deadline. These audits will be considered in the next reporting period. Exhibit 58 on the previous page shows that the number of reportable audits has decreased by over ten percent over the past four years.

Beginning and Ending Inventory for Audits With Disallowed Costs and Funds to Be Put to Better Use

Exhibits 59 and 60 show the disposition of monetary amounts for audits that achieved final action and the audit inventory balances for disallowed costs and funds to be put to better (FTBU) use amounts only.

Of the 107 audits that achieved final action during the period, 49 audits contained disallowed costs. The number of disallowed costs audits remaining in the inventory at the end of the period is 111 with a monetary value of $126,636,309.

Final action occurred on 22 audits that involved FTBU amounts. We project more efficient use for 95 percent of the amount identified, based on the corrective actions implemented.

The number of FTBU audits remaining in the inventory at the end of FY2002 is 45 with a monetary value of $586,962,365.

Exhibit 59: Inventory of Audits With Disallowed Costs

Disallowed Costs	# of Audits	Dollar Amounts
Beginning balance	126[1]	$110,383,334
Plus: New MDs	34	$29,721,201
Total audits pending	160	$140,104,535
Adjustments		($11,932,657)
Revised Subtotal	160	$128,171,878
Less: Final Actions	49	
Disallowed costs recovered		($1,535,569)[2]
Audits Pending Final Action at the End	111	$126,636,309

[1]Balance adjusted to remove 10 audits with questioned costs but no recovery recommended.

[2]This amount does not include $138,301 of interest collected.

Exhibit 60: Inventory of Audits With Funds to be Put to Better Use

Funds to be Put to Better Use	# of Audits	Amount
Beginning balance	53	$489,473,051
Plus New MDs	14	$166,313,900
Total Audits Pending	67	$655,786,951
Less: Final Actions	22	
Funds to be put to better use:		
FTBU implemented		($65,419,364)
FTBU not implemented		($3,405,222)
Total FTBU amounts		($68,824,586)
Audits Pending at the end of the Period	45	$586,962,365

Adjustments to Disallowed Costs

For audits with disallowed costs DC that achieved final action, the amount OIG and management agreed to collect totaled $13,468,226. However, adjustments totaling $11,932,657 (representing 89 percent of the total) were made for the following reasons: 1) changes in management decision, 2) legal decisions, 3) write-offs, 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs, 5) agency discovery, and 6) appeals.

Exhibit 61: Distribution of Adjustments to Disallowed Cost

Category	Amount
Change in Management Decision	$3,871,431
Legal Decision	$3,517,686
Write Off	$2,899,893
Agency Documents	$1,466,700
Agency Discovery	$(4,101)
Appeal	$181,048

Exhibit 61 shows the distribution of adjustments by reason and dollar amount.

Reportable Audit Statistics by USDA Agency

Reportable audits are separated into three groups:

- Audits that are without final action, but for which corrective action is continuing as planned and deemed to be on schedule;
- Audits behind schedule which have missed their original estimated completion dates; and
- Audits for which all administrative actions have been completed and the only action remaining is the collection of disallowed costs. Exhibit 62 shows the distribution of the 147 audits included in this report, by responsible USDA agency.

Exhibit 62: Distribution of Audits by USDA Agency (In U.S. dollars)

	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
Agency	No.	DC	FTBU	No.	DC	FTBU	No.	DC	FTBU
APHIS	1	-	-	2	-	-	4	8,891,635	-
DA	1	-	-	2	193,973	249,866	-	-	-
FNS	-	-	-	13	612,318	72,397,246	6	6,364,710	-
FS	5	-	-	21	1,350,000	70,269,210	-	-	-
FSA	1	921,386	-	7	516,526	208,043,386	31	14,682,745	335,002
FSIS	-	-	-	3	$0	-	-	-	-
NASS	-	-	-	1	$0	-	-	-	-
NRCS	1	-	2,970,003	-	$0	-	1	21,033,708	-
OCFO	-	-	-	5	101,027	-	-	-	-
OCIO	-	-	-	2	-	-	-	-	-
RBS	-	-	-	4	150,000	100,000	-	-	-
RD	-	-	-	1	-	-	-	-	-
RHS	1	1,034,459	11,896,622	16	141,680	38,237,777	-	-	-
RMA	-	-	-	9	69,217	23,818	6	1,696,503	13,264,866
RUS	-	-	-	2	-	-	1	35,118	-
Totals	10	1,955,845	14,866,625	88	3,134,741	389,321,303	49	52,704,419	13,599,868

Reportable audits (excluding the 49 that are pending collections only) are individually listed in Exhibit 63 and are categorized by the reason final action has not occurred. These audits are pending:

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

Audits previously reported to Congress are identified in Exhibit 63 by the placement of an asterisk after the audit number.

Exhibit 63: Audits One Year or More Past the Management Decision Date

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	Monetary Amount FTBU (U.S. dollars)
(33) Pending issuance of policy/guidance					
03601-15-KC	03/31/00	04/30/03	FSA Emergency Conservation Program	12,583	2,794,586
03601-36-TE*	06/08/00	02/28/03	FSA Farm Loan Program Guaranteed Loans	-	205,248,800
04099-1-HQ*	02/01/96	06/30/03	RHS Legislative Proposals to Strengthen the Rural Rental Housing Program	-	-
04600-5-KC*	9/30/93	06/30/03	RHS Rural Rental Housing Program, Servicing of HUD Section 8/515 Projects	-	4,815,119
04600-47-CH*	9/30/94	06/30/03	RHS Rural Rental Housing Program, Management Operations	-	-
04601-1-KC*	12/16/96	06/30/03	RHS Rural Rental Housing Program, Additional Servicing of Section 8/515 Projects	65,910	33,147,535
04801-4-CH*	02/12/99	07/31/03	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
05600-4-TE*	09/30/93	02/28/03	RMA FCIC Crop Year 1991 Claims	-	-
05601-5-TE*	03/15/99	12/31/03	RMA Prevented Plantings of 1996 Insured Crops	69,217	23,818
08002-2-SF*	11/28/00	09/30/02	FS Valuation of Lands Acquired in Congressionally Designated Areas	-	-
08003-2-SF*	08/05/98	09/30/02	FS Toiyabe/Humboldt National Forest Land Adjustment Program	-	27,900,000
08003-6-SF*	07/14/00	09/30/02	FS Zephyr Cove Land Adjustment	1,350,000	18,700,000
08099-146-SF*	05/05/94	10/30/02	FS Influence of Interest Groups on Timber Sales Management	-	-
08401-9-AT	02/25/00	12/30/02	FS FY 1999 Financial Statements	-	-
08601-1-AT*	03/29/96	06/30/03	FS Hazardous Waste at Active or Abandoned Mines	-	1,950,000
08601-5-SF*	09/30/93	09/30/03	FS Graduated Rate Fee System	-	3,617,616
08601-7-SF*	05/23/95	10/01/02	FS Controls Over Research Services Provided to External and Forest Service Clients	-	5,024,245
08801-6-SF*	01/19/00	09/30/02	FS Land Adjustment Program San Bernadine National Forest & South Zone	-	-
08801-13-AT*	03/31/00	10/01/02	FS National Fire Cache System	-	-
23099-1-FM*	3/30/00	10/31/02	OCIO Security Over Data Transmission in the Department Needs Improvement	-	-
27010-11-CH*	08/25/97	09/30/04	FNS National School Lunch Program Verification of Applications in Illinois	-	31,200,000
27099-13-SF*	03/23/01	10/15/02	FNS Appeal Process	-	-
27600-6-AT*	03/31/95	06/30/03	FNS Day Care Homes Nationwide	-	-
27601-3-CH*	03/22/96	06/30/03	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-7-SF	08/23/99	06/30/03	FNS Presidential Initiative: Operation Kiddie Care	-	34,551,576
33004-1-AT	03/07/00	03/31/03	APHIS Plant Protection and Quarantine Activities in Florida	-	-
33601-1-CH*	06/28/96	12/31/02	APHIS Licensing of Animal Exhibitors	-	-
34001-1-HQ*	12/17/96	12/31/02	RBS Minority Enterprise Financial Acquisition Corp., Cooperative Agreement, Kansas City, KS	150,000	100,000
34601-1-HY*	07/22/98	10/31/02	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
50099-1-AT*	01/13/95	09/30/02	OCFO Use of Cooperative Agreements	-	-
50601-2-CH	03/30/01	03/31/03	RD Verification of the Government Performance and Results Act – Program Performance in Rural Development	-	-
50801-3-HQ*	09/29/97	10/31/03	FSA Minority Participation in FSA's Farm Loan Program	-	-
50801-11-TE	09/29/00	09/30/02	OCFO Advances to Nonprofit Organizations for Grants/Cooperative Agreements	73,768	-
(11) Pending conclusion of investigation, negotiation or administrative appeal					
03006-17-AT*	07/24/96	09/30/03	FSA Disaster Assistance Program Crop Year 1999, Kenansville, NC	921,386	-
03801-15-TE*	03/29/96	10/31/02	FSA Texas Agricultural Mediation Program	503,943	-

Exhibit 63: Audits One Year or More Past the Management Decision Date

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	FTBU (U.S. dollars)
04010-5-CH*	12/20/95	12/31/03	RHS Rural Rental Housing Program, Croix Management—Taylor Falls, MN	17,243	-
04099-1-HY*	11/07/95	02/28/03	RHS Rural Rental Housing Program, Whistleblower Complaint, San Juan, PR	-	-
04601-7-SF*	08/03/00	09/30/02	RHS Rural Housing Service, Farm Labor Housing Program State of Florida	16,745	-
04801-6-HY*	03/17/99	12/31/02	RHS Rural Rental Housing Program, Lewiston Properties, Fayetteville, NY	-	-
04801-9-SF*	01/27/99	12/30/03	RHS Rural Rental Housing Program—DBSI Realty Corporation, Boise, ID	8,794	20,850
05099-2-KC*	07/14/98	07/31/03	RMA Quality Control for Crop Insurance Determinations	-	-
23801-1-HQ*	08/20/98	03/31/03	DA Review of Office of Operations Contract with B&G Maintenance, Inc.	-	249,866
27010-19-SF*	11/18/99	TBD	FNS Summer Food Service Program—Smart Start Food Program	468,752	499,860
34004-5-HY*	02/18/00	12/31/02	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(12) Pending receipt and/or processing of final action documentation					
04004-1-AT	08/30/01	03/31/03	RHS Williamsburg Enterprise Community	20,259	-
05099-8-KC*	03/31/00	12/31/02	RMA Standard Reinsurance Agreement Reporting Requirements	-	-
08099-47-AT*	12/15/93	09/30/02	FS Management Report	-	-
08601-4-AT*	03/31/98	12/30/02	FS Wildlife and Fisheries Habitat	-	148,049
08801-3-AT	09/30/96	09/30/02	FS Real and Personal Property Issues	-	-
08801-3-SF*	06/16/00	12/30/02	FS Review of the Confidential Financial Disclosure System	-	-
09401-5-HQ	04/05/01	11/29/02	RUS FY 2000 Rural Telephone Bank Management Issues	-	-
24601-1-CH*	06/21/00	09/30/02	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
24601-1-FM	04/04/01	12/30/02	FSIS Review of FSIS Staffing and Budget Management	-	-
24601-4-AT*	06/21/00	09/30/02	FSIS District Enforcement Operations Compliance Activities	-	-
50020-14-CH	10/02/00	10/31/02	RBS Single Audit of Leech Lake Reservation, Special Revenue Fund	-	-
50099-3-TE	07/20/01	09/30/02	NRCS Grants/Agreements with the National Fish and Wildlife Foundation	-	2,970,003
(17) Pending systems development, implementation, or enhancement					
03099-32-KC*	12/22/99	09/30/03	FSA Controls Over Administrative Payment Operations	-	-
04099-72-FM*	09/28/90	10/31/02	RHS Collection Systems and Other Selected Areas	313	254,273
08099-37-AT*	08/24/92	12/30/02	FS FY 91 Financial Statements	-	-
08099-42-AT*	08/03/93	09/30/02	FS FY 92 Financial Statements	-	-
08099-49-AT*	06/10/94	09/30/02	FS FY 93 Financial Statements	-	-
08401-1-AT*	06/20/95	09/30/02	FS FY 94 Financial Statements	-	-
08401-4-AT	07/18/96	09/30/02	FS FY 1995 Financial Statements	-	-
08401-7-AT	07/13/98	12/30/02	FS FY 1997 Financial Statements	-	-
08401-8-AT	02/23/99	12/30/02	FS FY 1998 Financial Statements	-	-
09600-5-HQ*	04/06/92	09/30/03	RUS FY 1991 Management Letter	-	-
27099-4-KC*	01/31/00	03/31/04	FNS Food Stamp Program Participation by Disqualified Retailers	-	-
27099-18-HY	09/05/01	06/30/03	FNS Security Over Information Technology Resources	-	-
27601-8-CH*	01/21/97	03/31/04	FNS Food Stamp Program—Retailer Monitoring with Store Tracking and Redemption Subsystem	-	-
50099-11-FM*	03/25/98	07/31/04	OCFO Review of Controls in the Payroll/Personnel and T&A Systems	27,259	-

Exhibit 63: Audits One Year or More Past the Management Decision Date

Audits	Date Issued	Estimated Completion Date	Audit Title	Monetary Amount DC (U.S. dollars)	FTBU (U.S. dollars)
50601-3-CH	07/23/01	12/30/03	APHIS Assessment of APHIS & FSIS Inspection Activities to Prevent the Entry of Foot and Mouth Disease	-	-
50401-21-FM*	05/29/98	09/30/06	RHS Audit of the Rural Development Consolidated Financial Statements for FY 1996	-	-
50601-8-KC*	01/25/00	03/31/03	FSA Conservation Reserve Program Acreage Enrollments—Signup 18	-	-
(13) Pending results of internal monitoring or program review					
03099-14-KC*	08/12/96	10/31/03	FSA Grain Warehouse Examination Process	-	-
04601-8-SF*	01/12/00	05/31/03	RHS Farm Labor Housing Program—State of Washington	6,015	-
05099-1-KC*	03/03/98	04/30/05	RMA Transfer of Catastrophic Risk Protection Policies to Reinsured Companies	-	-
05099-1-TE*	09/30/97	10/31/03	RMA Reinsured Companies Actual Production History Self-Reviews	-	-
05099-6-KC*	09/30/99	04/30/05	RMA Servicing of Catastrophic Risk Protection Policies	-	-
05600-1-TE*	09/28/89	10/31/03	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
08001-1-HQ*	06/28/00	09/30/03	FS Implementation of the Government Performance and Results Act	-	-
08601-25-SF	06/22/01	12/30/03	FS Working Capital Fund Enterprise Services	-	2,600,000
08801-4-TE*	02/15/98	09/30/03	FS Collection of Royalties on Oil and Gas Production	-	-
26099-1-FM	05/14/01	09/30/03	NASS Security of NASS Information Technology Resources	-	-
27401-8-HY*	06/27/97	09/30/05	FNS FY 1996 Financial Statements	-	-
27601-6-KC*	06/18/97	09/30/03	FNS Food Distribution Program on Indian Reservations	41,898	6,145,810
50801-2-HQ	02/27/97	09/30/04	DA Evaluation Report for the Secretary on Civil Rights Issues (Phase 1)	-	-
(3) Pending results of request for change in management decision					
50099-2-HQ*	07/11/96	10/31/02	DA Review of USDA Contracts with Synex, Inc.	193,973	-
50099-28-FM*	07/18/00	10/31/02	OCIO President's Council on Integrity and Efficiency Critical Infrastructure Protection Review	-	-
50401-35-FM	02/25/00	09/30/02	OCFO FY 1999 USDA Consolidated Financial Statements	-	-
(1) Pending OGC or OIG advice					
05099-22-AT	01/31/94	12/31/02	RMA Tobacco Indemnity Payments— Mitchell County, Georgia	-	-
(5) External Action Required					
04004-4-CH*	03/13/98	07/30/03	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process in East Lansing, MI	6,401	-
04801-5-KC*	11/02/98	03/01/03	RHS Rural Rental Housing Program, Brookview Management, Inc., St. Louis, MO	-	-
08003-5-SF	12/15/00	06/30/03	FS Land Acquisitions and Urban Lot Management Lake Tahoe Basin Management Unit	-	10,329,300
27099-9-HY*	12/14/99	03/31/03	FNS State Option Food Stamp Program	-	-
50401-36-FM*	11/09/00	12/30/02	OCFO FY 1999 Working Capital Fund Consolidated Financial Statements	-	-
(3) Pending Administrative Action					
04801-11-TE	09/23/99	TBD	RHS Calhoun Property Management—Mansfield, Louisiana	1,034,459	11,896,622
08099-6-SF	03/27/01	12/30/02	FS Security Over USDA Information Technology Resources	-	-
27010-20-SF	11/30/00	12/31/02	FNS Child and Adult Care Food Program State Oversight of Small, Independent Centers—California	101,668	-
Total Number Audits (98)			Total $	5,090,586	404,187,928

FEDERAL MANAGERS' FINANCIAL INTEGRITY ACT REPORT ON MANAGEMENT CONTROLS

Highlights

For the first time in more than ten years, USDA's Message From the Secretary provides reasonable assurance that the Department is in compliance with the objectives of both Section 2 and Section 4 of the FMFIA, except for the weaknesses described in Exhibit 67. A major achievement this year is the removal of the Central Accounting System as a material financial system nonconformance for the Department. As of September 30, 2002, all but two USDA agencies have been converted from the Central Accounting System to the Foundation Financial Information System (FFIS). For the remaining two agencies, the effective date of conversion was October 1, 2002. Based on the work performed during FY 2002 and prior years, the Department's integrated financial management system is compliant with the objectives of Section 4 of FMFIA.

There were no new material financial system nonconformances identified in FY 2002. Individual agencies identified material deficiencies and/or financial systems nonconformances, but these did not rise to the level of Departmental material deficiencies. Criteria are listed on page 94.

In FY 2002 USDA reduced the number of material deficiencies by almost half—a noteworthy achievement that reflects an improving environment of internal control. We began the year with 32 material deficiencies and closed it with 19 material deficiencies: 17 material weaknesses and two financial system nonconformances. Our FY 2003 goal is to reduce the remaining deficiencies by half and eliminate them in FY 2004.

Background

The Federal Managers' Financial Integrity Act (FMFIA) requires agencies to provide an assurance statement that Federal programs are operated efficiently and effectively; provide reasonable assurance that obligations and costs comply with applicable laws and regulations; Federal assets are safeguarded against fraud, waste and mismanagement; and transactions are accounted for and properly recorded. The law also requires a separate statement as to whether financial management systems conform to standards, principles, and other requirements to ensure that Federal managers have timely, relevant, and consistent financial information for decision-making purposes.

Under the Federal Financial Management Improvement Act (FFMIA) agencies are required to report whether financial management systems substantially comply with the federal financial management systems requirements, federal accounting standards, and the United States Government Standard General Ledger at the transaction level. If any agency is not in compliance with the FFMIA, a remediation plan to bring the agency's financial management systems into substantial compliance is required. The Department has a remediation plan to correct its material financial system nonconformances and FFMIA noncompliances. These plans are included in the FY 2002 Five-Year Financial Management Plan.

Management Controls Program

USDA's management controls program ensures compliance with the requirements of the FMFIA and the Office of Management and Budget (OMB) Circulars A–123, "Management Accountability and Control," and A–127 "Financial Management Systems."

Within USDA, Sub-cabinet Officials, Agency Heads, and Heads of Staff Offices are responsible for ensuring that their programs are operating efficiently, effectively, and in compliance with relevant laws; and that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the Office of Inspector General, USDA's management works aggressively to determine the root causes of our material deficiencies and quickly remedy them. Under the leadership of the Office of the Chief Financial Officer, a new Management Controls Manual will be implemented during FY 2003 to institutionalize processes and aid in the early identification, detection and correction of internal control weaknesses.

USDA Guidelines for Reportable Material Weaknesses

A Departmental Material Weakness is a weakness in internal controls that satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees.
- Violates statutory or regulatory requirements.
- Deprives the public of needed services.
- Significantly weakens safeguards against waste, loss, unauthorized use or misappropriation of funds, property or other assets.
- Significantly impairs fulfillment of the Department's mission.
- Results in a conflict of interest.
- Is of a nature that omission from the annual Report on Management Controls could reflect adversely on the actual or perceived management integrity of the Department.

A Departmental Material Financial System Nonconformance satisfies one or more of the following criteria:

- Merits the attention of the Executive Office of the President and the relevant Congressional oversight committees.
- Prevents USDA's primary financial management system from achieving central control over agency financial transactions and resource balances.
- Prevents compliance of the primary financial management system with standards published by the OMB circular A–127, which include the availability of timely, consistent, and relevant financial information for decision-making purposes.

Material Weaknesses and Nonconformances Reported in the FMFIA and FFMIA

The following summarizes a few of USDA's 19 material deficiencies. Exhibit 67 identifies the corrective actions planned for these and other material deficiencies.

Administration of the Food Stamp Program at State Agencies

The Food and Nutrition Service (FNS) Food Stamp Program national level error rate needs to be reduced. Over-issuance of program benefits results in a loss of program dollars while under-issuance results in eligible clients receiving less benefits than they are entitled to receive. FNS will continue to provide oversight to ensure that controls and error reduction strategies continue. Focus will remain on the development of error analysis and corrective actions for States with the greatest impact on the national error rate.

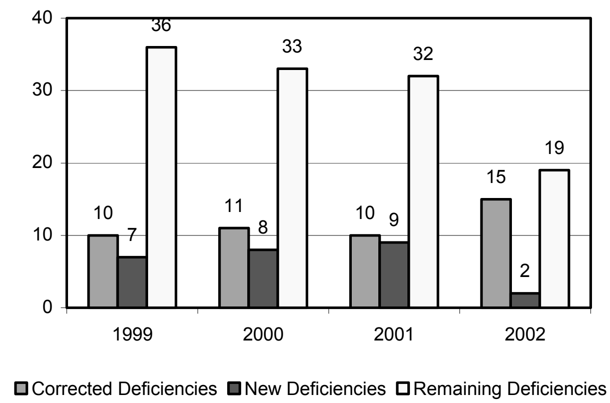
Adequacy of Financial Systems

The Forest Service (FS) financial accounting system lacks controls in the accounting and reporting sub-systems to ensure financial information is reliable and funds are adequately controlled. The FS will implement improvements identified as a result of the assessment of the fire activity business cycle. Additionally, FS will establish reconciliation procedures and revise financial management manuals and handbooks.

USDA Information Security Weakness

The Department's ability to protect its assets from fraud, misuse, disclosure, and disruption needs strengthening. The Department, under the direction of the Office of the Chief Information Officer, will continue to develop policy, publish guidance and regulations, and provide training in the areas of information system risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation, and security awareness.

Exhibit 64: Material Deficiencies Decline by nearly 50%



Historical Data on Material Deficiencies

Exhibit 64 reflects the Department's progress over the last four years in resolving material deficiencies. The Department has reduced the number of material deficiencies from a high of 36 in FY 1999 to 19 for FY 2002. This represents a 47 percent decrease in the number of outstanding material deficiencies reported over the past four years. The level of correction continues to exceed the number of new deficiencies reported.

Of the 32 material deficiencies reported last year, 15 or 47 percent were corrected or determined to be no longer material. Two new Section 2 material weaknesses were identified in FY 2002.

USDA continues to focus on correcting its longstanding weaknesses. Exhibit 66 shows that 8 or 53 percent of the corrected deficiencies were identified in 1999 or prior years. Of the 19 remaining material deficiencies, more than half are scheduled for completion in FY 2003.

Exhibit 65: Material Deficiencies Aging Analysis

Fiscal Year Identified	1999 and Prior	2000	2001	2002	Total
Beginning Balance FY 2002	16	7	9	-	32
Add: New Weaknesses Reported in FY 2002	-	-	-	2	2
Deduct: Completed or Deemed Nonmaterial in FY 2002	8	4	3	-	15
Pending Completion	8	3	6	2	19

Exhibit 66 identifies material deficiencies where corrective actions were completed or the weakness is deemed no longer material (as of the end of FY 2002).

Exhibit 66: Material Deficiencies Corrected or No Longer Material

Responsible Agency	Title of Material Deficiencies	Year Identified
FNS	Illegal Transactions Involving the Exchange of Food Stamps	1990
FS	Management and Use of Forest Resources	1992
	Internal Controls in the Contracting Area	1998
	Real Property Management Subsystem	1989
RD	Business Programs Compliance with All Applicable Civil Rights Laws, Executive Orders, and Program Requirements	2000
	Lack of and Effective System of Controls Over Performance Reporting	2001
	Lack of Controls in Place to Protect Alternative Agricultural Research and Commercialization Corporation Investment Portfolio	1999
OCFO	Adjustments and Reconciliations of Ledger Accounts at the National Finance Center	1996
	Financial Management Systems Do Not Meet Current Accounting Standards	2000
	Material Internal Control Problems Exist in the Accountability and Valuation of Personal Property in Working Capital Fund Activity Centers	2000
	FFIS Account Reconciliations	2001
	Controls Over Unliquidated Obligations	2001
	Departmental Financial Information System	1992
OCIO	Telecommunications and Network Planning	1995
	Weakness of Security Over Data-Transmission in USDA	2000

Exhibit 67: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Estimated Completion Date
Section 2 Material Weaknesses				
DA	USDA Agencies' Internal Controls Over the Purchase Card Management System (PCMS): Strengthen and improve internal controls over purchase card operations and better use the PCMS automated system.	Issue revised PCMS guidance and develop oversight queries. Complete deployment on upgraded PCMS software and provide training.	FY 2002	FY 2004
FNS	Management of the Food Stamp Program (FSP) Recipient Claims: Procedures for establishing, recording, adjusting and reporting on claims need strengthening.	Evaluate and monitor State agencies' (SA) procedures and systems for the establishment and reporting of claims for the Food Stamp Program.	FY 1991	FY 2005
	Administration of the FSP at State Agencies: Over issuance of program benefits results in a loss of program dollars while under issuance results in eligible clients receiving less benefits than they are entitled to receive. The rate of inaccurate benefit payments exceeds acceptable levels in some States.	Implement revised guidance and forms to improve States quality and control data coding and analysis. Implement monitoring process to allow for early identification and intervention of rising error rates in States.	FY 1991	FY 2003
	Management of the Child and Adult Care Food Program (CACFP): Management and monitoring of weaknesses in the CACFP need strengthening. Sponsoring organizations have been identified as receiving excessive Federal funding for meal service and administration.	Publish the CACFP management improvement regulations. Conduct management evaluations in approximately half of the CACFP SA's. Reassess, revise, and implement training on final regulations.	FY 1994	FY 2004

Exhibit 67: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Estimated Completion Date
FNS (Cont'd)	National School Lunch (NSL) and Breakfast Program Eligibility: Data indicate a problem with the integrity of household eligibility determination for free and reduced price meals.	Develop and implement legislative provisions requiring State Agencies to collect and report on data verification activities to FNS.	FY 1999	FY 2004
	Procurement in the Child Nutrition Program: Improper procurement of goods and services have been found to occur in the NSL, School Breakfast and CACFP, and Summer Food Service Programs.	Revise procurement guidance and evaluate its effectiveness against improper procurement of goods and services.	FY 2001	FY 2004
	Administrative Cost Reimbursements Made to Partner Agencies Operating Food Assistance Programs Under the Auspices of FNS: Assure that SA's operating Federal food assistance programs adhere to legislative, OMB, Departmental and program guidelines when claiming Federal reimbursement for program operations and Automated Data Processing (ADP) acquisitions.	Develop, implement, and evaluate the effectiveness of guidance on WIC cost allocations and ADP approval processes to ensure that cost reimbursement made to States are appropriate.	FY 2001	FY 2004
FS	Adequacy of Financial Systems: The financial accounting system lacks controls in the accounting and reporting subsystems to ensure financial information is reliable and funds are adequately controlled.	Identify and implement improvements needed to ensure transactions are entered into FFIS timely. Develop reconciliation procedures for FFIS interfaces with subsidiary systems.	FY 1989	FY 2003
	Administration of Lands Special Use Permits: Lands Special Use Permits are not being administered to a standard consistent with law, regulations, or policy.	Complete solicitation, analysis and publication of comments on proposed revisions to categorical exclusions on Special Uses. Issue guidance to clarify agency policy for use by field units. Provide "Special Uses" training in every region. Publish and implement final rule for recovery of costs.	FY 1992	FY 2003
	Performance Reporting: The FS currently lacks effective internal controls over the quality of data included in the performance accomplishment report under GPRA.	Implement a new set of performance measures and use them as a tool to assess and report on agency performance.	FY 2000	FY 2004
	Timber Sale Environmental Analysis: Administrative controls over the analysis and preparation of environmental documents and implementation of mitigation measures applicable to timber sales have not been effective. Heritage resources, water quality, and threatened, endangered, or sensitive species and their habitat may be adversely affected.	Revise FS manual and handbooks for implementing the National Environment Policy Act (NEPA). Implement corrective actions detailed in the Administrative Control Plan. Identify existing and develop new training and tools for effective analysis of NEPA and Endangered Species Act documentation.	FY 2001	FY 2004
FSA	Reimbursement Claims Not Made for Excess Ocean Freight Payments: Unclaimed cargo preference reimbursements for costs incurred under the P.L. 480 food assistance programs administered by the U.S. Agency for International Development.	Work with the U.S. Agency for International Development (USAID) to reach an agreement on outstanding billing issues Bill and request reimbursements from the Department of Transportation—Maritime Administration and submit semi-annual apportionment requests to OMB, as needed.	FY 2001	FY 2003

Exhibit 67: Summary of Outstanding Material Deficiencies and Estimated Completion Dates

Responsible Agency	Material Deficiency Description	Corrective Actions Remaining To Be Taken	Year Identified	Estimated Completion Date
OCFO	USDA's Financial Statement Preparation is Not Timely or Reliable: OCFO uses manual processes to compile the statements. Additionally, the process is inadequately documented and results in additional delays to the audit. *	Design and implement data extraction and cross-walking functionality. Select and implement reporting tool for information delivery.	FY 2001	FY 2003
OCIO	USDA Information Security Weaknesses: Weaknesses have been identified in the Department's ability to protect its assets from fraud, misuse, disclosure, and disruption.	Improve controls in the Department's information security in the areas of risk assessment and mitigation, physical and logical access controls, disaster recovery and contingency planning, intrusion detection and response, certification and accreditation and security awareness.	FY 2000	FY 2003
	Information Security Weaknesses at the National Information Technology Center (NITC): Weaknesses in logical access controls, identifying vulnerabilities on systems, controlling access to its network from the Internet, and compliance with existing Federal security guidelines.	Identify NITC common resources requiring public internet access and migrate them to the Demilitarized Zone (DMZ), and encrypt all sensitive data transported in and out of the DMZ through securing services. Assist agencies in identifying resources needed to maintain their applications, and define the actions needed to bring systems into compliance with requirements.	FY 2001	FY 2003
	Security Weaknesses in USDA's Controls Over Website Content	Ensure that agencies have reviewed their websites and expunge any data considered to be sensitive. Finalize guidance on defining sensitive data to be excluded from all USDA web content, and work with USDA's OIG to address concerns on maintaining an inventory of agency websites.	FY 2002	FY 2003
RD	Oversight of the Multi-Family Housing Program (MFH): The MFH Program lacks adequate oversight and internal controls which has led to program abuse by program participants.	Publish Final Rule for Multi-Family Housing Loan Programs.	FY 1992	FY 2003
Section 4 Financial Management System Nonconformance				
RD	Direct Loan Servicing and Reporting Subsystem: Direct Loan Servicing and Reporting system not in compliance with OMB Circular A–127 "Financial Management Systems."	Complete incremental implementation of the Rural Utilities Loan Servicing System to replace legacy loan systems.	FY 1994	FY 2003
FSA	Report Systems: Foreign credit subsidiary and credit reform systems are not fully automated and integrated into the Commodity Credit Corporation's Core Accounting Foreign Credit Subsidiary and Credit System (CORE).	Implement new General Sales Manager System to interface directly with the CORE general ledger and replace the Financial Management System accounting structure in the APLUS System (P.L. 480) with the CORE accounting structure.	FY 2000	FY 2004

* On January 7, 2003, USDA obtained a clean audit report on the FY 2002 Financial Statements.

III. CONSOLIDATED FINANCIAL STATEMENTS

U.S. Department of Agriculture
CONSOLIDATED BALANCE SHEET
As of September 30, 2002
(in millions)

Assets (Note 2):	
Intragovernmental:	
Fund balance with treasury (Note 3)	$ 39,617
Investments (Note 5)	96
Accounts receivable, net (Note 6)	242
Other (Note 10)	1
Total intragovernmental	39,956
Cash and other monetary assets (Note 4)	165
Investments (Note 5)	15
Accounts receivable, net (Note 6)	1,866
Loans receivable and related foreclosed property, net (Note 7)	75,543
Inventory and related property, net (Note 8)	749
General property, plant, and equipment, net (Note 9)	4,862
Other (Note 10)	284
Total assets	123,440
Liabilities (Note 11):	
Intragovernmental:	
Accounts payable	637
Debt (Note 12)	75,868
Other (Note 14 & 15)	21,393
Total intragovernmental	97,898
Accounts payable	3,046
Loan guarantee liability (Note 7)	1,077
Debt held by the public (Note 12)	84
Environmental and disposal liabilities (Note 13)	22
Other (Note 14 & 15)	10,560
Total liabilities	112,687
Commitments and contingencies (Note 16)	
Net position:	
Unexpended appropriations	26,196
Cumulative results of operations	(15,443)
Total net position	10,753
Total liabilities and net position	$ 123,440

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF NET COST
For the Year Ended September 30, 2002
(in millions)

Program Costs (Notes 17, 18, 19):	
Intragovernmental gross costs	$ 7,897
Less: Intragovernmental earned revenues	983
Intragovernmental net costs	6,914
Gross costs with the public	
Grants	51,837
Loan Cost Subsidies	(994)
Indemnities	3,945
Commodity program costs	5,408
Stewardship land acquisition	212
Other	15,145
Less: Earned revenues from the public	9,597
Net cost with the public	65,956
Net Cost of Operations	$ 72,870

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION
For the Year Ended September 30, 2002
(in millions)

	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances	$ (21,379)	$ 31,639
Prior period adjustments (Note 19)	(907)	210
Beginning balances, as adjusted	(22,286)	31,849
Budgetary Financing Sources:		
Appropriations received		72,616
Appropriations transferred out		(19,746)
Other adjustments (rescissions, etc.)		(986)
Appropriations used	80,229	(57,536)
Non-exchange revenue	2	
Transfers out without reimbursement	(478)	
Other budgetary financing sources	(105)	
Other Financing Sources:		
Donations and forfeitures of property	14	
Transfers out without reimbursement	(1,351)	
Imputed financing from costs absorbed by others	1,328	
Other	74	
Total Financing Sources	79,713	(5,653)
Net Cost of Operations	72,870	
Ending Balances	$ (15,443)	$ 26,196

The accompanying notes are an integral part of these statements.

U.S. Department of Agriculture
COMBINED STATEMENT OF BUDGETARY RESOURCES
For the Year Ended September 30, 2002
(in millions)

	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:		
Budget authority:		
Appropriations Received	$ 84,637	$ -
Borrowing authority (Notes 21 & 22)	34,055	9,689
Net transfers	(2,281)	
Unobligated balances:		
Beginning of period	24,498	2,341
Net transfers, actual	125	
Spending authority from offsetting collections:		
Earned		
Collected	21,603	7,183
Receivable from Federal sources	(695)	(762)
Change in unfilled customer orders		
Advance received	148	
Without advance from Federal sources	55	664
Subtotal	21,112	7,084
Recoveries of prior year obligations	2,664	288
Permanently not available	(52,408)	(1,893)
Total Budgetary Resources	112,402	17,509
Status of Budgetary Resources:		
Obligations incurred (Note 20):		
Direct	64,482	12,245
Reimbursable	29,382	
Subtotal	93,864	12,245
Unobligated balance:		
Apportioned	4,578	4,252
Exempt from apportionment	276	
Other available	299	
Unobligated balance not available	13,385	1,012
Total Status of Budgetary Resources:	112,402	17,509
Relationship of Obligations to Outlays:		
Obligated balance, net, beginning of period	19,624	10,812
Obligated balance, net, end of period:		
Accounts receivable	(1,048)	(107)
Unfilled customer orders from Federal sources	(267)	(676)
Undelivered orders	14,561	14,107
Accounts payable	6,292	438
Outlays:		
Disbursements	92,034	9,105
Collections	(21,751)	(7,182)
Subtotal	70,283	1,923
Less: Offsetting receipts	1,275	130
Net Outlays	$ 69,008	$ 1,793

The accompanying notes are an integral part of these statements

U.S. Department of Agriculture
CONSOLIDATED STATEMENT OF FINANCING
For the Year Ended September 30, 2002
(in millions)

Resources Used to Finance Activities:	
Budgetary Resources Obligated	
Obligations incurred	$ 106,271
Less: Spending authority from offsetting collections and recoveries	31,166
Obligations net of offsetting collections and recoveries	75,105
Less: Offsetting receipts	1,404
Net obligations	73,701
Other resources	
Donations and forfeitures of property	14
Transfers out without reimbursement	(1,351)
Imputed financing from costs absorbed by others	1,328
Other	74
Net other resources used to finance activities	64
Total resources used to finance activities	73,765
Resources Used To Finance Items Not Part of the Net Cost of Operations:	
Change in budgetary resources obligated for goods, services, and benefits ordered but not yet provided	4,371
Resources that fund expenses recognized in prior periods	3,174
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	(9,739)
Other	(13,805)
Resources that finance the acquisition of assets	16,310
Other resources or adjustments to net obligated resources that do not affect net cost of operations	6,069
Total resources used to finance items not part of the net cost of operations	6,380
Total resources used to finance the net cost of operations	67,385
Components of 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	88
Upward/Downward reestimates of credit subsidy expense	(167)
Increase in exchange revenue receivable from the public	(4,045)
Other	1,636
Total components of Net Cost of Operations that will require or generate resources in future periods	(2,488)
Components not Requiring or Generating Resources:	
Depreciation and amortization	520
Revaluation of assets or liabilities	397
Other	7,056
Total components of Net Cost of Operations that will not require or generate resources	7,974
Total components of Net Cost of Operations that will not require or generate resources in the current period	5,485
Net Cost of Operations	$ 72,870

The accompanying notes are an integral part of these statements

NOTES TO THE FINANCIAL STATEMENTS

As of September 30, 2002
(in millions)

Note 1. Significant Accounting Policies

Reporting Entity

The Department provides a wide variety of services in the United States and around the world in seven distinct mission areas: Farm and Foreign Agricultural Services; Food, Nutrition, and Consumer Services; Natural Resources and Environment; Food Safety and Inspection Services; Marketing and Regulatory Programs; Research, Education, and Economics; and Rural Development.

Principles of Consolidation

The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government and the form and content for entity financial statements specified by the Office of Management and Budget (OMB) in OMB Bulletin No. 01–09, as applicable. The financial statements include the accounts of the Department of Agriculture and its twenty-one agencies, including four Government corporations. Significant intradepartmental activity and balances have been eliminated, except for the Statement of Budgetary Resources that is presented on a combined basis.

Comparative Reporting

Comparative financial statements are not presented since the Department received a disclaimer of opinion in fiscal year 2001. The OMB agreed that the financial management resources of USDA are best directed toward improving underlying financial accounting weaknesses rather than preparing comparative financial statements for fiscal year 2002.

Use of Estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Actual results could differ from those estimates.

Revenue and Other Financing Sources

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, the sales price is fixed or determinable, and collectibility 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 nonmarketable 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 with the public 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 year 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 year 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

Operating materials and supplies are valued on the basis of historical cost using a weighted average method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, plant, and equipment 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 personal property and real property range from 5 to 8 years and 10 to 50 years, respectively. Capitalization thresholds for personal property, except for internal use software, and real property are $5,000 and $25,000, respectively. The capitalization threshold for internal use software is $100,000. The capitalization threshold for real property was changed from $5,000 to $25,000 effective October 1, 2001.

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 Postemployment Benefits

Other postemployment 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 postemployment benefits is the present value of future payments.

Contingencies

Contingent liabilities are recognized when a past event or exchange transaction has occurred, a future outflow or other sacrifice of resources is probable, and the future outflow or sacrifice of resources is measurable.

Note 2. Non-Entity Assets

Intragovernmental:		
Fund balance with Treasury	$	1,337
Cash and other monetary assets		71
Accounts receivable		126
Total non-entity assets		1,534
Total entity assets		121,906
Total assets	$	123,440

Non-entity assets include proceeds from the sale of timber payable to Treasury and employer contributions and payroll taxes withheld for agencies serviced by the National Finance Center.

Note 3. Fund Balance with Treasury

Fund Balances:		
Trust Funds	$	370
Revolving Funds		8,943
Appropriated Funds		29,091
Other Fund Types		1,212
Total	$	39,617
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	$	10,625
Unavailable		12,645
Obligated Balance not yet Disbursed		16,347
Total	$	39,617

Other fund types include deposit and clearing accounts.

Note 4. Cash and Other Monetary Assets

Cash	$	165

Cash includes excess cash reserves from fee-for-service programs of $86 million and cash held in escrow to pay property taxes and insurance for single-family housing borrowers of $71 million.

Note 5. Investments

	Cost	Amortization Method	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental Securities:					
Non-marketable:					
Par value	$ 63		$ -	$ 63	$ 63
Market-based	30	Straight Line	3	33	33
Total	93		3	96	96
Other Securities:					
AARC	15		-	15	15
Total	$ 15		$ -	$ 15	$ 15

Note 6. Accounts Receivable, net

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Accounts Receivable			
Intragovernmental	$ 243	$ 1	$ 242
With the Public	2,137	271	1,866
Total	$ 2,380	$ 272	$ 2,108

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

Table 1. Total Loans Receivable and Related Foreclosed Property, Net

Total Loans Receivable and Related Foreclosed Property, Net

FY 2002 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Foreign Loans	$ 7,852	$ 90	$ -	$ 4,259	$ 3,683
Farm Loans	3,976	307	44	456	3,871
Home Loans	14,957	108	39	5,178	9,925
Utility Loans	20,093	50	-	1,874	18,268
Community Loans	2,821	30	-	22	2,829
Business and Industry Loans	49	-	-	11	38
Pre-1992 Total	49,748	584	84	11,801	38,615
Obligated Post-1991					
Foreign Loans	2,978	36	-	1,702	1,312
Farm Loans	4,588	109	4	1,545	3,157
Home Loans	13,190	64	35	2,171	11,119
Utility Loans	11,564	6	-	572	10,998
Community Loans	5,055	55	-	754	4,356
Business and Industry Loans	524	4	-	197	332
Post-1991 Total	37,900	274	40	6,939	31,274
Total Direct Loan Program Receivables	$ 87,648	$ 858	$ 123	$ 18,740	$ 69,889
Defaulted Guarantee Loans					
Pre-1992					
Foreign Loans	$ 5,171	$ 28	$ -	$ 2,566	$ 2,632
Business and Industry Loans	12	-	-	9	3
Pre-1992 Total	5,182	28	-	2,575	2,635
Post-1991					
Foreign Loans	1,759	47	-	770	1,036
Home Loans	4	-	-	-	4
Business and Industry Loans	180	-	-	108	72
Post-1991 Total	1,943	47	-	878	1,112
Total Defaulted Guarantee Loans	$ 7,125	$ 75	$ -	$ 3,453	$ 3,747
Loans Exempt from Credit Reform Act:					
Commodity Loans	$ 1,729	$ -	$ -	$ 177	$ 1,552
Other Foreign Receivables	364	-	-	10	354
Total Loans Exempt	$ 2,093	$ -	$ -	$ 187	$ 1,906
Total Loans Receivable and Related Foreclosed Property, Net					$ 75,543

Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1999) Direct Loans

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning balance of the subsidy cost allowance	$ 7,909	$ 6,383
Add: subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	383	416
Default costs (net of recoveries)	143	141
Fees and other collections	(77)	(102)
Other subsidy costs	35	67
Total of the above subsidy expense components	485	521
Adjustments		
Loan modifications	9	35
Fees received	12	7
Loans written off	(188)	(133)
Subsidy allowance amortization	(454)	(123)
Other	197	96
Ending balance of the subsidy cost allowance before reestimates	7,970	6,786
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	20	696
Technical/default reestimate	(943)	428
Total of the above reestimate components	(923)	1,123
Ending balance of the subsidy cost allowance	$ 7,047	$ 7,909

Table 3. Direct Loan Subsidy Expense by Program and Component

Current Reporting Year — Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Current Year
P.L. 480, Title I	$ 37	$ 29	$ -	$ 15	$ 80	$ -	$ (138)	$ (210)	$ (348)	$ (268)
Debt Reduction Fund	-	-	-	-	-	9	-	(69)	(69)	(60)
Food for Progress	-	-	-	-	-	-	-	(112)	(112)	(112)
Farm Storage Facility Loan Program	-	1	-	-	1	-	(1)	(6)	(6)	(5)
Apple Loan Program	-	-	-	-	-	-	-	1	1	1
Agriculture Credit Insurance Fund (ACIF)	10	88	(1)	(26)	72	-	(30)	41	11	83
Rural Community Facilities Fund	18	1	(1)	-	18	-	3	(15)	(12)	6
Rural Housing Insurance Fund	220	13	(75)	51	210	-	(47)	(423)	(470)	(260)
Rural Electrification Loans	(2)	2	-	(2)	(2)	-	210	(117)	93	90
Rural Telephone Loans	4	-	-	-	4	-	4	(6)	(2)	2
Rural Telephone Bank	1	-	-	-	1	-	1	(3)	(2)	(2)
Rural Water and Waste Disposal Loans	83	1	-	(3)	80	-	22	(27)	(5)	76
Rural Business and Industry Loans	(6)	8	-	-	2	-	(3)	4	1	2
Rural Development Loan Fund	16	-	-	-	16	-	-	(2)	(2)	15
Rural Economic Development Loans	4	-	-	-	4	-	-	(1)	(1)	3
Total Subsidy Expense, Direct Loans	$ 383	$ 143	$ (77)	$ 35	$ 485	$ 9	$ 20	$ (943)	$ (923)	$ (429)

Prior Reporting Year — Subsidy Expense for New Direct Loans Disbursed

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Prior Year
P.L. 480, Title I	$ 28	$ 24	$ -	$ -	$ 52	$ -	$ 6	$ (48)	$ (42)	$ 11
Debt Reduction Fund	-	-	-	-	-	35	-	(19)	(19)	17
Food for Progress	-	-	-	-	-	-	-	(34)	(34)	(34)
Farm Storage Facility Loan Program	-	2	-	-	2	-	1	(3)	(2)	-
Apple Loan Program	-	-	-	-	1	-	(2)	-	(2)	(2)
Agriculture Credit Insurance Fund (ACIF)	26	86	(25)	22	108	-	(29)	950	922	1,029
Rural Community Facilities Fund	16	-	(2)	1	16	-	8	11	19	35
Rural Housing Insurance Fund	228	13	(74)	48	214	-	271	(158)	113	327
Rural Electrification Loans	(3)	12	(1)	(1)	8	-	326	(221)	105	113
Rural Telephone Loans	3	-	-	-	4	-	42	(35)	7	11
Rural Telephone Bank	1	-	-	-	1	-	11	(9)	2	2
Rural Water and Waste Disposal Loans	96	1	-	(3)	93	-	47	(36)	11	104
Rural Business and Industry Loans	(2)	2	-	-	1	-	13	28	41	41
Rural Development Loan Fund	19	-	(1)	1	20	-	(1)	1	-	20
Rural Economic Development Loans	4	-	-	-	4	-	2	(1)	2	6
Total Subsidy Expense, Direct Loans	$ 416	$ 141	$ (102)	$ 67	$ 521	$ 35	$ 696	$ 428	$ 1,123	$ 1,680

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

Direct Loans	Current Year	Prior Year	Current Year Over (Under) Prior Year
Farm and Foreign Agricultural Services Mission Area			
P.L. 480, Title I	$ 122	$ 101	$ 21
Farm Storage Facility Loan Program	66	84	(17)
Boll Weevil Loan Program	-	10	(10)
Apple Loan Program	1	11	(10)
Agriculture Credit Insurance Fund (ACIF)	963	1,072	(109)
Mission area total	1,153	1,278	(125)
Rural Development Mission Area			
Rural Community Facilities Fund	201	163	38
Rural Housing Insurance Fund	1,207	1,222	(16)
Distance Learning and Telemedicine Loans	40	14	25
Rural Electrification Loans	2,080	1,951	129
Rural Telephone Loans	329	200	129
Rural Telephone Bank	60	55	5
Rural Water and Waste Disposal Loans	643	694	(51)
Rural Business and Industry Loans	36	27	10
Rural Development Loan Fund	33	40	(6)
Rural Economic Development Loans	17	16	1
Mission area total	4,646	4,383	262
Total Direct Loans Disbursed	$ 5,799	$ 5,661	$ 137

Table 5. Loan Guarantees Outstanding

	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Guaranteed Loans (FY 2002)						
Farm and Foreign Agricultural Services Mission Area						
Agriculture Credit Insurance Fund (ACIF)	$ 271	$ 9,379	$ 9,650	$ 240	$ 8,421	$ 8,661
Export Credit Guarantee Programs	-	4,917	4,917	-	4,730	4,730
Mission area total	271	14,296	14,567	240	13,151	13,391
Rural Development Mission Area						
Rural Community Facilities Fund	-	301	301	-	249	249
Rural Housing Insurance Fund	16	13,602	13,618	14	12,241	12,256
Rural Electrification Loans	317	199	516	317	199	516
Rural Water and Waste Disposal Loans	-	30	30	-	24	24
Rural Business and Industry Loans	-	3,884	3,884	-	2,862	2,862
Rural Cooperative Development Fund	4	-	4	4	-	4
Rural Development Insurance Fund	80	-	80	57	-	57
Mission area total	417	18,015	18,432	391	15,576	15,968
Total Guarantees Disbursed	$ 688	$ 32,312	$ 33,000	$ 632	$ 28,727	$ 29,359

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

	FY 2002		
	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Liability for Loan Guarantees			
Farm and Foreign Agricultural Services Mission Area			
Export Credit Guarantee Programs	$ -	$ 411	$ 411
Agriculture Credit Insurance Fund (ACIF)	13	144	157
ACRD	-	2	2
Mission area total	13	557	570
Rural Development Mission Area			
Rural Community Facilities Fund	-	5	5
Rural Housing Insurance Fund	3	327	330
Rural Electrification Loans	23	-	24
Rural Business and Industry Loans	-	146	146
Rural Development Insurance Fund	3	-	3
Mission area total	30	477	507
Total Liability for Loan Guarantees	$ 43	$ 1,034	$ 1,077

Table 7. Schedule for Reconciling Loan Guarantee Liability

Beginning Balance, Changes, and Ending Balance	FY 2002	FY 2001
Beginning balance of the loan guarantee liability	$ 1,066	$ 964
Add: subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	65	23
Default costs (net of recoveries)	294	338
Fees and other collections	(76)	(97)
Other subsidy costs	-	(3)
Total of the above subsidy expense components	283	260
Adjustments		
Loan modifications	-	-
Fees received	102	82
Interest supplements paid	(62)	(67)
Claim payments to lenders	(204)	(189)
Interest accumulation on the liability balance	17	114
Other	26	(71)
Ending balance of the subsidy cost allowance before reestimates	1,229	1,093
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	(392)	97
Technical/default reestimate	196	(124)
Total of the above reestimate components	(195)	(26)
Ending balance of the loan guarantee liability	$ 1,034	$ 1,066

Table 8. Guarantee Loan Subsidy Expense by Program and Component

Current Reporting Year — Subsidy Expense for New Loan Guarantees

Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Current Year
Export Credit Guarantee Programs	$ -	$ 120	$ (10)	$ -	$ 110	$ -	$ (588)	$ 514	$ (74)	$ 36
Farm Operating—unsubsidized	-	46	(9)	-	37	-	243	(268)	(25)	11
Farm Operating—subsidized	47	20	-	-	67	-	141	(131)	10	77
Farm Ownership—unsubsidized	-	14	(10)	-	5	-	(78)	64	(13)	(9)
Rural Community Facilities	-	-	-	-	-	-	(2)	6	4	4
Rural Housing Insurance Fund	18	56	(38)	-	37	-	(45)	(47)	(92)	(55)
Rural Water and Waste Disposal Loans	-	-	-	-	-	-	-	-	-	-
Rural Business and Industry Loans	-	37	(9)	-	28	-	(75)	71	(4)	24
ARCD	-	-	-	-	-	-	13	(12)	-	-
Total Loan Guarantee Subsidy Expense	$ 65	$ 294	$ (76)	$ -	$ 283	$ -	$ (392)	$ 196	$ (195)	$ 88

Prior Reporting Year — Subsidy Expense for New Loan Guarantees

Guaranteed Loan Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Total	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Prior Year
Export Credit Guarantee Programs	$ -	$ 214	$ (17)	$ -	$ 197	$ -	$ -	$ (169)	$ (170)	$ 27
Farm Operating—unsubsidized	-	20	(7)	-	13	-	-	16	16	30
Farm Operating—subsidized	28	10	-	-	38	-	(3)	15	11	49
Farm Ownership—unsubsidized	-	12	(6)	(2)	4	-	-	13	13	17
Rural Community Facilities	-	-	-	-	(1)	-	(2)	-	(2)	(2)
Rural Housing Insurance Fund	(5)	60	(53)	-	3	-	46	-	46	49
Rural Water and Waste Disposal Loans	-	-	-	-	-	-	-	1	-	-
Rural Business and Industry Loans	-	20	(14)	(1)	6	-	58	1	58	64
Total Loan Guarantee Subsidy Expense	$ 23	$ 338	$ (97)	$ (3)	$ 260	$ -	$ 97	$ (124)	$ (27)	$ 234

Table 9. Guaranteed Loans Disbursed

	Current Year		Prior Year	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Guaranteed Loans				
Farm and Foreign Agricultural Services Mission Area				
Export Credit Guarantee Programs	$ 3,340	$ 3,131	$ 2,974	$ 2,892
Agriculture Credit Insurance Fund (ACIF)	2,551	2,290	2,363	2,121
Mission area total	5,891	5,421	5,337	5,014
Rural Development Mission Area				
Rural Community Facilities Fund	59	49	74	62
Rural Housing Insurance Fund	2,450	2,205	2,170	1,953
Rural Electrification Loans	54	54	92	92
Rural Water and Waste Disposal Loans	9	7	4	3
Rural Business and Industry Loans	839	658	809	636
Mission area total	3,410	2,973	3,149	2,746
Total Guaranteed Loans Disbursed	$ 9,301	$ 8,394	$ 8,486	$ 7,759

Table 10. Administrative Expenses

Direct Loan Programs		Guaranteed Loan Programs	
P.L. 480, Title 1	$ 2	Export Credit Guarantee Programs	$ 4
Agriculture Credit Insurance Fund (ACIF)	273	Rural Development	131
Rural Development	178		
Total	$ 452	Total	$ 135

Table 11. Subsidy Rates for Direct Loans (percentage)

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Storage Facility Loan Program	0.30	2.24	(0.12)	-	2.42
P.L. 480, Title 1	46.07	30.82	-	4.84	81.73
Farm Operating	0.05	12.43	-	(3.55)	8.93
Farm Ownership	2.04	4.13	-	(3.54)	2.63
Emergency Disaster	9.42	4.12	-	(0.09)	13.45
Indian Land Acquisition	5.95	-	-	(0.03)	5.92
BollWeevil Eradication	(4.42)	2.24	-	-	(2.18)
Community Facilities Loans	4.53	1.18	-	(0.28)	5.43
Modular Housing Loans	17.94	0.03	(1.64)	1.35	17.68
Section 502 Direct Single Family Housing	13.20	1.31	(7.15)	5.80	13.16
Section 504 Direct Housing Repair	29.96	2.30	(5.98)	5.85	32.13
Section 203 Credit Sales (SFH)	(20.20)	4.55	(10.51)	21.34	(4.82)
Section 514 Farm Labor Housing	46.94	0.08	(2.51)	2.80	47.31
Section 515 Rural Rental Housing	50.56	(0.03)	(30.91)	22.70	42.32
Section 524 Housing Site Development	(1.75)	1.77	(9.64)	10.17	0.55
Section 523 Self-Help Housing Land	3.54	1.03	(9.14)	9.65	5.08
Section 209 Credit Sales	50.52	(0.02)	(1.96)	(6.37)	42.17
Electric Municipal	(0.15)	0.03	-	0.03	(0.09)
FFB Electric	(1.12)	0.03	-	(0.04)	(1.13)
Direct Electric Hardship	2.92	0.03	-	0.03	2.98
Telephone Treasury	-	0.04	-	0.06	0.10
FFB Telephone	(0.92)	0.11	-	(0.04)	(0.85)
Telephone Hardship	2.27	0.03	-	0.02	2.32
Rural Telephone Bank	2.29	0.02	-	(0.17)	2.14
Direct Water and Waste Disposal	6.96	0.12	-	(0.20)	6.88
Direct Business and Industry Loans	(30.79)	58.98	-	0.28	28.47
Intermediary Relending Program	43.22	-	-	(0.01)	43.21
Rural Economic Development	24.91	0.05	-	(0.80)	24.16
Electric Treasury	(0.06)	0.03	-	(0.01)	(0.04)
Distance Learning and Telemedicine	-	0.01	-	(0.08)	(0.07)

Table 12. Subsidy Rates for Loan Guarantees (percentage)

	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Export Credit Guarantee Program	7.41	-	(0.66)	-	6.75
Farm Operating—Unsubsidized	-	4.41	(0.90)	-	3.51
Farm Operating—Subsidized	9.55	4.01	-	-	13.56
Farm Ownership—Unsubsidized	-	1.34	(0.89)	-	0.45
Rural Community Facilities Loans	-	0.12	(0.80)	-	(0.68)
Section 502 Subsidy Repair	-	3.28	(2.00)	-	1.28
Section 539 Multiple Family	8.82	2.24	(7.13)	-	3.93
Section 502 Single Family	-	3.28	(2.00)	-	1.28
NADBANK Loans	-	5.28	(1.60)	-	3.68
Business and Industry Loans	-	5.22	(1.48)	-	3.74
Electric	-	0.08	-	-	0.08
Water and Waste Disposal Loans	-	-	(0.80)	-	(0.80)

Direct Loans

Direct loan obligation or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at net present value.

Direct loan obligations or loan guarantee commitments made post-1991, and the resulting direct loan or loan guarantees, are governed by the Federal Credit Reform Act of 1990 as amended. The Act requires agencies to estimate the cost of direct loans and loan guarantees at present value for the budget. Additionally, the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The net present value of Loans Receivable and Related Foreclosed Property, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Loans Receivable and Related Foreclosed Property, Net at the end of FY 2002 were $75.5 billion compared to $76.4 billion at the end of FY 2001. Loans exempt from the Federal Credit Reform Act of 1990 represent $1.9 billion of the total compared to $2.1 billion in FY 2001. Table 1 illustrates the overall composition of the Department credit program balance sheet portfolio by mission area and credit program for FY 2002.

During the fiscal year the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications, and reestimates all contribute to the change of the subsidy cost allowance through the year. The subsidy cost allowance moved from $7.9 billion to $7 billion during FY 2002, a decrease of $0.9 billion. During FY 2001, the allowance increased $1.5 billion. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2001 to FY 2002.

Total direct loan subsidy expense for FY 2002 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 2002 was negative $0.4 billion compared to $1.7 billion in FY 2001. Table 3 illustrates the breakdown of total subsidy expense for FY 2002 and FY 2001 by program.

The downward subsidy expense was caused by significant downward subsidy reestimates of $470 million for housing loans and $529 million for foreign loans (PL 480, Food for Progress, & Debt Reduction programs). The subsidy change in housing loans was mainly caused by changes in the estimation method for interest credit in single-family housing programs in FY 2002. Additionally, in FY 2002, OMB revised the default estimation method for foreign loans. This change resulted in significantly lower default estimates. Direct loan volume increased from $5.7 billion in FY 2001 to $5.8 billion in FY 2002. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

The Department offers both direct and guaranteed loan products through the Farm and Foreign Agricultural Service mission area and the Rural Development mission area. 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. Guaranteed loans are reflected on the balance sheet in two ways: estimated losses on loan and foreign credit guarantees must be valued and carried as a liability and defaulted guaranteed loans are carried, at net realizable value, in credit program receivables and related foreclosed property, net.

Guaranteed loans outstanding at the end of FY 2002 were $33.0 billion in outstanding principal, and $29.4 billion in outstanding principal guaranteed, compared to $30.8 billion and $27.5 billion at the end of FY 2001. 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. The total liability moved from $1.11 billion to $1.08 billion during FY 2002, a decrease of $33 million. The post-1991 liability moved from $1.07 billion to $1.03 billion, a decrease of $0.04 billion. Table 7 shows the reconciliation of loan guarantee liability post-1991 balances and the total loan guarantee liability.

Total guaranteed loan subsidy expense for FY 2002 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 2002 was $88 million compared to $234 million in FY 2001. Table 8 illustrates the breakdown of total subsidy expense for FY 2002 and FY 2001 by program. The decrease in subsidy expense is largely due to downward reestimates in the housing, foreign, and farm loan programs.

Guaranteed loan volume increased from $8.5 billion in FY 2001 to $9.3 billion in FY 2002. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the Farm and Foreign Agricultural Services (FFAS) mission area through the Farm Service Agency (FSA) and the Commodity Credit Corporation (CCC), and in the Rural Development mission area through the Rural Housing Service (RHS), the Rural Business Service (RBS), and the Rural Utilities Service (RUS).

The Farm and Foreign Agricultural Services (FFAS) mission area

The FFAS mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the strength and stability of 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. FFAS programs are administered through the FSA and CCC.

The FSA offers direct and guaranteed loans to farmers that 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 because they have insufficient financial resources. In addition, the agency helps established farmers who have suffered financial setbacks from natural disasters, or whose resources are too limited 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, then works with the borrower on alternatives and other options to address the weaknesses and achieve success. To help keep borrowers operating, FSA is able to 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 eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

CCC's foreign programs provide economic stimulus to both the U.S. and foreign markets, while also giving humanitarian assistance to the most needy people throughout the world. CCC offers both guarantee credit and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club (The Club). The Club is an internationally recognized organization whose sole purpose is to confront, on a case-by-case basis, liquidity problems faced by the world's most severely economically disadvantaged countries. The general premise of the Club's activities is to provide disadvantaged nations short-term liquidity relief to enable them to re-establish their credit worthiness. The Departments of State and Treasury lead the U.S. Delegation and negotiations for all U.S. Agencies.

Farm and Foreign Agricultural Service list of programs

Farm Service Agency	Commodity Credit Corporation
Direct Farm Ownership	Guaranteed Sales Manager Credit Program
Direct Farm Operating	Supplier Credit Guarantee Program
Direct Emergency Loans	Facility Program Guarantee
Direct Indian Land Acquisition	P.L. 480 Title 1 Program
Direct Boll Weevil Eradication	
Direct Seed Loans to Producers	
Guaranteed Farm Operating Subsidized/Unsubsidized	
Agricultural Resource Demonstration Fund (ARCD)	
Bureau of Reclamation Loan Fund (BRLF)	

The Rural Development (RD) mission area

Each year, Rural Development (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 nonprofit organizations and user-owned cooperatives. RD programs are administered through three services, the Rural Housing Service (RHS), the Rural Business Service (RBS), and the Rural Utilities Service (RUS).

Through its loan and grant programs, RHS provides affordable housing and essential community facilities to rural communities. RHS programs help finance new or improved housing for moderate, low, and very low-income families each year. RHS program also help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

RBS's goal is to promote a dynamic business environment in rural America. RBS works in partnership 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 RUS 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. RUS programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD agencies are able to 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 Service	Rural Business Service	Rural Utilities Service
Home Ownership Direct Loans	Business and Industry Direct Loans	Water and Environmental Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans	Water and Environmental Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans	Electric Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans	Electric Guaranteed Loans
Rural Housing Site Direct Loans		Telecommunications Direct Loans
Farm Labor Housing Direct Loans		Rural Telephone Bank
Rural Rental and Rural Cooperative Housing Loans		Federal Financing Bank-Telecommunications Guaranteed
Rental Housing Guaranteed Loans		Distance Learning and Telemedicine Direct
Multi-family Housing–Nonprogram–Credit Sales		Broadband Telecommunications Services
Community Facilities Direct Loans		
Community Facilities Guaranteed Loans		

Discussion of Administrative Expenses, Subsidy Costs, and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2002 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

The Federal Credit Reform Act of 1990 as amended governs the proprietary and budgetary accounting treatment of direct and guaranteed loans. The long-term cost to the government for direct loans or loan guarantees is referred to as "subsidy cost". Under the Act, subsidy costs for loans obligated beginning in FY 1992 are recognized at the net present value of projected lifetime costs in the year the loan is disbursed. Subsidy costs are revalued annually. Components of subsidy include interest subsidies, defaults, fee offsets, and other cash flows.

Based on sensitivity analysis conducted for each cohort or segment of a loan portfolio, the difference between the budgeted and actual interest for both borrower and Treasury remain the key components for the subsidy formulation and reestimate rates of many USDA direct programs. USDA uses the government-wide interest rate projections provided by the Office of Management and Budget in order to do its calculations and analysis.

The Inter-agency Country Risk Assessment System (ICRAS) is a Federal interagency effort chaired by the Office of Management and Budget under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign lending risks are sorted into risk categories, each associated with a default estimate. A revised default methodology developed by the Office of Management and Budget was implemented in FY 2002. The revised methodology resulted in significantly lower estimated defaults and resulting allowance balances.

The CCC delinquent debt is estimated at 100% allowance. When the foreign borrower reschedules their debt and renews their commitment to repay CCC, the allowance is estimated at less than 100 percent.

The estimation method for interest credit in single-family housing loans was changed in FY 2002. This change in estimation resulted in lower subsidy rates, downward FY 2002 reestimates, and related decreases to allowance balances.

Generally, due to the implementation of new models, new reestimate calculators, and the accumulation of prior year reestimates, it is difficult to compare current and prior period subsidy expense or the current and prior year movement in the subsidy cost allowance.

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in tables 11 and 12 pertain only to the current year FY 2002 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior year cohorts. The subsidy expense reported in the current year also includes reestimates.

As a result of new guidance provided by the credit reform Treasury certificate training class, the Commodity Credit Corporation chose to reflect interest on downward reestimates of $413 million in the Statement of Changes in Net Position in line Financing Sources other than Exchange Revenues, Transfers Out. The remainder of USDA credit programs chose to reflect downward reestimates in Earned Revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

As of September 30, 2002, foreclosed property consisted of 1,114 rural single-family housing dwellings, with an average holding period of 20 months. As of September 30, 2002, Farm Service Agency-Farm Loan Program properties consist primarily of 253 farms. The average holding period for these properties in inventory for FY 2002 was 54 months. At the end of FY 2002, there were 681 borrowers for which foreclosure proceedings were in process. Certain properties can be leased to eligible individuals.

Non-performing Loans

Rural Development and FSA loan interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days.

CCC interest income on non-performing receivables is calculated but the recognition of revenue is deferred. Non-performing receivables are defined as receivables that are in arrears by 90 or more days or on rescheduling agreements where until such time as two consecutive payments have been made following the rescheduling. Late interest is accrued on arrears. Interest revenue and late interest on non-performing receivables are also deferred.

Loan Modifications

The Debt Reduction Fund is used to account for CCC's "modified debt". Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled" only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. All outstanding CCC modified debt is carried in the debt reduction fund and is governed by the Federal Credit Reform Act of 1990 as amended.

During FY 2002, two debts were modified. The first resulted in a $3 million reduction in principal with the remaining amount of debt transferred from CCC's liquidating fund to CCC's Debt Reduction Fund. The discount rate used for calculating the modification expense was 6.2971 percent. The second modification reduced principal owed to CCC by $10.6 million with the remaining amount of debt transferred from CCC's liquidating fund to CCC's Debt Reduction Fund. The discount rate used for calculating the modification expense was 5.4684 percent.

Note 8. Inventory and Related Property, Net

Operating Materials and Supplies:			
Items held for Use		$	25
Commodities:	Volume (in millions)		
Corn (In Bushels):			
On hand at the beginning of the year			
Acquired during the year	22		45
Disposed of during the year	74		165
Sales	(62)		(136)
Donations	(14)		(39)
Other	(2)		(1)
On hand at the end of the year	18		33
Wheat (In Bushels):			
On hand at the beginning of the year			
Acquired during the year	118		404
Disposed of during the year	105		371
Sales	(69)		(246)
Donations	(52)		(193)
Other	-		28
On hand at the end of the year	102		364
Nonfat Dry Milk (In Pounds):			
On hand at the beginning of the year			
Acquired during the year	857		860
Disposed of during the year	626		563
Sales	(16)		(16)
Donations	(121)		(135)
Other	(14)		6
On hand at the end of the year	1,332		1,279
Sugar (In Pounds):			
On hand at the beginning of the year			
Acquired during the year	1,505		329
Disposed of during the year	17		4
Sales	(721)		(176)
Donations	(13)		(3)
Other	(274)		(52)
On hand at the end of the year	514		101
Tobacco (In Pounds):			
On hand at the beginning of the year	225		599
Acquired during the year			
Disposed of during the year	-		-
Sales	-		-
Donations	-		-
Other	-		-
On hand at the end of the year	225		599
Other (Various):			
On hand at the beginning of the year			
Acquired during the year			39
Disposed of during the year			4,496
Sales			(4,112)
Donations			(329)
Other			17
On hand at the end of the year			110
Allowance for losses			(1,763)
Total Commodities			723
Total Inventory and Related Property, Net		$	749

Operating material and supplies consist of tree seeds for a variety of tree species, tree seedlings (nursery stock) and Smoky Bear memorabilia. The tree seeds and seedlings are used for reforestation and the Smoky Bear memorabilia promotes forest fire prevention.

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries, and price support and stabilization. Commodity donations and loan forfeitures are estimated to be $548 million and $69 million, respectively, in fiscal year 2003.

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

Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ 2	$ 75
Improvements to Land	10-50	4,827	2,337	2,489
Construction-in-Progress		95	-	95
Buildings, Improvements and Renovations	30	1,669	827	843
Other Structures and Facilities	15-50	1,607	1,002	605
Equipment	5-15	1,915	1,276	638
Leasehold Improvements	10	7	3	4
Internal-Use Software	5-8	172	76	96
Internal-Use Software in Development		13	1	12
Other General Property, Plant and Equipment	5-15	6	-	6
Total		$ 10,386	$ 5,524	$ 4,862

Note 10. Other Assets

Intragovernmental:	
Advances to Others	$ 1
With the Public:	
Advances to Others	243
Other Assets	41
Total Other Asssets	$ 285

Note 11. Liabilities Not Covered By Budgetary Resources

Intragovernmental:	
Other	$ 351
Federal employee and veterans' benefits	862
Environmental and disposal liabilities	7
Other	3,094
Total liabilities not covered by budgetary resources	4,314
Total liabilities covered by budgetary resources	108,373
Total liabilities	$ 112,687

Other liabilities not covered by budgetary resources includes accrued rental payments under the Conservation Reserve program of $1,600 million, unfunded leave of $494 million, estimated losses on insurance claims of $367 million, and contract dispute claims payable to Treasury's Judgment Fund of $189 million.

Note 12. Debt

	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt:			
Held by the Public	$ 87	$ (3)	$ 84
Total Agency Debt	87	(3)	84
Other Debt:			
Debt to the Treasury	55,433	(1,944)	53,489
Debt to the Federal Financing Bank	25,221	(2,842)	22,379
Total Other Debt	80,654	(4,786)	75,868
Total Debt	$ 80,741	$ (4,789)	$ 75,952

Note 13. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. The Forest Service and Commodity Credit Corporation estimates the liability for total cleanup costs for sites known to contain hazardous waste to be $7 million and $15 million, respectively, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

Note 14. Other Liabilities

	Non-Current	Current	Total
Intragovernmantal			
Other Accrued Liabilities	$ 189	$ 189	$ 378
Employer Contributions and Payroll Taxes	-	16	16
Unfunded FECA Liability	38	120	158
Advances from Others	21	28	49
Liability for Deposit Funds, Clearing Accounts	-	1,018	1,018
Liability for Subsidy Related to Undisbursed Loans	-	990	990
Resources Payable to Treasury	-	18,598	18,598
Custodial Liability	31	23	55
Other Liabilities	-	130	130
Total Intragovernmental	280	21,112	21,393
With the Public			
Other Accrued Liabilities	107	2,634	2,741
Accrued Funded Payroll and Leave	-	25	25
Other Post-Employment Benefits Due and Payable	-	8	8
Benefit Premiums Payable to Carriers	-	36	36
Unfunded Leave	19	475	494
Other Unfunded Employment Related Liability	572	52	623
Advances from Others	(21)	35	14
Deferred Credits	-	42	42
Liability for Deposit Funds, Clearing Accounts	31	1,399	1,430
Contingent Liabilities	37	7	44
Custodial Liability	-	68	68
Other Liabilities	22	5,013	5,034
Total Other Liabilities	$ 1,048	$ 30,905	$ 31,953

Other liabilities include estimated losses on insurance claims of $2,865 million and stock payable to Rural Telephone Bank borrowers of $1,343 million.

Note 15. Leases

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Totals
2003	$ 71	$ 1	$ 72
2004	65	1	66
2005	56	-	57
2006	58	-	58
2007	51	-	51
After 5 Years	239	-	239
Total Future Lease Payments	$ 541	$ 2	$ 543

Note 16. Commitments and Contingencies

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

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $38 million has been accrued in the financial statements as of September 30, 2002.

No amounts have been accrued in the financial statements for claims where the amount or probability of judgment is uncertain. The Department's potential liability for these claims ranges from $1,703 million to $1,727 million.

Commitments under contractual and other commercial obligations are estimated to be $52,800 million, primarily consisting of $20,000 million in rental payments under the Conservation Reserve Program, $15,000 million in undelivered orders, $14,000 million in direct loans, and $3,000 million in loan guarantees.

Note 17. Suborganization Program Costs/Program Costs by Segment

	FNCS	FFAS	NRE	RD	REE	MRP	FSIS	DO	Inter-Mission Area Elimination	Total
Program Costs :										
Intragovernmental Gross Costs	$ 910	$ 1,286	$ 1,004	$ 3,558	$ 318	$ 1,118	$ 196	$ 275	$ (768)	$ 7,897
Less: Intragovernmental Earned Revenue	1	370	299	297	57	7	2	333	(384)	983
Intragovernmental Net Costs	909	916	704	3,261	261	1,111	193	(57)	(384)	6,914
Gross Costs With the Public :					-	-				-
Grants	36,036	12,620	678	1,443	974	43	43		-	51,837
Loan Cost Subsidies	-	(620)	-	(373)	-	-	-	-	-	(994)
Indemnities		3,895	12	-		37			-	3,945
Commodity Program Costs	594	4,813	-	-	-		-	-	-	5,408
Stewardship Land Acquisition	-	105	108	-	-	-	-	-	-	212
Other	187	3,176	5,287	3,077	1,297	962	643	516	-	15,145
Less: Earned Revenues from the Public	104	4,574	174	4,047	50	535	101	11	-	9,597
Net Costs with the Public	36,714	19,414	5,910	99	2,221	508	585	505	-	65,956
Net Cost of Operations	$ 37,623	$ 20,330	$ 6,614	$ 3,360	$ 2,482	$ 1,618	$ 779	$ 448	$ (384)	$ 72,870

Note 17. Suborganization Program Costs/Program Costs by Segment

Food, Nutrition, and Consumer Service

	Child Nutrition	Food Stamp	Food Donations	Women, Infants, and Children	Commodity Assistance	Total
Program Costs :						
Intragovernmental Gross Costs	$ 23	$ 56	$ 822	$ 9	$ 1	$ 910
Less: Intragovernmental Earned Revenue		1				1
Intragovernmental Net Costs	22	55	822	9	1	909
Gross Costs With the Public :						
Grants	9,698	21,662	169	4,415	92	36,036
Loan Cost Subsidies	-	-	-	-	-	-
Indemnities						
Commodity Program Costs	367	91	56		80	594
Stewardship Land Acquisition	-	-	-	-	-	-
Other	52	120	1	14		187
Less: Earned Revenues from the Public	6	78	-	15	5	104
Net Costs with the Public	10,111	21,796	225	4,414	168	36,714
Net Cost of Operations	$ 10,133	$ 21,851	$ 1,047	$ 4,422	$ 169	$ 37,623

Note 17. Suborganization Program Costs/Program Costs by Segment

Farm and Foreign Agricultural Services

	Commodity Operations	Income Support	Conservation Reserve	Foreign Programs	Farm Loan Programs	Crop Insurance	Other	Intra-Mission Area Elimination	Total
Program Costs :									
Intragovernmental Gross Costs	$ 596	$ 659	$ 106	$ 739	$ 397	$ 61	$ (442)	$ (842)	$ 1,286
Less: Intragovernmental Earned Revenue	528	11	-	140	175	-	(389)	(95)	370
Intragovernmental Net Costs	68	648	106	612	222	61	(53)	(747)	916
Gross Costs With the Public :									
Grants	-	9,120	1,726	855	3	-	916		12,620
Loan Cost Subsidies	-	(2)	-	(552)	(67)	-	-		(620)
Indemnities	-	-	-	-	-	3,894			3,895
Commodity Program Costs	4,813		-	-	-	-	-		4,813
Stewardship Land Acquisition	-		-	-	-	-	105		105
Other	356	862	(2)	123	140	710	989		3,176
Less: Earned Revenues from the Public	2,098	71	(1)	572	601	1,199	34		4,574
Net Costs with the Public	3,071	9,909	1,725	(146)	(525)	3,405	1,976	-	19,414
Net Cost of Operations	$ 3,139	$ 10,556	$ 1,830	$ 466	$ (302)	$ 3,466	$ 1,923	$ (747)	$ 20,330

Note 17. Suborganization Program Costs/Program Costs by Segment

Natural Resources and Environment

	National Forests and Grasslands	Forest Research	State and Private Forestry	Wildland Fire Management	Working Capital Fund	Natural Resources Conservation	Intra-Mission Area Elimination	Total
Program Costs :								
Intragovernmental Gross Costs	$ 484	$ 15	$ 13	$ 386	$ (219)	$ 328	$ (4)	$ 1,004
Less: Intragovernmental Earned Revenue	135	20	6	10	-	133	(4)	299
Intragovernmental Net Costs	350	(5)	8	376	(219)	195	-	704
Gross Costs With the Public :								
Grants	376	4	217	10		71	-	678
Loan Cost Subsidies	-	-			-	-	-	-
Indemnities	10			1			-	12
Commodity Program Costs	-	-			-	-	-	-
Stewardship Land Acquisition	108	-			-	-	-	108
Other	2,214	231	55	1,680	144	965	-	5,287
Less: Earned Revenues from the Public	90	3		60	-	22	-	174
Net Costs with the Public	2,618	232	272	1,631	144	1,014	-	5,910
Net Cost of Operations	$ 2,968	$ 227	$ 279	$ 2,007	$ (76)	$ 1,209	$ -	$ 6,614

Note 17. Suborganization Program Costs/Program Costs by Segment

Rural Development

	Mortgage Credit	Housing Assistance	Area and Regional Development	Energy Supply Conservation	Agricultural Research	Total
Program Costs :						
Intragovernmental Gross Costs	$ 1,172	$ 13	$ 730	$ 1,643	$	$ 3,558
Less: Intragovernmental Earned Revenue	118		113	65		297
Intragovernmental Net Costs	1,054	12	617	1,578		3,261
Gross Costs With the Public :						
Grants	2	728	710	-	2	1,443
Loan Cost Subsidies	(486)	2	51	59	-	(373)
Indemnities	-	-	-	-	-	-
Commodity Program Costs	-	-	-	-	-	-
Stewardship Land Acquisition	-	-	-	-	-	-
Other	3,458	23	(668)	265		3,077
Less: Earned Revenues from the Public	1,635	-	683	1,730	-	4,047
Net Costs with the Public	1,340	753	(590)	(1,406)	3	99
Net Cost of Operations	$ 2,394	$ 766	$ 26	$ 172	$ 3	$ 3,360

Note 17. Suborganization Program Costs/Program Costs by Segment

Research, Education, and Economics

	Agricultural Research	Economic Research	National Agricultural Statistics	Cooperative State Research Education and Extension	Intra-Mission Area Elimination	Total
Program Costs :						
Intragovernmental Gross Costs	$ 230	$ 24	$ 40	$ 39	$ (15)	$ 318
Less: Intragovernmental Earned Revenue	34	3	7	28	(15)	57
Intragovernmental Net Costs	196	21	33	10		261
Gross Costs With the Public :						-
Grants	17	2	-	954		974
Loan Cost Subsidies	-	-	-	-		-
Indemnities				-		
Commodity Program Costs	-	-	-	-		-
Stewardship Land Acquisition	-	-	-	-		-
Other	868	55	92	282		1,297
Less: Earned Revenues from the Public	23	1	5	20		50
Net Costs with the Public	862	56	87	1,215		2,221
Net Cost of Operations	$ 1,059	$ 78	$ 120	$ 1,225	$ -	$ 2,482

Note 17. Suborganization Program Costs/Program Costs by Segment

Marketing and Regulatory Programs

	Agricultural Marketing	Animal and Plant Health Inspection	Grain Inspection, Packers and Stockyards	Intra-Mission Area Elimination	Total
Program Costs :					
Intragovernmental Gross Costs	$ 854	$ 242	$ 32	$ (10)	$ 1,118
Less: Intragovernmental Earned Revenue	(7)	22	2	(10)	7
Intragovernmental Net Costs	860	220	30		1,111
Gross Costs With the Public :					-
Grants	2	41	-		43
Loan Cost Subsidies	-	-	-		-
Indemnities		37			37
Commodity Program Costs	-	-			
Stewardship Land Acquisition	-	-	-		-
Other	119	788	56		962
Less: Earned Revenues from the Public	188	315	32		535
Net Costs with the Public	(67)	551	24		508
Net Cost of Operations	$ 793	$ 771	$ 54	$ -	$ 1,618

Note 18. Gross Cost and Earned Revenue by Budget Functional Classification

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
050 National Defense			
150 International Affairs	$ 1,026	$ 229	$ 797
270 Energy	1,967	1,795	172
300 Natural Resources and Environment	6,596	500	6,096
350 Agriculture	66,783	5,414	61,369
370 Commerce and Housing Credit	4,158	1,765	2,394
450 Community and Regional Development	855	796	63
550 Health	882	103	779
600 Income Security	682	1	681
800 General Government	500	(23)	493
Total	$ 83,450	$ 10,580	$ 72,870

Intragovernmental Total Cost and Earned Revenue by Budget Functional Classification:

Budget Functional Classification	Gross Cost	Earned Revenue	Net Cost
050 National Defense			
150 International Affairs	$ 508	$ -	$ 508
270 Energy	1,643	65	1,578
300 Natural Resources and Environment	1,013	303	709
350 Agriculture	1,847	378	1,468
370 Commerce and Housing Credit	1,173	119	1,054
450 Community and Regional Development	732	113	619
550 Health	195	2	193
600 Income Security	785	2	783
Total	$ 7,897	$ 983	$ 6,914

Note 19. Prior Period Adjustments

During the year, the Department of Agriculture contracted with independent appraisers and accounting firms to determine the proper valuation of certain property. Additionally, the Department conducted an inventory of both personal and real property. The net result of these initiatives was to write-down property by approximately $616 million.

The Department has determined that certain balances converted to the Foundation Financial Information System (FFIS) were not adequately supported. After researching these balances, the Department has made a decision to remove the balances. The net result is to increase Net Position by $314 million.

Commodity Credit Corporation, the Forest Service and the Food and Nutrition Service prepare stand-alone financial statements and recorded adjustments to their financial records for fiscal year 2001 after the Departments fiscal year 2001 consolidated financial statements were prepared. The net amount of these adjustments is a decrease to Net Position of $960 million.

Corrections to Fund Balance with Treasury have been made to agree with Treasury's amounts, which resulted in an increase to Net Position of $194 million.

Forest Service corrected accounting errors that occurred in previous fiscal years that resulted in an increase to Net Position of approximately $372 million.

Note 20. Apportionment Categories of Obligations Incurred

	Direct	Reimbursable	Total
Category A	$ 32,955	$ 672	$ 33,627
Category B	43,599	28,686	72,285
Exempt from Apportionment	173	24	197
Total Obligations Incurred	$ 76,727	$ 29,382	$ 106,109

Note 21. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2002 for the Rural Development mission area, Commodity Credit Corporation, and the Farm Service Agency was $13,200 million, $12,334 million, and $97 million, respectively.

Note 22. Terms of Borrowing Authority Used

USDA has a permanent indefinite borrowing authority, as defined by OMB Circular A–11, Preparation and Submission of Budget Estimates. The Secretary of Agriculture has the authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's nonreimbursed realized losses and debt related to foreign assistance programs.

The permanent indefinite borrowing authority includes both interest bearing and non–interest notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with credit reform, 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 FFB and private investors in the form of certificates of beneficial ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBO's outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB 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 23. Adjustments to Beginning Balance of Budgetary Resources

The beginning balance of budgetary resources decreased by $122 million. This decrease was caused primarily by the exclusion of allocation transfer appropriations received from other federal entities that were included in prior year financial statements.

Note 24. Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, and 3) certain costs associated with FS programs. The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years.

However, they are not stated as specific amounts but are determined by specified variable factors, such as "cash needs" for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs. The permanent indefinite appropriation for FS programs are used to fund Pacific Yew, Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsey Owl, Restoration of Forest Lands and Improvements, Roads and Trails for State, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operation, Maintenance of Quarters, Construction, National Forest System, Research, and State and Private. Monies received are appropriated and made available until expended by the FS to fund the costs associated with their appropriate purpose. Federal law (16 U.S.C. Section 556d) provides that the FS may advance money from any FS appropriation to the fire fighting appropriation for the purpose of fighting fires.

Note 25. 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 26. Explanation of Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The fiscal year 2004 *Budget of the United States Government* with actual numbers for fiscal year 2002 has not yet been published. It is expected to be published in February 2003 and will be available from the Government Printing Office.

Note 27. Explanation of the Relationship Between Liabilities Not Covered by Budgetary Resources on the Balance Sheet and the Change in Components Requiring or Generating Resources in Future Periods

Liabilities not covered by budgetary resources are liabilities for which Congressional action is needed before budgetary resources can be provided. The current portion of liabilities not covered by budgetary resources recognized as a component of the net cost of operations is the change in components requiring or generating resources in future periods.

Note 28. Description of Transfers that Appear as a Reconciling Item on the Statement of Financing

Allocation transfers that appear as reconciling items on the Statement of Financing include funds received from the Department of Labor for training underemployed youths; the Department of Transportation for maintenance and upkeep of federal highways traversing National Forest System lands; the Appalachian Regional Commission and Economic Development Administration for accounting services; and funds transferred to the Agency for International Development for transportation in connection with foreign commodity donations.

Note 29. Incidental Custodial Collections

Revenue Activity:		
Sources of Collections:		
Miscellaneous	$	83
Total Cash Collections		83
Accrual Adjustments		292
Total Custodial Revenue		375
Disposition of Collections:		
Transferred to Others:		
Treasury		(357)
(Increase)/Decrease in Amounts Yet to be Transferred		(18)
Net Custodial Activity	$	-

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

REQUIRED SUPPLEMENTARY STEWARDSHIP INFORMATION

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for assets and liabilities required to be reported in the financial statements. Information about these resources are important to understanding USDA's mission, operations, and financial condition at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the Statement of Net Cost in the year the costs are incurred; however, the costs and resultant resources are intended to provide long-term benefits to the public and are reported to highlight USDA's accountability over them.

The two general types of stewardship resources are investments in physical capital and investments in other than physical capital.

Investments in physical capital include stewardship land, the solid part of the surface of the earth (i.e., excluding natural depletable or renewable resources) not acquired for or in connection with items of general property, plant, and equipment. USDA's stewardship land consists of national forests and grasslands, and easements acquired for conservation purposes. These are reported in acres of land rather than dollar amounts.

Investments in other than physical capital include nonfederal physical property, where title to the property is held by State or local governments; investments in human capital for education and training; and research and development.

These stewardship investments are made for the benefit of the Nation. They are reported as expenses in the Statement of Net Cost in the year incurred, but they are also reported as supplemental stewardship information because USDA has been entrusted with and made accountable for the resources.

Stewardship Land

Description	FY 2002 Balance	Additions (+)	Withdrawals (-)	FY 2001 Balance
National Forest System Land (In acres):				
National Forests	143,796,683	-	(52,114)	143,848,797
Wilderness Areas	34,789,308	-	(23,349)	34,812,657
Primitive Areas	173,762	-	-	173,762
Wild and Scenic River Areas	946,378	1,223	-	945,155
Recreation Areas	2,910,364	-	-	2,910,364
Scenic–Research Areas	135,815	-	-	135,815
Game Refuges and Wildlife Preserve Areas	1,198,099	31,725	-	1,166,374
Monument Areas	3,840,582	-	-	3,840,582
National Grasslands	3,836,577	10	-	3,836,567
Purchase Units	357,053	6,452	-	350,601
Land Utilization Projects	1,876	-	-	1,876
Other Areas	451,261	89,716	-	361,545
Total National Forest System Land	192,437,758	129,126	(75,463)	192,384,095
Conservation Easements (In acres):				
Commodity Credit Corporation				
Wetlands Reserve Program	971,680	342,615	-	629,065
Natural Resources Conservation Service				
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	88,020	-	-	88,020
Total Conservation Easements	1,151,859	342,615	-	809,244

National Forest System

The Forest Service manages over 192 million acres of public land, the majority of which are classified as stewardship land. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue they provide to the Federal government, states and counties. The National Forest System is comprised of the following:

National Forests

A unit formerly established and permanently set aside and reserved for National Forest purposes. The following categories of NFS lands have been set-aside for specific purposes in designated areas:

- Wilderness Areas: Areas designated by Congress as part of the National Wilderness Preservation System.
- Primitive Areas: Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine sustainability as a component of the National Wilderness Preservation System.
- Wild and Scenic River Areas: Areas designated by Congress as part of the National Wild and Scenic River System.
- Recreation Areas: Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- Scenic-Research Areas: Areas established by Congress to provide use and enjoyment or certain ocean headlands and to insure protection and encourage the study of the areas for research and scientific purposes.
- Game Refuges and Wildlife Preserve Areas: Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.

- Monument Areas: Areas including historic landmarks, historic and prehistoric structures, and other objects for historic or scientific interest, declared by Presidential Proclamation or by Congress.

National Grasslands

A unit designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Tenent Act.

Purchase Units

A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the federal government to purchase lands for stream-flow protection, and maintain the acquired lands as national forests.

Land Utilization Projects

A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas

Areas administered by the Forest Service that are not included in one of the above groups.

The Forest Service monitors the condition of NFS lands based on information compiled by two national inventory and monitoring programs. Annual inventories of forest status and trends are conducted by the Forest Inventory and Analysis (FIA) program in 45 states covering 65 percent of the forested lands of the lower 48 states. The Forest Health Monitoring (FHM) program is active in 48 states providing surveys and evaluations of forest health conditions and trends. While most of the 192 million acres of forestland on NFS lands continue to produce valuable benefits (i.e. clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks and/or catastrophic fires.

Between 1997 and 2001, tree mortality caused by insects and diseases was detected by aerial surveys on approximately 8 million acres of NFS forestland. About 33 million acres of NFS forestland are at risk to future mortality from insects and diseases (based on the current Insect and Disease Risk Map). Nearly 73 million acres of NFS forestland are prone to catastrophic fire based on current condition and departure from historic fire regimes (Fire Regimes 1&2 and Condition Classes 2&3). Approximately 9.5 million acres are at risk to both pest caused mortality and fire. Invasive species of insects, diseases and plants continue to impact our native ecosystems by causing mortality to, or displacement of, native vegetation. The National Fire Plan has focused our efforts to prevent and suppress future fires adequately and restore acres that are at risk. Risk to fires was reduced by fuel hazard treatments on 1.4 million acres of NFS lands in 2001 and 1.2 million acres in 2002. Insect and disease prevention and suppression treatments were completed on over one million acres of NFS lands in 2001 and nearly one million acres in 2002.

At the time of submission of this information the net change values include the net effects of Forest Service land transactions with the exception of the Northern regions 2002 transactions. This information will be updated to include the Northern Region's information as soon as it becomes available. Land that is needed to protect critical wildlife habitat, cultural and historic values; to support the purposes of congressional designation; and for recreation and conservation purposes is acquired through purchase or exchange.

Conservation Easements

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with CCC in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land—and may lease the land—for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with contract requirements. At any time, a landowner may request that additional activities (such as cutting hay, grazing livestock, or harvesting wood products) be evaluated to determine if they are compatible uses for the site. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

CCC records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing transactions, survey, and restoration costs. Easements can be either permanent or 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

In fiscal year 2002, funding responsibility for WRP returned to NRCS; however, CCC remains responsible for obligations arising prior to 2002. Additionally, CCC acres acquired during fiscal year 2002 were purchased with CCC funds, as in the past.

Emergency Wetlands Reserve Program (EWRP)

The Emergency Wetlands Reserve Program (EWRP) administered by NRCS was established as part of the emergency restoration package following the flooding of the Mississippi River and its tributaries in 1993. EWRP provides landowners an alternative to bringing back into agricultural production lands that had been wetlands at one time. The program is patterned after the Wetlands Reserve Program. Participants in the program sell a conservation easement to USDA in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership.

To be eligible, the land must have been damaged by a natural disaster and be restorable as a wetland. Once the land is enrolled in the program, the landowner continues to control access to the land. The land is monitored to ensure if the wetland is in compliance with contract requirements, including compatible uses, such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWRP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

Emergency Watershed Protection Program (EWP)

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and to achieve greater environmental benefits where the situation warrants and the affected landowner is willing to participate in the easement approach. The easement is to restore, protect, manage, maintain, and enhance the functions of wetlands, riparian areas, conservation buffer strips, and other lands.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to effectively achieve the purposes of the easement. The easements provide permanent restoration of the natural floodplain hydrology as an alternative to traditional attempts to restore damaged levees, lands, and structures. There are no provisions in the easement to terminate the purchase.

Stewardship Investments
(in millions)

Program	FY 2002 Expense	FY 2001 Expense	FY 2000 Expense
Non-Federal Physical Property:			
Food and Nutrition Service			
Food Stamp Program	$ -	$ 41	$ 28
Special Supplemental Nutrition Program	-	18	29
Cooperative State Research, Education, and Extension Service			
Extension 1890 Facilities Program	14	12	12
Total Non-Federal Property	$ 14	$ 71	$ 69
Human Capital:			
Cooperative State Research, Education, and Extension Service			
Higher Education and Extension Programs	$ 532	$ 479	$ 466
Food and Nutrition Service			
Food Stamp Program	-	57	156
Child Nutrition Program	-	-	-
Forest Service			
Job Corps Program	104	101	94
Agricultural Research Service			
National Agricultural Library	20	21	19
Risk Management Agency			
Risk Management Education	-	-	1
Total Human Capital	$ 656	$ 658	$ 736
Research and Development:			
Agricultural Research Service			
Plant Sciences	$ 384	$ 324	$ 296
Commodity Conversion and Delivery	182	194	172
Animal Sciences	102	146	133
Soil, Water, and Air Sciences	100	98	89
Human Nutrition	80	77	72
Integration of Agricultural Systems	40	34	31
Collaborative Research Program	11	11	-
Cooperative State Research, Education, and Extension Service			
Land-grant University System	542	495	476
Forest Service			
Natural Resource Management	267	200	255
Economic Research Service			
Economic and Social Science	67	66	64
National Agricultural Statistics Service			
Statistical	5	4	4
Total Research and Development	$ 1,780	$ 1,649	$ 1,592

Nonfederal Physical Property

Food and Nutrition Service

FNS' nonfederal physical property consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. The total Food Stamp Program Expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' nonfederal physical property also consist 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 (WIC).

Cooperative State Research, Education, and Extension Service

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities. In FY 2002, 18 grants were awarded to support this program.

Human Capital

Cooperative State Research, Education, and Extension Service Programs

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, a capacity building program at the 1890 institutions, and an Alaska Native-Serving and Native Hawaiian-Serving institutions education grants programs. In FY 2002, approximately 200 Higher Education grants were awarded to more than 125 institutions of higher education. 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.

Food and Nutrition Service

FNS' human capital consists of employment and training (E&T) for the Food Stamp Program. The E&T program requires recipients of food stamp benefits to participate in an employment and training program as a condition to food stamp eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 621,000 work registrants subject to the 3-month Food Stamp Program participant limit and 529,000 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Forest Service

In partnership with the U.S. Department of Labor (DOL), the Forest Service operates 18 Job Corps Civilian Conservation Centers. Job Corps is the only Federal residential employment and education training program for economically challenged young people, ages 16-24. The purpose of the program is to provide young adults with the skills necessary to become employable, independent, and productive citizens. Job Corps is funded from DOL with the program year beginning on July 1 and ending on June 30 of each year. During FY 2002 (July 1st to June 30th), there were 8,976 participants with 3,748 placements. The average starting hourly wage for our Forest Service Job Corps students was $8.49, which is above the DOL national average rate.

Established in 1964, Job Corps has trained and educated about 219,000 young people. The program is administered in a structured, coeducational, residential environment that provides, education, vocational and life skills training, counseling, medical care, work experience, placement assistance and follow-up, recreational opportunities, and biweekly monetary stipends. Job corps students can choose from a wide variety of careers such as urban forestry, heavy equipment operations and maintenance, business clerical, carpentry, culinary arts, painting, cement and brick masonry, welding, auto mechanics, health services, building and apartment maintenances, warehousing, and plastering. The 18 centers had 2,056 women students training in nontraditional vocations last program year. The program received the National Job Corps Association Community Partners Alpha Award for the partnership of the Frenchburg Job Corps

Center and the Hazard Community College in assisting young people earn college credits. Over 700 Job Corps students assisted the agency in its fire fighting efforts. An Interagency Agreement with the Secretaries of Interior, Labor, and Agriculture was signed for the establishment of the first National Apprentice Training Program—which will allow Job Corps students to participate. The Firefighter Apprentice of the Future representative is one of our female Job Corps students.

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 Library 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 National Agricultural Library was created as the departmental library for the U.S. Department of Agriculture in 1862 and became a national library in 1962. One of four national libraries of the United States (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 National Agricultural Library serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The National Agricultural Library's collection of over 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the 1996 Act, the FCIC has formed new partnerships with the Cooperative State Research, Education, and Extension Service (CSREES), the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation during fiscal year 2002 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

One of the directives of ARPA is to step up the FCIC's educational and outreach efforts in certain areas of the country that have been historically underserved by the Federal crop insurance program. The Secretary determined that fifteen states met the underserved criteria. These states are Maine, Massachusetts, Connecticut, Wyoming, New Jersey, New York, Delaware, Nevada, Pennsylvania, Vermont, Maryland, Utah, Rhode Island, New Hampshire, and West Virginia.

Research and Development

Agricultural Research Service

ARS is the principal in-house research agency of USDA. Its mission is to conduct research to develop the following program activities:

Plant Sciences

The research emphasis is on increasing the productivity and quality of crop plants, and improving the competitiveness of agricultural products in domestic and world markets. The research involves developing improved production practices, and methods for reducing crop losses caused by weeds, diseases, insects, and other pests. The research also includes broadening the germplasm resources of plants and beneficial organisms to ensure genetic diversity for improving productivity.

Commodity Conversion and Delivery

The research program focuses on maximizing the use of agricultural products in domestic and international markets. New agricultural products and processes are developed along with technologies for reducing or eliminating post harvest losses caused by pests, spoilage, and physical and environmental damage. Also, research is conducted on food safety to reduce pathogens, naturally-occurring toxicants, mycotoxins, and chemical residues in the food supply.

Animal Sciences

The research program places primary emphasis on increasing the productivity of animals and the quality of animal products. The research involves increasing the genetic capacity of animals for production, improving the efficiency of reproduction, improving animal nutrition and feed efficiency, and controlling or preventing losses from pathogens, diseases, parasites, and insect pests. In addition, the research includes the development of systems and technologies to better manage and utilize animal wastes.

Soil, Water, and Air Sciences

The research program is directed to managing and conserving the nation's soil, water, and air resources to maintain a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.

Human Nutrition

The research program emphasis is on promoting optimum human health and well-being through improved nutrition. Research is directed to defining the nutrient requirements of humans at all stages of the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods consumed, and establishing the bioavailability of their nutrients.

Integration of Agricultural Systems

The research integrates scientific knowledge of agricultural production, processing, and marketing into systems that optimize resources management and facilitate the transfer of technology to users.

Collaborative Research Program

Funds from the U.S. Agency for International Development (AID) allow USDA to provide short-term scientific exchanges with the new independent states of the former Soviet Union to develop market-based agricultural systems necessary to meet the food needs of their populations and develop and strengthen trade linkages between their countries and related agribusiness and agricultural enterprise in the United States.

The National Agricultural Library also provides support to ARS' research programs.

Cooperative State Research, Education, and Extension Service Program

CSREES participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and USDA. It assists in maintaining cooperation among the State institutions, and between the State institutions and their Federal research partners. CSREES administers grants and formula payments to State institutions to supplement State and local funding for agriculture research.

Forest Service

Forest Service research and development provides reliable science based information that is incorporated into natural resource decision-making. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include:

- Vegetation Management and Protection;
- Wildlife, Fish, Watershed, and Air;
- Resource Valuation and Use Research; and
- Forest Resources Inventory and Monitoring.

Research staff is involved in all areas of the Forest Service supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2002 accomplishments include:

- Estimated 316 new interagency agreements and contracts;
- Estimated 221 interagency agreements and contracts continued;
- Estimated 1,326 articles published in journals;
- Estimated 1,829 articles published in all other publications;
- six patents granted; and
- 37 rights to inventions established.

Economic Research Service

ERS provides economic and other social science research and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Research results and economic indicators on these important issues are fully disseminated through published and electronic reports and articles; special staff analyses, briefings, presentations, and papers; databases; and individual contacts. ERS' objective information and analysis helps public and private decision makers attain the goals that promote agricultural competitiveness, food safety and security, a well-nourished population, environmental quality, and a sustainable rural economy.

National Agricultural Statistics Service

Statistical research and service is conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. In addition, new products for data users are being developed with the use of technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

REQUIRED SUPPLEMENTARY INFORMATION

Statement of Budgetary Resources

	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Budgetary Resources:												
Budget authority:												
Appropriations received	$ 30,037	$ -	$ 4,618	$ -	$ 32,806	$ 734	$ 7,260	$ 6,162	$ 2,511	$ 509	$ 84,637	$ -
Borrowing authority	34,054	1,586	1	8,103	-	-	-	-	-	-	34,055	9,689
Net transfers	(3,501)	-	588	-	5,173	-	(5,046)	470	15	21	(2,281)	-
Unobligated balances:												-
Beginning of period	5,443	1,728	1,159	612	15,541	45	488	1,365	338	118	24,498	2,341
Net transfers, actual	(7)	-	-	-	20	-	2	110	-	-	126	-
Anticipated Transfers balances	-	-	-	-	-	-	-	-	-	-	-	-
Spending authority from offsetting collections:												-
Earned												-
Collected	13,762	3,548	5,877	3,634	143	101	162	1,094	81	383	21,603	7,183
Receivable from Federal sources	(479)	(68)	(12)	(694)		2	17	(216)	12	(20)	(695)	(762)
Change in unfilled customer orders												-
Advance received	209	-	-	-	(15)	-		(48)	2	-	148	-
Without advance from Federal sources	(3)	(2)	-	666		-	-	26	10	22	55	664
Subtotal	13,489	3,478	5,866	3,606	128	103	179	856	105	385	21,112	7,084
Recoveries of prior year obligations	472	78	268	210	712	73	176	125	778	60	2,664	288
Permanently not available	(42,135)	(597)	(5,290)	(1,296)	(4,931)	(1)	(10)	(22)	(15)	(4)	(52,407)	(1,893)
Total Budgetary Resources (Note)	37,852	6,273	7,210	11,236	49,450	954	3,050	9,066	3,732	1,089	112,402	17,509

	FFAS		RD		FNCS	FSIS	MRP	NRE	REE	DO	Total	Total
	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Non-Budgetary Credit Program Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Credit Program Financing Accounts
Status of Budgetary Resources:												
Obligations incurred (Note):												
Direct	8,419	2,085	5,242	10,160	37,614	795	2,006	6,865	3,021	519	64,482	12,245
Reimbursable	26,956	-	481	-	79	102	418	821	149	377	29,383	
Subtotal	35,375	2,085	5,723	10,160	37,693	897	2,424	7,686	3,170	896	93,864	12,245
Unobligated balance												
Apportioned	1,834	3,978	207	274	517	43	432	1,055	409	80	4,578	4,252
Exempt from apportionment	42		-	-	-	1	172	5	56		276	
Other available	299	-	-	-	-	-	-	-	-	-	299	
Unobligated balance not available	301	210	1,279	802	11,239	13	21	320	97	112	13,385	1,012
Total Status of Budgetary Resources	37,852	6,273	7,210	11,236	49,450	954	3,050	9,066	3,732	1,089	112,402	17,509
Relationship of Obligations to Outlays:												
Obligated balance, net, beginning of period	5,890	580	6,729	10,232	3,058	73	360	1,968	1,464	81	19,624	10,812
Obligated balance transferred, net	-	-	-	-	-	-	-	-	-	-	-	
Obligated balance, net, end of period:												
Accounts receivable	(654)	(107)	(24)	-	-	(23)	(58)	(156)	(68)	(64)	(1,048)	(107)
Unfilled customer orders from Federal sources	(6)	(10)	-	(666)		-	-	(156)	(77)	(28)	(267)	(676)
Undelivered orders	4,041	284	6,360	13,823	340	80	265	1,759	1,584	132	14,561	14,107
Accounts payable	2,556	437	438		2,546	17	118	498	56	64	6,292	438
Outlays:												
Disbursements	35,339	2,053	5,422	7,053	37,226	821	2,296	7,774	2,340	816	92,034	9,105
Collections	(13,972)	(3,548)	(5,877)	(3,634)	(128)	(101)	(162)	(1,046)	(83)	(383)	(21,751)	(7,183)
Subtotal	21,368	(1,495)	(455)	3,418	37,098	720	2,134	6,728	2,258	433	70,283	1,923
Less: Offsetting Receipts	57	130	356	-	-	1	10	852			1,275	130
Net Outlays	$ 21,311	$ (1,625)	$ (811)	$ 3,418	$ 37,098	$ 720	$ 2,124	$ 5,876	$ 2,257	$ 433	$ 69,008	$ 1,793

Deferred Maintenance

	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Roads, Bridges, and Major Culverts	$ 4,955	$ 1,161	$ 3,794
Buildings	518	189	329
Developed Recreation Sites	291	99	192
Dams	30	9	21
Range Structures	491	491	-
Wildlife, Fish, and Threatened and Endangered Species Structures	4	3	1
Trails	138	51	87
Heritage Assets	73	42	31
Total Forest Service	$ 6,501	$ 2,047	$ 4,454

Deferred maintenance is maintenance that was scheduled to be performed and delayed until a future period. Deferred maintenance represents a cost that the government has elected not to fund and, therefore, the costs are not reflected in the financial statements. Maintenance is defined to include preventative maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general Property, Plant and Equipment (PP&E), stewardship assets, and heritage assets. It is also reported separately for critical and non-critical amounts of maintenance needed to return each class of asset to its acceptable operating condition.

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of PP&E. There is no deferred maintenance for fleet vehicles and computers that are managed through the Agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Condition of Administrative Facilities

- 22 percent of buildings are obsolete, over 50 years old
- 27 percent of buildings are in poor condition needing major alterations and renovations
- 24 percent of buildings are in fair condition needing minor alterations and renovations
- 27 percent of buildings are in good condition needing routine maintenance and repairs

Condition of Dams

The overall condition of dams is below acceptable. The condition of dams is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public, or are needed to restore functional use, correct unsightly conditions, or prevent more costly repairs.

Condition of General Property, Plant and Equipment

The standards for acceptable operating condition for various classes of general PP&E, stewardship and heritage assets are:

Buildings

Comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys.

Roads and Bridges

Conditions of the National Forest System Road system are measured by various standards that include applicable regulations for the Highway Safety Act developed by the Federal Highway Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency and the states to implement the non-point source provisions of the Clean Water Act, road management objectives developed through the forest planning process prescribed by the National Forest Management Act, and the requirements of Forest Service Manuals and Handbooks.

Developed Recreation Sites

This category that includes campgrounds, trailheads, trails, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with Federal laws and regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330, Publicly Managed Recreation Opportunities) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, settings, safety and security, responsiveness, and the condition of facility.

Range Structures

The condition assessment was based on: 1) a determination by knowledgeable range specialists or other district personnel of whether or not 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-range methodology is used to gather this data.

Dams

Managed according to Forest Service Manual 7500, Water Storage and Transmission, and Forest Service Handbook 7509.11, Dams Management as determined by condition surveys.

Wildlife, Fish, and Threatened and Endangered Species Structures

Field biologists at the forest used their professional judgment to determine deferred maintenance. Deferred maintenance was considered as upkeep that had not occurred on a regular basis. The amount was considered critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Trails

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

Heritage Assets

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

Intragovernmental Amounts

Assets

Trading Partner (Code)	Fund Balance with Treasury	Investments	Accounts Receivable	Other
Unknown (00)		$ 5	$ 169	$ 2
Department of Interior (14)		-	4	-
Department of Justice (15)		-	1	-
Department of Labor (16)		-	7	-
Department of State (19)		-	1	
Department of the Treasury (20)	$ 39,617	91	13	-
Department of the Army (21)		-	7	-
Office of Personnel Management (24)		-	2	-
General Services Administration (47)		-	7	-
Department of the Air Force (57)		-	1	-
Environmental Protection Agency (68)		-	3	-
Department of Transportation (69)		-	1	(1)
Department of Health and Human Services (75)		-	5	-
National Aeronautics and Space Administration (80)		-	1	-
Department of Energy (89)		-	17	-
U.S. Army Corps of Engineers (96)		-	1	
Office of the Secretary of Defense-Defense Agencies (97)		-	3	-
Total Assets	$ 39,617	$ 96	$ 242	$ 1

Liabilities

Trading Partner (Code)	Accounts Payable	Debt	Resources Payable to Treasury	Other
Unknown (00)	$ (17)	$ -		$ 212
Department of Commerce (13)	-	-		1
Department of Interior (14)	-	-		68
Department of Justice (15)	-	-		8
Department of Labor (16)	-	-		94
Department of the Navy (17)	-	-		(1)
Department of State (19)		-		(4)
Department of the Treasury (20)	113	75,868		1,063
Department of the Army (21)		-		1
Office of Personnel Management (24)		-		20
General Services Administration (47)		-		11
Department of Transportation (69)	-	-		7
Agency for International Development (72)	541	-		4
Department of Health and Human Services (75)		-		1
National Aeronautics and Space Administration (80)	-	-		(1)
Department of Energy (89)	-	-		5
U.S. Army Corps of Engineers (96)	1	-		(66)
Treasury General Fund (99)	-	-	$ 18,598	1,372
Total Liabilities	$ 637	$ 75,868	$ 18,598	$ 2,795

Earned Revenue, Federal

		Earned Revenue Federal
Earned Revenue Federal:		
Trading Partner (Code)		
Unknown (00)	$	97
Library of Congress (03)		1
General Accounting Office (05)		1
Department of Commerce (13)		5
Department of Interior (14)		47
Department of Justice (15)		15
Department of Labor (16)		57
U.S. Postal Service (18)		1
Department of State (19)		2
Department of the Treasury (20)		567
Department of the Army (21)		17
Office of Personnel Management (24)		5
Smithsonian Institution (33)		1
Appalachian Regional Commission (46)		11
General Services Administration (47)		73
Federal Deposit Insurance Corporation (51)		1
Department of the Air Force (57)		2
Federal Emergency Management Agency (58)		(5)
Environmental Protection Agency (68)		12
Department of Transportation (69)		16
Agency for International Development (72)		8
Small Business Administration (73)		1
Department of Health and Human Services (75)		8
National Aeronautics and Space Administration (80)		2
Department of Housing and Urban Development (86)		2
Department of Energy (89)		25
U.S. Army Corps of Engineers (96)		7
Office of the Secretary of Defense-Defense Agencies (97)		6
Total Earned Revenue Federal	$	983

Cost to Generate Earned Revenue Federal:

		Federal and Non-Federal
Functional Classification		
350 Agriculture	$	440
Total Cost to Generate Revenue	$	440

Cost, Federal

		Cost Federal
Trading Partner (Code)		
Unknown (00)	$	2,007
Library of Congress (03)		1
Government Printing Office (04)		12
General Accounting Office (05)		1
Department of Commerce (13)		11
Department of Interior (14)		73
Department of Justice (15)		26
Department of Labor (16)		67
Department of the Navy (17)		6
U.S. Postal Service (18)		17
Department of State (19)		18
Department of the Treasury (20)		4,129
Department of the Army (21)		2
Office of Personnel Management (24)		1,343
Social Security Administration (28)		8
Department of Veterans Affairs (36)		1
General Services Administration (47)		138
Office of Special Counsel (62)		1
Environmental Protection Agency (68)		1
Department of Health and Human Services (75)		11
National Aeronautics and Space Administration (80)		3
Department of Energy (89)		13
Independent Agencies (95)		2
U.S. Army Corps of Engineers (96)		3
Office of the Secretary of Defense-Defense Agencies (97)		4
Total Cost Federal	$	7,897

Non-exchange Revenue Federal:

		Transfers-In		Transfers-Out
Trading Partner (Code)				
Unknown (00)	$	1,409	$	
Department of Interior (14)				(200)
Department of the Treasury (20)		2,619		(3,101)
Agency for International Development (72)				(611)
Treasury General Fund (99)				(1,945)
Total Non-exchange Revenue Federal	$	4,028	$	(5,857)

Segment Information

The Departmental Working Capital Fund and the Forest Service Working Capital Fund are not separately reported in the consolidated financial statements. The following information summarizes the working capital funds' financial condition and results of operations as of and for the fiscal year ending September 30, 2002.

	Departmental Working Capital Fund	Forest Service Working Capital Fund	Total Working Capital Funds
Condensed Information			
Fund Balance	$ 74	$ 108	$ 182
Accounts Receivable	28	1	29
Property, Plant, and Equipment	50	338	388
Other Assets	3	22	25
Total Assets	155	469	624
Liabilities and Net Position			
Accounts Payable	3	17	20
Deferred Revenues	-	-	-
Other Liabilities	52	(38)	14
Unexpended Appropriations	26	4	30
Cumulative Results of Operations	74	486	560
Total Liabilities and Net Position	$ 155	$ 469	$ 624

	Cost of Goods and Services Provided	Related Exchange Revenue	Excess of Costs Over Exchange Revenue
Product or Business Line			
Departmental Working Capital Fund:			
Finance and Management	$ 185	$ 204	$ (19)
Communications	5	5	0
Information Technology	74	81	(7)
Administration	26	29	(3)
Executive Secretariat	2	2	(0)
Total Departmental Working Capital Fund	292	321	(29)
Forest Service Working Capital Fund:			
Other	146	218	(72)
Total Working Capital Funds	$ 438	$ 539	$ (101)

Departmental Working Capital Fund

Twenty-two activity centers performed operations and provided the following services in FY 2002:

- **Administration:** Administrative and Supply Services.
- **Communications:** Video, Teleconferencing, Graphic and Exhibit Services.
- **Finance and Management:** Payroll, Accounting and Administrative Services and Thrift Saving Plan Support.
- **Information Technology:** ADP Services, Application Development, and Telecommunications Services.
- **Executive Secretariat:** Executive correspondence control and tracking.

In FY 2002, the Departmental Working Capital Fund had two major customers that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of $60 million. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of $54 million.

Forest Service Working Capital Fund

Services provided by the Forest Service Working Capital Fund include: fleet services, including rental and maintenance; aircraft services, including operation and maintenance; supply services; and computer services, including the replacement of computer hardware and software. Forest Service units are the major customers of the fund.

IV. REPORT OF THE OFFICE OF THE INSPECTOR GENERAL AND MANAGEMENT'S RESPONSE

USDA

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: January 15, 2003

REPLY TO
ATTN OF: 50401-47-FM

SUBJECT: U.S. Department of Agriculture
Consolidated Financial Statements for Fiscal Year 2002

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

This report presents the results of our audit of the U.S. Department of Agriculture's consolidated financial statements for the fiscal year ended September 30, 2002. The report contains an unqualified opinion and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action taken or planned, including the timeframes, on our recommendations. Please note that the regulation requires a management decision to be reached on all findings and recommendations within a maximum of 6 months from report issuance.

We appreciate the courtesies and cooperation extended to us during the audit.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

U.S DEPARTMENT OF AGRICULTURE
CONSOLIDATED FINANCIAL
STATEMENTS
FOR FISCAL YEAR 2002

Report No.
50401-47-FM
January 2003

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE CONSOLIDATED FINANCIAL STATEMENTS FOR FISCAL YEAR 2002

AUDIT REPORT NO. 50401-47-FM

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations, (2) the internal control objectives were met, (3) the Department complied with laws and regulations for those transactions and events that could have a material affect on the financial statements, and (4) the information in the Management Discussion and Analysis and the Supplemental Financial Information sections was materially consistent with the information in the financial statements.

We conducted our audit at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center (NFC) located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

RESULTS IN BRIEF

In our opinion, USDA's fiscal year 2002 consolidated financial statements, including the accompanying notes, present fairly in all material respects, in conformity with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2002; as well as net costs, changes in net position, budgetary resources, and reconciliations of net costs to budgetary obligations for the year then ended. This is the first year USDA has received an unqualified opinion because it overcame its previous inability to produce timely and accurate financial statements.

In addition to obtaining its first ever unqualified opinion, the Department achieved the following major accomplishments in improving its overall financial management during fiscal year 2002.

- The OCFO/NFC made significant progress in performing its Financial Management Service (FMS) Form 6653, "Undisbursed Appropriation Account Ledger," Fund Balance with Treasury (FBWT) reconciliations for its serviced agencies, increasing the reliability of the FBWT line-item. However, further work is needed to insure the FBWT is reconciled as of fiscal yearend.

- As of fiscal year 2003, all USDA agencies have been implemented into the Foundation Financial Information System, mitigating the financial management problems reported in the legacy Central Accounting System.

- Significant improvements were made by USDA's agencies in correcting long-standing real and personal property accounting deficiencies. Additional improvement is needed in the Forest Service.

In addition, other major initiatives are underway. Plans have been developed, contingent upon available funding, to address the (1) renovation of corporate administrative systems, (2) design of department-wide cost accounting standards, (3) improvement in the processes and procedures for accounting for real and personal property, and (4) enhancement of overall management accountability and control.

In our Report on the Internal Control Structure, we reported:

- The USDA and its agencies operate at least 80 program and administrative financial management systems. The Office of Inspector General, the General Accounting Office, and the Department have reported that USDA's financial system of records presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The OCFO has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over $123 billion and program costs in excess of $72 billion, actions must continue to be taken to fully resolve these problems.

- We also noted that improvements are needed in the Department's Information Technology security.

In our Report on Compliance with Laws and Regulations, we continued to note where further actions are necessary related to improving financial management systems, including cost accounting for user fees.

KEY RECOMMENDATIONS

The OCFO has immediate and long term plans to address substantially all of the weaknesses in its and the agencies' financial management systems. The recommendation in this report was limited to developing guidance and providing assistance in implementing an effective quality control review program throughout the Department.

AGENCY POSITION

OCFO generally agreed with the findings and recommendation in this report. However, it does not consider the unreconciled balances within the FBWT and Treasury records to be material. The OCFO has also reported that it believes the Department is in substantial compliance with the Federal Financial Management Improvement Act. We disagree with the OCFO's position. We believe the nonconformances noted within the audits of USDA component agencies constitutes substantial noncompliance. We are committed to working with the OCFO to resolve this issue. Our rebuttals appear in the "Findings and Recommendations" sections of this report.

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UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying Consolidated Balance Sheet of the U.S. Department of Agriculture (USDA) as of September 30, 2002, and the related Consolidated Statements of Net Cost, Changes in Net Position and Financing, and the Combined Statement of Budgetary Resources for fiscal year then ended. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with "Government Auditing Standards" issued by the Comptroller General of the United States, and the Office of Management and Budget (OMB) Bulletin 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provided a reasonable basis for our opinion.

In our opinion, the fiscal year 2002 financial statements referred to above, including the accompanying notes, present fairly in all material respects, in conformity with generally accepted accounting principles, the assets, liabilities, and net position as of September 30, 2002; as well as net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the year then ended. We issued a disclaimer of opinion on the fiscal year 2001 financial statements because the Department was unable to provide accurate financial statements in a timely manner.

Our audit was conducted for the purpose of forming an opinion on USDA's financial statements taken as a whole. The information in Management's Discussion and Analysis and Required Supplemental Information sections represent supplementary information required by OMB Bulletin 01-09, "Form and Content of Agency Financial

Statements." We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

We have also issued a report on the Department's internal controls, which cites six reportable internal control findings and a report on USDA's compliance with laws and regulations, which cites three instances of noncompliance with laws and regulations.

This report is intended solely for the information of the management of USDA, OMB, and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

January 7, 2003

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We audited the accompanying financial statements of the USDA, as of, and for the fiscal year ended September 30, 2002, and have issued our report thereon, dated January 7, 2003. In planning and performing our audit of the financial statements, we considered its internal controls over financial reporting by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operation, assessed control risk, and performed tests of control in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 01-02. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982, such as those controls relevant to ensuring efficient operations. Consequently, we do not provide an opinion on internal controls.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be reportable conditions. Under standards issued by the American Institute of Certified Public Accountants (AICPA), reportable conditions are matters coming to our attention relating to significant deficiencies in the design or operation that, in our judgment, could adversely affect the agency's ability to record, process, summarize, and report financial data consistent with the assertions by management in the financial statements. Material weaknesses are reportable conditions in which the design or operation of one or more internal control components do not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable conditions described in this report are material weaknesses.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of USDA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the benefits and related costs of the internal control structure to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its fiscal year 2002 FMFIA report, the Secretary of Agriculture was able to provide reasonable assurance that for the first time in more than 10 years, the Department was in compliance with both Section 2, "Management Accountability and Control," and Section 4, "Financial Management Systems," except for 19 outstanding material internal control weaknesses and the financial system nonconformances noted in this report.

OIG'S EVALUATION OF USDA'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified USDA's significant internal control structure policies and procedures into the following categories:

Administrative Costs – consists of policies and procedures associated with disbursing funds for salaries and administrative expenses.

Treasury – consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.

Financial Reporting – consists of policies and procedures associated with processing accounting entries and preparing the USDA's annual financial statements.

Direct Loans and Grants – consists of policies and procedures associated with authorizing and disbursing loans and grants, accruing interest on loans, and collecting loan repayments.

Guaranteed Loans – consists of policies and procedures associated with authorizing and disbursing payments, authorizing guarantees, and accruing interest and collecting repayments on defaulted guaranteed loans.

Insurance Premiums and Claims – consists of policies and procedures associated with processing catastrophic risk program fees and reinsured company premiums and indemnities for these insurance policies.

Property and Inventory – consists of policies and procedures associated with acquisition, maintenance and disposition of property and/or inventory.

Food Stamp Redemption – consists of policies and procedures associated with coupons being redeemed and applied against the USDA's fund balance at the Treasury.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of USDA's internal control structure.

In making our risk assessment, we considered the Department's FMFIA reports, Office of the Inspector General (OIG) audits and other independent auditor reports on financial matters, and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the AICPA. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to have reasonable assurance that the following objectives are met:

(1) Reliability of financial reporting – transactions are properly recorded, processed, and summarized to permit the preparation of the Principal Statements and Required Stewardship Supplement Information (RSSI) in accordance with generally accepted accounting principals, and assets are safeguarded against loss from unauthorized acquisition, use or disposition;

(2) Compliance with applicable laws and regulations – transactions are executed in accordance with (a) laws governing the use of budget authority and other laws that could have a direct and material effect on the Principal Statements or RSSI, and (b) any other laws, regulations, and Government-wide policies identified by OMB in Appendix C of OMB Bulletin No. 01-02; and

(3) Reliability of performance reporting – transactions and other data that support reported performance measures are properly recorded, processed, and summarized to permit the preparation of performance information in accordance with criteria stated by management.

Matters that we consider to be reportable conditions are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

I. USDA NEEDS TO CONTINUE ITS EFFORTS TO IMPLEMENT FINANCIAL MANAGEMENT IMPROVEMENTS AT A CORPORATE LEVEL

FINDING NO. 1

The USDA and its agencies operate at least 80 program and administrative financial management systems. The OIG, General Accounting Office (GAO), and the Department itself, have reported that USDA's financial system of record presents a high risk to the Department. The longstanding and material problems were caused, primarily, by the absence of corporate level oversight and planning when these legacy systems were initially developed and upgraded. The Office of the Chief Financial Officer (OCFO) has taken action to address these problems and developed plans to review the legacy systems, and consolidate and update the systems, as appropriate, to meet present accounting standards and management needs. With assets totaling over $123 billion and program costs in excess of $72 billion, actions must continue to be taken to fully resolve these problems.

During fiscal year 2002, the Department has achieved significant improvements in its overall financial management. The Foundation Financial Information System (FFIS) has been implemented for the entire Department. This system is Joint Financial Management Improvement Program (JFMIP) compliant and has eliminated many of the previous weaknesses we have reported in the past. However, some weaknesses continue to exist where further enhancements are needed. For example:

- The Property System, a subsidiary system of the general ledger, is reconciled with the general ledger; however, not on a timely basis. For example, as of January 3, 2003, yearend reconciliations had not been provided for at least three agencies with property balances (gross) totaling over $732 million, with unreconciled differences of about $10 million. Reconciliations are important procedures that ensure the validity and completeness of information feeding from one system into another.

- We continue to find inconsistent implementation of accounting processes in FFIS between agency applications. Table settings are used to set edits, interest rates, penalty amounts, etc. We found that field settings were inconsistent between the 13 agency applications we tested. Although table setting standards were sent out for comment, no formal guidance was implemented by October 2002. As a result, different accounting processes could affect consolidated financial information.

- We noted significant problems with the processes used to post adjustments to the general ledger. FFIS uses Journal Vouchers (JV) and Standard Vouchers (SV) to process adjustments. The SV uses predefined debits and credits based on business rules, while the JV requires the identification of the debits/credits to be used based on unique situations and poses a greater risk due to the potential for human error. We noted that about 40 percent (10 of 25) of the JV transactions reviewed and 28 percent (10 of 35) of the SV transactions reviewed were (1) calculated or researched incorrectly, (2) made to the wrong accounts, and/or (3) required to correct a previous adjustment. In addition, we could not determine if one of the SV adjustments in our sample was properly calculated because the support provided was not adequate.

  The types of problems that we found could have been avoided had (1) ACFO/FS established posting models to properly record OPAC chargeback transactions to the general ledger accounts that track OPAC disbursements and collections and (2) the agencies effectively implemented the controls outlined in the FFIS Bulletins 00-01, "Internal Controls Over Manual Adjustments in the FFIS," and 02-06, "Internal Controls Over Standard Vouchers in the FFIS," which establish overarching guidance for developing proper internal controls. We also noted that (1) evidence of important controls, such as supervisory review and agency approval, were more likely to be documented and (2) adequate supporting documentation was more likely to be provided for manual adjustments when a hard-copy form and/or National Finance Center (NFC) checklist was completed.

  Our review also disclosed that JV transactions were being used to perform routine processes. For example, 5 of the JVs in our sample were used to reclassify Office of Personnel Management benefit expenses, which is required on a recurring basis because the payroll system does not generate correct accounting. Since JV transactions generally present a greater risk to system integrity than SV transactions, we believe that posting models should be set up to accomplish routine transactions currently processed with JV transactions.

- The "Obligated Balance, Net-Beginning of Period" and "Unobligated Balance, Beginning of Period" on the fiscal year 2002 Statement of Budgetary Resources did not agree with the amount reported as the ending balance on last year's statement. These line items should equal or be reconciled. We were not provided with a reconciliation that explained the net decrease of $121 million.

- Material dollar amounts contained in Central Accounting System (CAS) have been identified as potentially invalid by some agencies. Prior to conversion into FFIS, agencies performed reviews to identify activity recorded in CAS that was not supported. This activity was converted into FFIS using "alternate" fund codes. During fiscal year 2002, we monitored agency efforts to clear alternate fund code balances by either transferring supported amounts to the correct fund code or adjusting erroneous balances, as appropriate. As of the end of fieldwork, about $105 million in unsupported prior year activity (absolute value) remained in these alternate fund codes, and was reported in the agency's financial statements. Also, cleanup of this alternate fund code activity fell far behind schedule at several agencies. The lack of timely research and resolution put audit timeframes in jeopardy. As the final two agencies convert to FFIS, effective October 1, 2002, it is imperative that they clean up the data converted to the alternate fund codes, in a timely manner.

- We noted, despite significant efforts to reconcile suspense activity, that corrective action on all outstanding balances could not be totally effected to the fiscal year 2002 account balances. An action plan has been developed to address this activity. We noted the following:

  OCFO/NFC uses Treasury symbol 12F3875, "Budget Clearing Suspense," without specific procedures for reconciling transactions posted to this Treasury symbol or ensuring that the transactions clear from the account.[1] Until suspense account transactions are posted to the proper appropriation account within the Department, there is the potential for incorrect accounting records, which could lead to anti-deficiency violations and other problems. Moreover, the reported balance in suspense accounts represent the netting of collections and

[1] Treasury budget clearing accounts are to be used as temporary holding accounts pending clearance to the applicable receipt or expenditure account in the budget. According to Treasury yearend closing procedures, budget clearing accounts along with Statements of Differences should be reconciled by the end of the fiscal year. In order to ensure that transactions are properly reconciled and cleared, transaction level detail must be maintained.

disbursements, thus understating the magnitude of the unrecorded amounts in suspense accounts. Based on our analysis of general ledger detail activity of related transactions for account balances as of September 30, 2002, the net unreconciled and/or uncleared differences in Treasury symbol 12F3875, was about $95.7 million for FFIS agencies and $(42) million for CAS agencies. Also, the CAS general ledger within the Treasury symbol was out-of-balance.

- Agencies were unable to provide complete explanations of abnormal balances, in a timely manner. Explanations were provided by agencies well beyond agreed upon timeframes and required considerable audit followup. Analysis of abnormal balances should be performed monthly to identify unusual and potentially erroneous financial activity.

The OCFO has immediate and long-term plans to address the weaknesses in its and the agencies' financial management systems. These actions include working with the business process owners to address the problems with the legacy feeder systems, with the objective to provide an improved integration of the financial management architecture within the Department. For example, we noted that the Department's systems have not been designed to enable them to provide sufficient and relevant data to meet the Statement of Federal Financial Accounting Standards (SFFAS) No. 4, "Managerial Cost Accounting Concepts and Standards," effective September 30, 1996. This statement is aimed at providing reliable and timely information on the full cost of Federal programs, activities, and outputs. This information can be used by Congress and Federal executives in making decisions about allocating resources, authorizing and modifying programs, evaluating program performance, and making managerial decisions to improve economy and efficiency.

These conditions hinder the ability to make informed decisions, in a timely manner, when the need for such information is a crucial factor for sound financial management. We believe the Department must continue to move forward in developing plans to integrate its program and administrative financial management systems. The objective is for USDA financial systems to produce annual financial statements and other information needed to manage day-to-day operations dependably and routinely. Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage its vast resources.

We are making no additional recommendations in this report for prior recommendations that have not yet been management decided and/or are still open.

II. QUALITY CONTROL REVIEW PROCESSES NEED IMPROVEMENT

FINDING NO. 2

We noted that the OCFO had implemented a quality control review process on its deliverables prior to submitting the information for the consolidated audit. The information requested by OIG and provided by the agencies to OCFO was generally reviewed by the OCFO for accuracy and thoroughness. As a result, there were minimal follow up questions and requests for additional documentation. Without this process, we would not have been able to complete the audit within the legislatively mandated timeframes. However, this process was not always in place at some of the component agency audits. While agencies attempted to perform quality control reviews, there was not always enough time to provide for this important internal control and still meet the established deadlines. As a result, a significant amount of audit coverage needed to be performed and reperformed after material errors were identified and subsequently corrected. In effect, in many instances, the auditors performed the quality control reviews for the agencies. Given the accelerated timeframes imposed by OMB 01-09, there will not be an opportunity in future years for the auditors to detect these material errors and provide the agency with time to make necessary corrections. As a result, unless a Department-wide quality control process is implemented, there is a high-risk that the Department's opinion on its financial statements could deteriorate.

Some examples where quality control needs to be improved and/or established follow:

- Credit Reform estimates and reestimates needed to be recalculated and corrected subsequent to being provided for audit;
- Yearend accruals need to be calculated and posted prior to providing the financial statements for audit;
- Allowances for inventory write-offs and uncollectable accounts receivables needed to be calculated/recalculated and supported;
- Several subsidiary ledgers supporting material line-items on the financial statements needed to be created and analyzed; and
- Additional supporting documentation needed to be provided in numerous instances in order to support the financial statements.

These conditions occurred primarily because agencies lacked adequate lead-time to perform an effective quality review of the statements prior to submitting them to the OIG.

RECOMMENDATION NO. 1

OCFO should assist its component agencies in developing and implementing effective quality control reviews.

III. ADDITIONAL CORRECTIVE ACTIONS ARE NEEDED TO FULLY RECONCILE THE DEPARTMENT'S FUND BALANCE WITH TREASURY

FINDING NO. 3

We have reported since 1992 that the Fund Balance with Treasury (FBWT) account had not been properly reconciled with Treasury records. During the fiscal year 2002 audit we noted significant progress by the Department in improving its FBWT reconciliation processes. The Department was able to reconcile its FBWT Financial Management Service (FMS) Form 6652, "Statement of Differences," with the activity recorded at Treasury at the transaction level. We were able to remove our qualification for this material line-item. However, while significant progress was made, additional efforts are needed to resolve some continuing material internal control weaknesses.

The FBWT account is an asset account representing the future economic benefit of monies that can be spent for authorized transactions. At the agency level, Federal agencies accumulate their fund balance from numerous disbursement and receipt transactions, which they record in their Standard General Ledger (SGL) account 1010 and related sub accounts. For each accounting month, agencies are required to report their disbursement and receipt activities to Treasury on a Standard Form (SF) 224, "Statement of Transactions." FMS then compares the disbursements and receipts reported by agencies on the SF-224 to amounts reported by financial institutions (via lockboxes) on the Online Payment and Collection System, and by the Regional Finance Centers. FMS reports differences on the FMS Form 6652, "Statement of Differences," and requires that Federal agencies research and resolve differences between their receipts and their FBWT accounts as reported in their general ledgers and Treasury records. These reconciliations are critical internal controls, which improve the integrity of various U.S. Government financial reports and provide more accurate measurement of budget results. In addition, reconciliation and related verification of financial information ensure the integrity of the accounting system.

Treasury also requires agencies to reconcile their FMS Form 6653, "Undisbursed Appropriation Account Ledger." However, OCFO/NFC was only able to complete its FMS Form 6653 reconciliations at the transaction level through June 2002 for 73 percent of its Treasury symbols. The amounts reported by agencies as disbursements and collections per the monthly SF-224, "Statement of Transactions," are used by Treasury to increase/decrease the agency's FBWT and are reported back to the agency via the FMS Form 6653. If another agency or disbursing center makes a disbursement or collection affecting a specified Treasury symbol and reports that amount via the SF-224 process this increases/decreases the respective Treasury symbols as reported on the FMS Form 6653. In addition, non-expenditure transfers and current year authority are reflected on the FMS Form 6653. Therefore it is necessary for agencies to reconcile their general ledger FBWT with the amount being reported by Treasury. This reconciliation process should be at the transaction level to ensure that all transactions were properly recorded. Discrepancies between Treasury accounts and the agency's general ledger should be disclosed in the footnotes to the agency's financial statements along with an explanation of the causes for the discrepancies.

While the OCFO/NFC was performing some FMS Form 6653 reconciliations to the transaction level for agencies it services, the focus during fiscal year 2002 was to refine the process for current year activity. Prior year out-of-balance conditions had not yet been researched to the transaction level detail.

As noted above, FMS Form 6653 reconciliations were performed to the detail transaction level through June 2002 for 73 percent of its Treasury symbols. Only 34 percent of its Treasury symbols were reconciled at fiscal yearend. OCFO/NFC adjusted its records to agree with FMS Form 6653 for its serviced agencies without reconciling the differences. We found that over $(180) million, net, of yearend adjustments were not supported by transaction level detail.

These balances should not be adjusted without reconciling the details. In addition, for shared appropriations (more than one agency has authority to spend from the appropriation) there was no process in place to ensure that the total amount allocated was reconciled for purposes of reporting at the Treasury symbol level. USDA needs to comply with its procedures to ensure that the accounts are being properly reconciled.

OCFO indicated that, based on progress made to date, this weakness is no longer material. We believe the weakness is material because material misstatements could occur and not be detected in a timely manner by employees in a normal course of performing assigned duties. GAO Special Publication GAO/AIMD-97-104R, "Reconciliation of Fund Balances," states that auditors need to ensure that they determine the magnitude of the agencies unreconciled differences in absolute rather than net value. Unreconciled differences or unsupported adjustments represent potential misstatement of collection or disbursement data, which could materially affect the accuracy of various U.S. government-wide financial statements. This further supports our position that this weakness should remain material until reconciliations are completed at the transaction detail level in a timely manner.

The Department is continuing to work towards resolving these problems. We are making no further recommendations at this time.

IV. IMPROVEMENTS ARE NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY AND CONTROLS

FINDING NO. 4

RESULTS OF GOVERNMENT INFORMATION SECURITY REFORM ACT (GISRA) AUDIT

As part of our audits on the Department's information technology (IT) security and controls,[2] we identified widespread and serious weaknesses in the Department's ability to adequately protect (1) assets from fraud and misuse, (2) sensitive information from inappropriate disclosure, and (3) critical operations from disruption. Significant information security weaknesses were reported with inadequately restricted access to sensitive data being the most widely reported problem. This and other types of weaknesses identified place critical departmental operations, as well as the assets associated with these operations, at great risk of fraud, disruption, and inappropriate disclosures.

Our audits found that USDA had initiated actions to strengthen IT security in the Department. The Department, through its Chief Information Officer (CIO) had established a Department-wide security program, implemented a departmental security incident response program, and strengthened its oversight function through implementation of program reviews of agencies' security programs. Despite these actions, the Department had still not reached its goal of adequately securing its critical IT resources.

Our audits disclosed the following IT security weaknesses within the Department:

- The Department and its agencies are not in compliance with OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources," and Presidential Decision Directive (PDD) 63, "Policy on Critical Infrastructure Protection," including preparation of security plans for all their major applications, conducting risk assessments, establishing disaster recovery plans, and implementing a system certification/authorization process.

- Historically, USDA agencies and departmental staff offices have separately addressed their respective IT security and infrastructure needs. These isolated approaches have resulted in a broad array of technical and physical solutions that do not assure that complete

[2] Audit Report No. 50099-50-FM, "Government Information Security Reform Act – Fiscal Year 2002," dated, September 2002.

Department-wide security is obtained. The efforts of the Office of the Chief Information Officer (OCIO) and OIG in the past few years have heightened program management's awareness for the need to plan and implement effective IT security; however, much more is needed to ensure that the Department's critical IT resources are effectively managed and secured. The lack of agency management's involvement in their systems' security planning and implementation was a material weakness reported by both the OCIO and OIG in last year's GISRA report. And while most agencies have taken steps to begin improving their security programs, our reviews in fiscal year 2002 continue to show that continued program management involvement is needed to effectively implement a strong IT security program.

- Our audits continue to disclose that most agencies do not have adequate physical and logical access controls in place over their IT resources. Agencies have not ensured that critical network components are located in secured areas, that only properly authorized users have access to network resources, and that users' access authority is related to the performance of their job functions. In today's increasingly interconnected computing environment, inadequate access controls can expose an agency's information and operations to attacks from remote locations by individuals with minimal computer or telecommunications resources and expertise. As a result, confidential systems are vulnerable to potential fraud and misuse, inappropriate disclosure, and potential disruption.

- We continue to identify numerous vulnerabilities in agencies' systems despite the Department's purchase of a Department-wide license of a commercially available vulnerability scanner product. Using this software program we identified over 3,063 potentially high and medium-risk[3] vulnerabilities in 963 network components in 6 agencies scanned during our audits. While OCIO has reported to us that agencies have increased their use of the scanning tool, agencies need to incorporate the regular use of this tool in their security program. The lack of effective use of this tool leaves the Department's systems vulnerable to both internal and external threats, including Internet hackers, jeopardizing the integrity and confidentiality of the Department's critical program, financial, and economic data.

[3] High-risk vulnerabilities are those that provide access to the computer, and possibly the network of computers. Medium-risk vulnerabilities are those that provide access to sensitive network data that may lead to the exploitation of higher-risk vulnerabilities. Low-risk vulnerabilities are those that provide access to sensitive, but less significant network data.

FINDING NO. 5

RESULTS OF NATIONAL INFORMATION TECHNOLOGY CENTER (NITC) INTERNAL CONTROL AUDIT

Our audit resulted in a qualified opinion on the internal control structure of OCIO/NITC.[4] We concluded that, except for the deficiencies described below, the policies and procedures, as described, are suitably designed to provide reasonable assurance that the control objectives would be achieved if the described policies and procedures were complied with satisfactorily.

NITC continues to take actions toward complying with Federally mandated security requirements, but additional actions are needed. NITC has made a concerted effort toward completion of risk assessments, which is an important step toward improving security. With the completion of risk assessments imminent, NITC should be able to focus resources toward completion of other Federally mandated security requirements. Specifically, NITC had not:

- Addressed all security program planning requirements prescribed by OMB Circular A-130, Appendix III, “Security of Federal Automated Information Resources,” dated November 30, 2000, and NIST Special Publication 800-18, “Guide for Developing Security Plans for Information Technology Systems,” dated December 1998;
- updated contingency plans to reflect deficiencies identified during its testing process;
- documented system security check procedures to ensure all tests are performed consistently; and
- provided the training needed by its security staff to properly maintain and monitor its systems.

NITC had improved its controls over logical access to its systems, but additional actions are needed to ensure resource security. We noted instances where NITC had not:

- Removed separated employees’ remote access accounts;
- followed departmental procedures for password settings;
- documented users with special access privileges;

[4] Audit Report No. 88099-4-FM, “National Information Technology Center – General Controls Review Fiscal Year 2002.”

- documented security software parameters;
- developed and implemented security log monitoring policies and procedures; and
- completed the implementation of secure Internet access.

We also noted where NITC was not always following its current written policies in place for identifying, selecting, installing, and modifying system software, for both routine and emergency changes. For example, we noted the lack of an audit trail to support the approval and testing of system modifications. Generally, these conditions exist because NITC has allowed agencies to establish their own account restrictions, and because NITC has not placed a priority on documenting its system software changes.

The OCIO has informed us that it disagrees with the qualified opinion on NITC's internal control structure. OCIO asserted that, in its judgment, the weaknesses we cite were not material or significant to warrant a qualified opinion. We believe that our findings regarding noncompliance with OMB Circular A-130, logical access controls, and system software change controls are material weaknesses. While we recognize that improvements have been made in these areas, additional efforts are needed.

FINDING NO. 6

RESULTS OF NFC INTERNAL CONTROL AUDIT

Our audit of the OCFO/NFC internal control structure noted that while OCFO/NFC has made significant progress in addressing security weaknesses, its information security program still needs improvement.[5] We noted that: OCFO/NFC needs to update its network map and list of Internet Protocol (IP) addresses, implement system security plans for major applications, improve its monitoring of system accesses in selected applications, and improve controls over changes made to its applications. Senior program management needs to continue its involvement in the planning and implementation of overall system security. OCFO/NFC's ability to accomplish its mission could be jeopardized if it does not properly manage and secure its IT infrastructure.

The foundation for security over IT resources is found in OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resources." This circular establishes a minimum set of controls for agencies' automated information security programs. Further, PDD 63,

[5] Audit Report No. 11401-13-FM, "Fiscal Year 2001 – 2002 National Finance Center Review of Internal Control Struture."

"Policy on Critical Infrastructure Protection," requires agencies to assess the risks to their networks and establish a plan to mitigate the identified risks.

Specifically, we noted the following.

- We conducted an internal security assessment of the OCFO/NFC network using a commercial off-the-shelf software product designed to identify vulnerabilities associated with various operating systems. The results were favorable and showed significant improvement from past security assessments. OCFO/NFC performs routine security scans and immediately corrects issues as identified. We did, however, note that OCFO/NFC does not have an updated network map or an updated list of IP addresses. We identified IP addresses that were active, but not on the list, and IP addresses that were inactive, but not removed from the network. OCFO/NFC had not made the maintenance of its map or IP address listing a top priority, because they relied on the on-line log for updated information. Without these control documents in place, unknown or unauthorized systems could be attached to its network, thereby hindering OCFO/NFC's ability to properly monitor and secure its network resources.

- We determined that OCFO/NFC performed risk assessments and developed annual security plans for its general support systems. However, OCFO/NFC had not developed individual system security plans for five of the major applications owned by OCFO/NFC. OCFO/NFC had interpreted the security plan guidance issued by USDA's Associate CIO for the Office of Cyber Security as only requiring the preparation of an overall plan and a plan for each of its general support systems. OCFO/NFC has since received clarification from OCIO, as a result of our audit, and has planned to develop the security plans. In addition, OCFO/NFC had not performed security risk assessments for these five systems. Without security plans for major applications, OCFO/NFC faces increased risk that its systems are not secured in a manner that adequately prevents inadvertent or deliberate misuse, fraudulent use, improper disclosure, or destruction of the financial transaction data and personnel information.

- We continue to identify weak access controls in OCFO/NFC applications, including the payroll/personnel systems, the FFIS general ledger system, and an online database utility that allows overall access to OCFO/NFC applications.

  OCFO/NFC had not ensured that only properly authorized users have access to resources, and that users' access authority is related to the performance of their job functions. In today's increasingly interconnected computing environment, inadequate access controls can expose an agency's information and operations to attacks from remote locations by individuals with minimal computer or telecommunications resources and expertise. We noted where OCFO/NFC had not adequately restricted access to payroll transactions and sensitive personnel information in seven systems used to process payroll/personnel data because the systems were developed as "update only" systems and "read only" access was not available. OCFO/NFC has taken actions to mitigate this weakness.

- We found that OCFO/NFC needed to strengthen its controls over obtaining user approval of functional requirements, documenting software testing and performing acceptance testing. This testing determines if the software satisfies the requirements of the system owners, users, and operators. Also, OCFO/NFC had not sufficiently limited "emergency" changes, which are high-risk program modifications because full testing is waived prior to implementation.

This report is intended solely for the information and use of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

January 7, 2003

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington D.C. 20250

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Edward R. McPherson
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the principal financial statements of USDA as of and for the fiscal year ended September 30, 2002, and have issued our report thereon, dated January 7, 2003. We conducted our audit in accordance with generally accepted auditing standards; the standards applicable to financial audits contained in the "Government Auditing Standards," issued by the Comptroller General of the United States; and OMB Bulletin 01-02, "Audit Requirements for Federal Financial Statements." Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of USDA is responsible for compliance with laws and regulations applicable to it. As part of obtaining reasonable assurance about whether the principal financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts and certain other laws and regulations specified in OMB Bulletin 01-02. We limited our tests of compliance and did not test compliance with all laws and regulations applicable to USDA. We tested compliance with:

- Anti-Deficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers Act of 1990;
- Debt Collection Improvement Act of 1996;
- Federal Credit Reform Act of 1990;
- Federal Financial Management Improvement Act of 1996;
- Federal Managers' Financial Integrity Act of 1982;
- Government Management Reform Act of 1994; and
- Government Performance and Results Act of 1993.

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the Federal Managers' Financial Integrity Act (FMFIA), and compared the most recent FMFIA reports with the evaluation we conducted of USDA's internal control structure. We also reviewed and tested policies, procedures, and systems for documenting and supporting financial, statistical, and other information presented in the Management Discussion and Analysis section. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under the Federal Financial Management Improvement Act (FFMIA), we are required to report whether USDA's financial management systems substantially comply with Federal Financial Management Systems Requirements (FFMSR), applicable Federal accounting standards, and the U.S. Government SGL at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA, Section 803(a) requirements. The results of our tests disclosed instances where selected components of the overall financial management system did not substantially comply with these requirements.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material instances of noncompliance noted during our audit are presented in the "Findings" section of this report.

FINDINGS

V. USER FEE COST ACCOUNTING IMPROVEMENTS ARE IN PROCESS

FINDING NO. 7

USDA EFFORTS TO COMPLY WITH MANAGERIAL COST ACCOUNTING STANDARDS ARE ONGOING

In last year's audit we reported that the Department's systems were not designed to provide sufficient and relevant cost information required to comply with the SFFAS No. 4, "Managerial Cost Accounting Concepts and Standards," effective September 30, 1996. This statement is aimed at providing reliable and timely information on the full cost of Federal programs, activities, and outputs. This information can be used by Congress and Federal executives in making decisions about allocating resources, authorizing and modifying programs, evaluating program performance, and making managerial decisions to improve economy and efficiency. We reported that USDA was unable to provide reliable and timely cost information. Specifically, our review[6] of the accounting for user fees at two selected agencies disclosed that both agencies were not including the full costs of their user fee programs when determining fees. In addition, the Things of Value[7] as reported to the OCFO were reported at the summary level, in some cases, rather than individually.

In response to last year's audit, the Department commissioned an analysis of cost management and user fee practices in 11 of its agencies. The analysis noted strengths and weaknesses in USDA's current cost accounting capabilities. For example, the analysis found that through its ongoing cost accounting and user fee efforts, USDA is taking positive steps to develop management tools to support program managers in the delivery of their services. The analysis also noted "inconsistencies by agencies in how they conduct cost and user fee accounting."

According to its analysis, the Department plans to begin studying each agency's reporting structure and issuing consistent guidance on the system to use for managerial cost accounting and how the chosen system

[6] We reviewed the most current user fees review performed by the agencies.

[7] Things of Value are defined as tangible and intangible goods, services, benefits, commercial functions, programs, and reimbursable activities provided to nonfederal entities and people.

needs to be organized to produce useful information and reports. In addition, USDA plans to identify the specific cost elements that need to be captured.

Because of corrective actions currently underway, we are not making any additional recommendations in this report.

VI. SUBSTANTIAL NONCOMPLIANCE WITH FFMIA REQUIREMENTS

FINDING NO. 8

The Department has successfully implemented its Foundation Financial Information System, FFIS. As a result, it is now in substantial compliance with the requirements of FFMIA for its program and administrative functions within FFIS. However, USDA's financial management systems, taken as a whole, do not yet substantially comply with these FFMIA requirements. We continue to note that USDA's systems do not comply with FFMSR, Federal accounting standards, and the SGL at the transaction level. We concluded that USDA:

- Cannot rely on information produced directly from its general ledger to prepare its financial statements;
- does not have an integrated general ledger that conforms to SGL;
- lacks a subsidiary ledger for some of its material financial statement line-items; and
- lacks an effective audit trail from its general ledger back to some subsidiary detailed records and transaction source documents.

As a result, USDA's overall financial management systems cannot produce auditable financial statements and related disclosures that conform with generally accepted accounting standards without substantial compensating processes and significant adjustments. This lack of compliance is due to the use of disparate accounting systems that are not integrated as well as longstanding material internal control weaknesses. This noncompliance reduces the Department's ability to efficiently and effectively manage its day-to-day operations and provide accountability to taxpayers. The Department continues to make progress in achieving compliance with the Act.

The FFMIA provides that an agency of the Federal Government will be considered to be in substantial compliance with financial management system requirements if among other issues:

- Agency financial information systems meet the OMB Circular A-127 requirements.

- The agency can prepare audited financial statements in accordance with applicable accounting standards.

- The agency can comply with the SGL.

According to the FFMIA, substantial noncompliance with the requirements in any one or more of the three areas included in FFMIA would result in substantial noncompliance with the Act.

The USDA's financial management systems do not meet the OMB Circular A-127 requirement that each agency establish and maintain a single, integrated financial management system. The financial management systems also do not follow requirements published in JFMIP's FFMSR series, which prescribe the functions that must be performed by systems to capture information for financial statement preparation.

USDA's FFMIA Remediation Plan, dated September 30, 2002, identified agencies that are in need of substantial financial management system improvements, including areas of planned remedial actions, along with planned completion dates, to resolve their financial management problems. Last year's plan showed that remedial actions were to be completed by the end of fiscal year 2004. This date has been extended to the end of fiscal year 2006 in the current plan.

OCFO indicated that while improvements are needed, it believes that the Department, as a whole, substantially complies with FFMIA. We continue to believe that significant nonconformances noted with the audits of USDA component agencies constitute substantial noncompliance.[8] We are committed to working with OCFO to resolve this issue.

[8] Audit Report No. 05401-11-FM, "Risk Management Agency Federal Crop Insurance Corporation's Financial Statements for Fiscal Year 2002," Audit Report No. 06401-15-FM, "Commodity Credit Corporation's Financial Statements for Fiscal Year 2002," Audit Report No. 85401-5-FM, "Rural Development Financial Statements for Fiscal Year 2002," and Audit Report No. 08401-1-FM, "Forest Service Financial Statement Audit for Fiscal Year 2002."

VII. PROGRESS IN COMPLIANCE WITH DEBT COLLECTION IMPROVEMENT ACT REQUIREMENTS

FINDING NO. 9

The Debt Collection Improvement Act (DCIA) of 1996 provides (1) a requirement for Federal agencies to notify Treasury of eligible debts delinquent over 180 days for purposes of centralized administrative offset, (2) a requirement for agencies to refer such debts to Treasury for centralized collection action known as cross-servicing, and (3) authorization for agencies to administratively garnish the wages of delinquent debtors.

We noted that the Commodity Credit Corporation's (CCC) policy for monitoring receivables should be improved. CCC did not always convert receivables older than 60 days to claims status and subsequently refer such claims to a centralized debt servicing system and/or the Treasury offset program, when applicable.[9]

In February 2002, GAO reported that USDA's Rural Housing Service (RHS) had not yet fully implemented certain key provisions of the Act. For example, while RHS had ongoing initiatives to enhance its capacity to timely refer all delinquent debt, the agency's failure to make DCIA a priority since its enactment in 1996 had left several provisions of the Act not yet implemented. As of the end of fiscal year 2000, RHS had referred virtually no direct Single Family Housing loans to the Department of Treasury's FMS for cross servicing.

In its November 2002 testimony, GAO reported that RHS has worked to address system limitations that hampered it from promptly referring debts to Treasury for cross-servicing and is now, according to Treasury, referring all reported eligible debt.

GAO noted that for USDA to fully address all DCIA implementation problems it will take a sustained commitment and priority by top management. We are making no further recommendations at this time.

[9] Audit Report No. 06401-15-FM, "Commodity Credit Corporation's Financial Statements for Fiscal Year 2002."

We considered these material instances of noncompliance in forming our opinion on whether the fiscal year 2002 principal financial statements of USDA are presented fairly, in all material respects, and this report does not modify the unqualified opinion expressed in our report, dated January 7, 2003.

This report is intended solely for the information of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties.

Phyllis K. Fong

Phyllis K. Fong
Inspector General

January 7, 2003

ABBREVIATIONS

AICPA	American Institute of Certified Public Accountants
AWG	Administrative Wage Garnishment
CAS	Central Accounting System
CCC	Commodity Credit Corporation
CFO	Chief Financial Officers Act
CIO	Chief Information Officer
CO	Conservation Operation
DCIA	Debt Collection Improvement Act
DR	Departmental Regulation
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management Systems Requirements
FMFIA	Federal Managers' Financial Integrity Act
FMS	Financial Management Service
FS	Forest Service
FSDW	Financial Statement Data Warehouse
GAO	General Accounting Office
GISRA	Government Information Security Reform Act
GPRA	Government Performance and Results Act
IP	Internet Protocol
IT	Information Technology
JFMIP	Joint Financial Management Improvement Program
JV	Journal Voucher
MD&A	Management Discussion and Analysis
NFC	National Finance Center
NIST	National Institute of Standards and Technology
NITC	National Information Technology Center
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of the Inspector General
OMB	Office of Management and Budget

PDD	Presidential Decision Directive
PROP	Personal Property Management System
RHS	Rural Housing Service
RSSI	Required Stewardship Supplement Information
SF	Standard Form
SFFAS	Statement of Federal Financial Accounting Standards
SGL	Standard General Ledger
SV	Standard Voucher
USDA	U.S. Department of Agriculture

USDA

JAN 17 2003

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400
Independence
Avenue, SW

Washington, DC
20250

Phyllis K. Fong
Inspector General
United States Department of Agriculture
Office of Inspector General
Washington, DC 20250

Dear Ms. Fong,

This letter responds to the Office of Inspector General opinion on the Department of Agriculture's fiscal year 2002 consolidated financial statements, Report Internal Control Structure, and the Report on Compliance with Laws and Regulations. We concur with your findings and recommendations.

We are pleased that your report reflects an unqualified, or "clean," audit opinion for the Department.

We appreciate that the report documents that the Department has made notable progress in improving its overall financial management during fiscal year 2002. As you recommend, we will continue to implement our long-term plans to address the remaining weaknesses in the Department's financial management accountabilities.

I would like to thank your office for its continuing professionalism during the course of the audit.

Please direct any questions on our comments to Joseph B. Marshall, Associate Chief Financial Officer, Financial Policy and Planning at (202) 720-8345.

Sincerely,

Edward R. McPherson

Edward R. McPherson
Chief Financial Officer

APPENDIX A – EXHIBITS

APPENDIX B – ACRONYMS

ADP	Automated Data Processing
AICPA	American Institute of Certified Public Accountants
AMS	Agricultural Marketing Service
APHIS	Animal and Plant Health Inspection Service
AQI	Air Quality Index
AQIMS	Agriculture Quarantine Inspection Monitoring System
ARC	Archival Research Catalogue
AREERA	Agricultural Research, Extension, and Education Reform Act of 1998
ARPA	Agriculture Risk Protection Act of 2000
ARS	Agricultural Research Service
BFES	Budget Formulation and Execution System
CBO	certificates of beneficial ownership
CCC	Commodity Credit Corporation
CCE	Common Computing Environment
CDC	Centers for Disease Control and Prevention
CERCLA	Comprehensive Environmental Response, Compensation, and Liability Act
CNMP	comprehensive nutrient management plans
CNPP	Center for Nutrition Policy and Promotion
CR	Office of Civil Rights
CRE	Coordinated Review Effort
CRP	Conservation Reserve Program
CSREES	Cooperative State Research, Education, and Extension Service
CACFP	Child and Adult Care Food Program
CWA	Clean Water Act
CSRS	Civil Service Retirement System
DA	Departmental Administration
DC	Disallowed Costs
DC-ARC	District of Columbia ARC
DMZ	Demilitarized Zone
DOI	Department of the Interior
EDEN	Extension Disaster Education Network
EEO	Equal Employment Opportunity
EFNEP	Expanded Food and Nutrition Education Program
EFOTG	Electronic Field Office Technical Guide
eGovernment	Electronic Government
EQIP	Environmental Quality Incentives Program
ERS	Economic Research Service
EWP	Emergency Watershed Protection Program
EWRP	Emergency Wetlands Reserve Program
EZ/EC	Empowerment Zone and Enterprise Communities
E&T	Employment and Training
FAIR	Federal Activities Inventory Reform (Act)
FAO	Food and Agricultural Organization
FAS	Foreign Agricultural Service
FASAB	Federal Accounting Standards Advisory Board
FBWT	Fund Balance with Treasury
FCIC	Federal Crop Insurance Corporation
FDPIR	Food Distribution Program on Indian Reservations
FECA	Federal Employees' Compensation Act
FERS	Federal Employees Retirement System
FFAS	Farm and Foreign Agricultural Services
FFB	Federal Financing Bank
FMFIA	Federal Managers' Financial Integrity Act
FNCS	Food Nutrition and Consumer Services
FNS	Food and Nutrition Service
FPP	Farmland Protection Program
FS	Forest Service
FSA	Farm Service Agency
FSH	Forest Service Trails Management Handbook
FSIS	Food Safety and Inspection Service
FSM	Forest Service Manual
FSP	Food Stamp Program
FSRIA	Farm Security Rural Investment Act
FSWCF	Forest Service Working Capital Fund

FTBU	funds to be put to better use
FY	Fiscal Year
GAO	Government Accounting Office
GIPSA	Grain Inspection, Packers and Stockyards Administration
GPEA	Government Paperwork Elimination Act
GPRA	Government Performance and Results Act
GSA	General Services Administration
HACCP	Pathogen Reduction/Hazard Analysis and Critical Control Point
HMMG	Hazardous Material Management Group
ISO	International Organization for Standardization
IT	Information Technology
LDL	Low Density Lipoprotein
LDP	Loan Deficiency Payments
LTIP	Long Term Improvement Plan
MAR	Management Attainment Report
MARCIS	Microbiological and Residue Computer Information System
MD	management decisions
MEL	Most Efficient Level
MRP	Marketing Regulatory Programs
MFH	Multi-Family Housing Program
AND	National Appeals Division
NAL	National Agricultural Library
NAP	Noninsured Assistance Program
NASS	National Agricultural Statistics Service
NAHEMS	National Animal Health Emergency Management Steering Committee
NFC	National Finance Center
NFP	National Fire Plan
NFS	National Forest System
NSL	National School Lunch
NITC	National Information Technology Council
NIS	New Independent States of the former Soviet Union
NRCS	Natural Resources Conservation Service
NRE	Natural Resources and Environment (Mission Area)
NTIS	National Technical Information Services
OBPA	Office of Budget and Program Analysis
OC	Office of Communications
OCE	Office of the Chief Economist
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPM	Office of Personnel Management
OSEC	Office of the Secretary
PART	Program Assessment Rating Tool
PAS	Performance Accountability System
PBSC	performance-based service contracts
PCAS	Project Cost Accounting System
PCIMS	Processed Commodities Inventory Management System
PCMS	Purchase Card Management System
PMA	President's Management Agenda
PAOT	Persons At One Time
PPQ	Plant Protection and Quarantine's
PWPS	Project Work Planning System
PP&E	property, plant, and equipment
QC	Quality Control
RBS	Rural Business - Cooperative Service
RBCS	Rural Business Cooperative Service
RCFTS	Rural Community Facilities Tracking System
RCRA	Resource Conservation and Recovery Act
RD	Rural Development (Mission Area)
RDAPTS	RD Application Processing Tracking System
REE	Research, Education, and Economics
RHS	Rural Housing Service
RMA	Risk Management Agency
RME	Risk Management Education
ROI	Report of Investigation
RUS	Rural Utilities Service

R&D	Research and Development
SCGP	Supplier Credit Guarantee Program
SDA	Socially Disadvantaged farmers
SFSP	Summer Food Service Program
SGL	Standard General Ledger
SSOPs	Sanitation Standard Operating Procedures
SRA	Standard Reinsurance Agreement
STARS	Store Tracking and Redemption Subsystem
TRQs	Tariff Rate Quotas
USAID	United States Agency for International Development
USDA	United States Department of Agriculture
WADS	Work Accomplishment Data monitoring systems
WCF	Departmental Working Capital Fund
WIC	Women, Infants, and Children
WHIP	Wildlife Habitat Incentives Program
WRP	Wetlands Reserve Program
WS	Wildlife Services

APPENDIX C – OIG MAJOR USDA MANAGEMENT CHALLENGES

(November 8, 2002)

USDA Homeland Security

1. Homeland Security Issues

The events of September 11, 2001, and the subsequent anthrax attacks on Government and media officials have alerted U.S. Department of Agriculture (USDA) at all levels to the need for increased vigilance and the strongest possible defenses. The Administration established the Office of Homeland Security to provide coordination and guidance across the Federal Government. As reflected in the Office of Homeland Security's priorities and the Administration's request for supplemental funding, homeland security comprises four missions: to support first responders to terrorist attacks, to defend against biological attacks, to secure our borders, and to share information about suspect activity. USDA's operations involve it in all four missions. The attacks also added a new dimension to the Department's priorities, particularly its mission to ensure the safety and abundance of the Nation's food supply, from the farm to the American people's table. However, based on our past and ongoing reviews, if the Department is to effectively respond to these new circumstances, it faces several challenges which it has not often confronted in the past: increased communication and coordination across the Department and its agencies, consistent departmental policies and procedures, and an emphasis on security (as opposed to safety) from potentially terrorist activities or other deliberate conspiracies.

The Office of Inspector General (OIG) experienced these challenges that the Department now faces in our recent efforts reviewing the USDA laboratory facilities. High on the list of potential weapons are the biological agents that USDA laboratories use for research on plant and animal diseases. OIG recently issued an audit report on the Department's controls over the security of its biological agents. The aim of the audit was to determine what pathogens the Department used and stored in over 300 laboratories around the country and what security those laboratories established to guard against break-ins. Our audit found that the responsibility for dealing with security was fragmented among the laboratory units. There were no policies or procedures in place to identify the type and location of the pathogens. Security in general at the laboratories needed improvement, but laboratory managers also needed to restrict access.

In response to the need for greater biosecurity in the wake of the September 11 attacks, the Secretary assigned a task force to develop policies and procedures for biosecurity within the Department. On August 30, 2002, the Secretary's Chief of Staff signed for the Secretary the decision memorandum adopting for USDA-wide implementation Departmental Memo 9610–1, entitled "USDA Security Policies and Procedures for Biosafety Level-3 Facilities." (The Department is also currently working on the draft policies and procedures for its other laboratories and technical facilities excluding Biosafety Level-3 facilities.) The affected USDA agencies have been developing corrective actions in response to our report and in response to the new Department policies and procedures on biosecurity. The recently-issued policies and procedures constitute the first major effort by the Department to issue departmentwide biosecurity policies and procedures. Furthermore, any effective implementation of these corrective actions will entail a major change in the approach by the agencies' staff. To ensure that the current impetus is carried forth effectively, we have planned follow-up reviews to evaluate and verify whether these facilities have properly implemented their corrective actions.

Inadequate security procedures even after September 11 were observed during OIG's review of the security provided by the Forest Service over aircraft, including air tankers used for aerial dispersal of flame retardant chemicals and other fire suppression activities, because of its potential use as a weapon. The Forest Service owns 44 aircraft and leases another 800 under contract. Our review found that the Forest Service had not assessed the risk of theft and misuse by terrorists of these aircraft, because prior to September 11, officials did not consider the threat significant. In response to our concerns, the Forest Service assembled a team of security experts to review their air bases. At each site visited, the team planned to conduct a threat assessment and analyze the countermeasures needed to mitigate that threat. We have been reviewing the Department's operation to prevent the entry of Foot and Mouth Disease and contaminated food products into the United States (see also sections on "Food Safety" and "Marketing and Regulatory Programs"). In an earlier review, we found that the two USDA agencies (that is, Animal and Plant Health Inspection Service (APHIS) and Food Safety and Inspection Service (FSIS)) responsible for preventing contaminated meat and poultry products from entering the Nation's food supply did not always coordinate their activities, giving importers an opportunity to bypass the inspection system. We are continuing our oversight of FSIS' inspection activities, particularly their systems to track, account for, and inspect all meat and poultry products arriving at U.S. ports of entry. If the Department is to ensure the safety of the American food supply, the Department and particularly the two affected agencies, APHIS and FSIS, must increase coordination and communication among themselves.

Currently, we have a number of ongoing reviews evaluating the spectrum of USDA agencies' homeland security initiatives and activities in response to the heightened alert resulting from September 11. These include a number of ongoing efforts looking at APHIS' role in monitoring America's vulnerable ports of entry; a review of APHIS' permit system involving the importation and domestic transshipment of biological agents (for example, animal and plant pests and pathogens), and a review of APHIS' agricultural imports inspection system, particularly on inspections of cargo and passengers at major ports of entry and border crossings to prevent entry of prohibited pests and diseases into the United States. We have initiated the second phase of our reviews of controls and oversight over biohazardous agents; in this phase, we are evaluating the biosecurity and biosafety controls and procedures at USDA-funded laboratories (that is, university and private laboratory facilities receiving USDA financial assistance). So far, we have found minimal or no departmental guidance involving biosecurity to these laboratories. We have also initiated a review of controls and procedures over chemicals and radioactive materials stored and used at USDA facilities. In our earlier audit several years ago, we had reported material accountability problems. The urgency for strengthened Department controls over these substances materialized with the recent "dirty bomb" alert.

Communications and information technology are among the Department's primary assets and have been a target of hackers in the past. OIG has been involved in strengthening the Department's security of this technology well before September 11. To date, we have reviewed or are in the process of reviewing nine separate information systems within the Department. Our reviews found several weaknesses in the security of information technology within the Department. Increased cyber security remains a priority for the Department. (See also section 15 on Information Resources Management.)

As the Department and its agencies have undertaken efforts to identify vulnerable assets and to perform vulnerability assessments of their facilities and programs, they have realized the need to secure sensitive information that could be subject to criminal misuse by potential terrorists or cause major harm to the agriculture sector of the economy. In response, the Department and some agencies initiated actions to remove some sensitive information from their websites. However, they are still faced with the required public disclosure of any document or information they have compiled or collected under the Freedom of Information Act since they do not have classification authority. Because of this vulnerability, the Department and agencies expressed concerns about compiling such information or issuing vulnerability reports. Recently, the Department was granted classification authority and is drafting regulations and procedures to implement this classification authority.

On January 10, 2002, President Bush signed the Defense Appropriations Act, which included $328 million for security upgrades and other activities in response to the terrorist attack. Emphasizing the protection of the Nation's food supply, the Act designates $119 million for APHIS, $113 million for the Agricultural Research Service, and $15 million for the Food Safety and Inspection Service. The remaining $80 million is designated for other USDA homeland security priorities. The Department faces a challenge in ensuring that these significant funds are expeditiously expended for the purposes specifically authorized by the act.

Farm and Foreign Agricultural Services

2. Federal Crop Insurance

Crop insurance has become USDA's farmer "safety net." The Federal Crop Insurance Reform Act of 1994 did away with the traditional crop loss disaster payments, and the Federal Agricultural Improvement and Reform (FAIR) Act of 1996 phased out the traditional crop deficiency payments. Between crop years 1996 and 2001, crop insurance coverage increased from 205 million acres to 212 million acres (or an increase of about 3.4 percent), and the Government's total insurance liability increased from $26.9 billion to $36.7 billion (an increase of about 36.4 percent), as of March 18, 2002. Although both the number of acres and total liability has increased, the total liability has had a substantially larger increase. This illustrates that the total liability per acre has increased, probably due to increases in specialty crop acreage, as well as, the increase in revenue coverage. This substantial increase in liability per acre also results in a probability for larger per acre indemnity payment. The total indemnity payments in 1996 were $1.5 billion compared to $2.8 billion in 2001 (or an increase of approximately 88 percent), as of March 18, 2002. For the 2001 calendar year (CY), the total annual premiums were about $3 billion; of which, $1.8 billion (or approximately 59 percent) was paid by the Government through the legislated subsidy. The Government's subsidy was $982,062,000, out of a total premium of $1,838,559,000 (or 53.4 percent) for CY 1996. This represents an 80.2 percent increase in total subsidy payments from the 1996 CY to the 2001 CY.

Areas within the Federal crop insurance program where we believe management controls need to be strengthened based on past audit reviews or that we believe pose high vulnerability based on our assessment include the following:

Implementation of ARPA

The Agricultural Risk Protection Act (ARPA), enacted in June 2000, required the Secretary to develop and implement additional methods of ensuring Federal crop insurance program compliance and integrity, including a plan for the Farm Service Agency (FSA) to assist the Risk Management Agency (RMA) in the ongoing monitoring of crop insurance programs. ARPA also increased the Government's support (subsidy) of the insurance premium. The subsidy ranges from 67 percent for additional coverage equal to or greater than 50 percent, but less than 55 percent, of the recorded or appraised average yield to 38 percent for additional coverage equal to or greater than 85 percent. In the case of additional coverage, all insurance other than catastrophic, the amount of the premium shall: 1) be sufficient to cover anticipated losses and a reasonable reserve, and 2) include an amount for operating and administrative expenses, as determined by the Federal Crop Insurance Corporation, on an industry-wide basis as a percentage of the amount of the premium used to define loss ratio. RMA has begun the process of modifying the basic policy provisions to incorporate the changes mandated by ARPA, particularly the program integrity provisions. For example, RMA believes that data mining has provided constructive feedback to the agency. We will continue to actively monitor and provide oversight as RMA continues to implement the multitude of provisions mandated by ARPA.

Oversight by Insurance Companies and RMA

To evaluate overall program integrity and compliance on the claims for loss filed by insured producers, RMA uses a quality control (QC) review system that consists largely of reinsurance company internal reviews and periodic agency verifications. This process of oversight and monitoring procedures by the reinsurance companies and by RMA needs to be strengthened. In our current audit of the oversight and monitoring procedures titled "Monitoring of RMA's Implementation of Manual 14 Reviews/Quality Control Review System," we raised the following concerns: 1) over the years, RMA has been unsuccessful at responding to recommendations regarding the establishment of an effective QC review made by both OIG and the General Accounting Office; 2) RMA abandoned its standard error rate review; 3) reinsurance company internal reviews implemented through the Manual 14 process were not reliable; 4) the QC process does not have regulatory authority; and 5) RMA's error rate does not count all errors. RMA's earlier stated commitment to QC has not answered basic policy questions. In our report, in addition to recommending the need to strengthen its QC review system, we also recommended that RMA identify and report the absence of a reliable QC review system as a material internal control weakness in its Federal Managers' Financial Integrity Act (FMFIA) report.

According to RMA, this QC review system is part of a more comprehensive package of oversight and monitoring activities over the insurance companies. RMA agrees that the QC review system as being conducted by insurance companies and its oversight of this process need to be strengthened and is working closely with OIG to that end. To address our recommendations, RMA is (1) updating its Manual 14 which prescribes the type and number of internal reviews to be performed by the insurance companies and (2) evaluating alternative methods to improve its oversight responsibilities which will be included in a new Manual 14. RMA has issued a statement of work seeking non-government services of performance management experts to develop a more effective QC review system. Furthermore, before implementing any changes, RMA believes that it may need to re-evaluate the best method for implementing these changes; for example, evaluating the pros and cons for seeking statutory versus regulatory changes. We will continue to monitor this process to ensure that an effective QC review system is implemented.

3. Farm Security and Rural Investment Act of 2002

The Farm Security and Rural Investment Act of 2002 (also referred to as the 2002 FSRIA) was signed by President Bush on May 13, 2002. The Act covers the plethora of programs administered by the Department—re-authorizing many existing programs, establishing new programs and initiatives, establishing significantly higher program caps and budget authority—from fiscal year (FY) 2002 through FY 2007. However, many of the provisions are effective for the current crop year (2002). In addition to strengthening the safety net for producers, the bill also provides a major commitment to and strengthening of the conservation programs, reinforces our international trade and export programs, improves nutrition programs, and continues strong support for developing rural communities and businesses. According to the Congressional Budget Office's recently released cost estimate, the 10-year cost of the bill is $82.8 billion. By some estimates, it is expected to cost about $190 billion over 10 years.

With enactment of the FAIR Act of 1996, OIG was actively involved with the Department and its agencies from the early stages of developing the then-mandated program procedures through the implementation of these programs. We believe that our initial, proactive approach as FAIR was being implemented was beneficial and efficient in ensuring that adequate management controls and procedures were timely implemented by the agencies. Based on the perceived vulnerabilities and risks in those programs, we continued to monitor and review many of those programs. Although the 2002 FSRIA reauthorized many of the programs from the FAIR Act of 1996, this new bill authorizes a number of new programs. Furthermore, the bill not only reauthorized many existing programs, but established significantly increased funding authority or increased program caps for many of these existing programs. Prior OIG audits have reported serious problems with some of these existing programs, particularly with respect to some smaller programs that were re- introduced. Therefore, as we previously did as FAIR was being implemented, we believe an upfront, proactive approach during the initial stages of implementing the 2002 FSRIA will be more cost effective to the agency and to the Department.

Examples of areas in the 2002 FSRIA where our resources need to be targeted follow.

Farm Programs

The bill continued and enhanced many of the provisions of the FAIR Act of 1996, which provided long-term planting flexibility contract payments to major program commodities plus marketing assistance loans and loan deficiency payments. To strengthen the safety net to producers against falling prices, the bill provides for new counter-cyclical payments based on established target prices. In addition to the crops authorized under the 1996 bill, the 2002 FSRIA expanded the scope of marketing assistance loans and loan deficiency payments to new crops—wool, mohair, honey, dry peas, lentils, and chickpeas. The bill terminated the marketing quota program for peanuts, which was basically a no-cost program, by authorizing a quota buyout program, a direct and counter-cyclical program, and marketing assistance loans and loan deficiency payments for peanuts. Although limitations on program payments were not significantly changed from current levels for ongoing programs, eligibility for payments are now subject to a $2.5 million adjusted gross income cap. Furthermore, the bill supplanted the existing regional dairy compacts by establishing a national safety-net program, Dairy Market Loss Payment Program, and continuing the Milk Price Support Program. Prior audits have reported ineligible producers resulting from comparable adjusted gross income caps in the disaster assistance programs, and have recommended discontinuing some special crop programs that have been reintroduced in the current bill. The net outlays on commodity programs in Title I of the bill alone are estimated to increase by $49.7 billion over the next 10 years.

Conservation Programs

The 2002 FSRIA represents the single most significant commitment of resources toward conservation on private lands in the Nation's history. The bill also establishes a balanced portfolio of tools, including technical assistance, cost-sharing, land retirement, and a new stewardship incentives program. The bill not only reauthorized the Environmental Quality Incentives Program through 2007, but also provided significant budget authority amounting to approximately $6 billion for the period. The bill established a new Conservation Security Program to assist producers in implementing conservation practices rewarding ongoing stewardship on working lands; the new program is intended to supplement the other ongoing conservation programs. The bill reauthorized a number of other conservation programs: Conservation Reserve Program (CRP), Wetlands Reserve Program (WRP), Wildlife Habitat Incentives Program (WHIP), and Farmland Protection Program (FPP). In the cases of CRP and WRP, the bill increased their overall acreage caps. And with respect to WHIP and FPP, the bill significantly increased the budget authority for these programs. Overall, the increased budget authority for all of these changes will amount to $17.1 billion over the 6-year time period of the bill (or additional net outlays over the 10-year time period of $13.2 billion). Monitoring the changes, particularly in light of substantially increased funding authority and increased acreage, for the reauthorized programs and monitoring the new initiatives will require substantial audit resources. Compliance reviews will play a key role in ensuring program integrity, and our past reviews indicate that the USDA agencies will need to strengthen their monitoring and oversight activities.

Food, Nutrition and Consumer Services

4. Food Stamp Program

The Food Stamp Program (FSP), administered by the Food and Nutrition Service (FNS), helps put food on the table of some 7.3 million households, about 17.3 million people. It provides low-income households with coupons or electronic benefits they can use like cash at participating grocery stores to access a healthy diet. Because of the size and vulnerability of the FSP, OIG has annually devoted a large number of staff days auditing and investigating the program.

Electronic Benefits Transfer (EBT) Systems Implementation

All States are mandated to implement EBT for food stamps by October 2002. As of July 2002, 48 States and the District of Columbia have operational systems with 45 being operational State or district wide. About 87 percent of food stamp benefits are now issued through EBT systems. OIG has audited controls over these systems as they were implemented and it will continue to audit the remaining systems as they are implemented.

Six State agencies will not meet the October 2002 deadline including California, Delaware, Guam, Iowa, Maine, and West Virginia. With the exception of Guam, all have negotiated a contract for a statewide EBT system and are in the development phase. While FNS has made great strides in getting EBT systems implemented, the remaining States will provide a challenge, in particular California with its county-centered organizational structure.

Improper Payments

FNS has had a quality control (QC) system in place for a number of years to measure the accuracy of States' certification of participants. Between FY's 1993 and 2001, the annual error rates have fluctuated between 10.81 percent and 8.7 percent, which include both overpayments and underpayments. In FY 2001, the latest year testing was completed, the total erroneous payments were $1.33 billion. At the time of OIG's audit in 1997 to review FNS' efforts to reduce the error rate through reinvestment of QC penalties, it was thought that the high error rate was attributable to large increases of participation without a corresponding increase in State certification personnel. However, between 1995 and 2001, there was a significant decline in the number of participants and program outlays (34 percent in program dollars). While there was a decline in certification errors, about eight percent for the same period, the decline in participation did not result in a corresponding drop in the certification errors. The Under Secretary for Food, Nutrition and Consumer Services noted in his testimony in March 2002, that while payment accuracy was at its highest level, 91.3 percent, this also meant that 8.7 percent of the payments were erroneous. His testimony indicated that FNS' budget proposes revamping the QC system and having it focus sanctions on States with the most serious problems and consistently high error rates.

Retailer Abuses

Curbing the incidence of unlawful transactions (trafficking) by authorized and unauthorized retailers remains an area of significant mutual concern for FNS and OIG. FNS' latest estimate is over $600 million annually. Over the past several years, OIG and FNS have explored and developed a series of corrective measures to address trafficking. Conversion to EBT systems has allowed for more timely information to identify possible violations. However, further reducing the amount of trafficking will remain a challenge.

5. National School Lunch and School Breakfast Programs

Eligibility Determinations for Free and Reduced-Price Meals

In its FY 2003 budget, FNS estimates that the National School Lunch Program (NSLP) outlays will be about $6 billion with the School Breakfast Program (SBP) approaching $1.7 billion. Both programs share common eligibility requirements for free and reduced-price meals. For FY 2001, the latest reporting year, almost 57 percent of lunches were served free or reduced-price, while 83 percent of breakfasts were served free or reduced-price. Eligibility is based on income with households submitting applications to school food authorities for eligibility determinations at the beginning of each school year. To ensure that households correctly report their income, school food authorities (SFA) are required to sample applications to verify the information. Two sampling methods are provided by regulations, and most SFAs select a random sampling method of the lesser of 3,000, or three percent of the applications.

In August 1997, OIG issued a report concerning Illinois' application verification process for the NSLP. While SFAs were generally following regulations, SFAs did not expand sampling when high error rates were found. Overall, Illinois had a 19 percent error rate of households underreporting income or failing to respond to verification requests. This meant that up to $31.2 million per year, 18.9 percent of $165.1 million Illinois received from FNS for free or reduced-price lunches, was potentially paid out for households that were not eligible. OIG recommended that FNS establish a threshold for the maximum percentage of errors allowable during the verification process and require additional sampling when that percentage is exceeded. OIG further recommended that States be required to monitor SFA verification efforts and take appropriate follow-up action.

FNS did not initially agree to make regulatory change based only on Illinois, but subsequently revised this position when information it gathered on additional States showed an average error rate of 26 percent. FNS will publish a proposed rule requiring State agencies to collect, analyze, and act on verification results of SFAs annually. FNS currently has pilot projects underway in 23 SFAs to assess 3 different options to address the verification process and the current high error rate. The Under Secretary for Food, Nutrition and Consumer Services noted in his testimony before the House Subcommittee on Agriculture, Rural Development, Food and Drug and Related Agencies, in March 2002, that the evidence is strong that more students are certified for free or reduced-price school meals than appear to be eligible with the most recent data showing it to be 27 percent. He also noted that the issue is complicated because certification data is used to distribute billions of dollars in education aid. FNS and OIG both agree that the eligibility determination and verification process is a management challenge that must be addressed.

Food Safety

6. Food Safety Issues

Food safety and quality issues have received considerable attention over the last few years, including the implementation of the Hazard Analysis and Critical Control Point (HACCP) inspection system. OIG issued four audits in FY 2000 on the Food Safety and Inspection Service's (FSIS) Implementation of the Hazard Analysis and Critical Control Point System; FSIS Laboratory Testing of Meat and Poultry Products; FSIS' Imported Meat and Poultry Inspection Process, Phase I; and FSIS' District Enforcement Operations Compliance Activities. FSIS generally agreed with our findings and recommendations with the exception of two recommendations in the Imported Meat and Poultry Inspection Process, Phase I. The two recommendations concerned reporting control weaknesses in the equivalency determination process as a material internal control weakness for FSIS and establishing a follow-up process to obtain annual certifications from foreign countries that failed to timely submit them.

OIG currently has two audits underway reviewing additional facets of FSIS' responsibilities for imported meat and poultry products. Countries may export meat and poultry products to the United States if their meat and poultry inspection systems are determined to be equivalent to the U.S. inspection system. Individual plants within a country may then be approved to export to the United States. Product entering the United States is subject to FSIS reinspection before entering U.S. commerce.

One audit is focusing on FSIS' reinspection process and whether it has effective procedures and controls to provide FSIS with a means of ensuring that only wholesome, unadulterated and properly labeled product enters U.S. commerce. The fieldwork has been completed and OIG has determined there are reportable conditions warranting FSIS' corrective action.

The second audit is also underway and concerns the equivalency determinations FSIS makes of foreign inspection systems. In the Phase I audit cited above, OIG reviewed equivalency determinations for

Sanitation Standard Operation Procedures (SSOP) and *E. coli* testing. At that time, the HACCP and *Salmonella* testing requirements were not in place. The audit is focusing on equivalency determinations for HACCP and *Salmonella*.

Marketing and Regulatory Programs

7. Animal and Plant Health Inspection Service (APHIS)

APHIS carries out inspections at U.S. ports-of-entry to prevent the introduction of foreign plant and animal pests and diseases which are harmful to our country's agriculture. It engages in cooperative programs to control pests of imminent concern to the United States and carries out surveys in cooperation with States to detect harmful plant and animal pests and diseases. The programs also help determine if there is a need to establish new pest or disease eradication programs. Through APHIS' Wildlife Services program, it protects agriculture from detrimental animal predators.

The importance of APHIS' mission and challenges has been highlighted over the past few years as Asian longhorn beetle, citrus canker, and Karnal bunt found their way into the United States and foot and mouth disease (FMD) broke out in the United Kingdom. The foreign terrorist attack on the U.S. mainland alerted USDA to the need for increased vigilance to protect U.S. agriculture from potential threats of terrorism to agriculture. OIG has reviews underway, some which began prior to September 11, 2001, to assess APHIS' activities to protect U.S. agriculture, as well as safeguarding APHIS' assets which could be used to further terrorist activities.

- In July 2001, OIG issued a report detailing a review of the Department's controls to ensure that the Nation was adequately protected against the increased threat of an FMD outbreak from abroad. We determined the Department needed more stringent controls to ensure meat products entering the United States were free of FMD. Communications between APHIS and FSIS were weak. Both agencies initiated action to address the weaknesses. OIG currently has a review underway focusing on APHIS' policies and procedures for (1) identifying and assessing risk among the various types of imported goods to prevent the entry of exotic pests and diseases; (2) conducting inspections at airports, seaports, and land-border crossings; (3) providing inspection coverage at all major ports-of-arrival of cargo and passengers, particularly during times of high volume traffic; and (4) ensuring that sealed transportation and exportation shipments entering the United States exit the country under seal as required. We have issued Management Alerts to APHIS on weaknesses that needed to be immediately addressed.
- In protecting agriculture from animal predators, APHIS' Wildlife Services uses pesticides, drugs, and other hazardous materials which in the wrong hands could be harmful to people and animals alike. In a review begun prior to September 11, 2001, OIG found APHIS could not account for 60 pounds of strychnine-treated bait and over 2,000 capsules containing sodium cyanide. Transfers of agents between locations were not documented. A second phase of this review is now underway with specific focus on pesticide and drug accountability. We will determine if the missing strychnine and cyanide have been accounted for, as well as 13 other restricted-use compounds.
- APHIS' Plant Protection and Quarantine and Veterinary Services divisions each have separate permit systems for the importation and domestic transfer of specified plant and animal pathogens and other restricted materials. Anthrax is one example of a pathogen which would fall under the permit requirements. OIG currently has a review underway to evaluate APHIS' controls over permits issued to colleges and universities, public and private laboratories, and other users. An adequate control structure is needed to ensure that the pathogens and restricted materials are not made available to terrorists or others intent on harming U.S. citizens or agriculture.

Natural Resources and Environment

8. Forest Service (FS) Management and Program Delivery Issues

Management issues within the FS have proven resistant to change. We attributed part of this to the agency's decentralized management structure. The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure policies established by top management are followed. The use and accuracy of management performance information is severely limited. As a result, agency actions often run counter to the intent of top management. Following are some of the areas where recent audits and evaluations have identified significant issues.

- Our reviews of the agency's administration of grants to State and nonprofit organizations have disclosed significant weaknesses in all aspects of management of the program. These weaknesses increase the likelihood that program objectives will not be achieved and Federal funds will be spent for unauthorized purposes.
- We identified serious weaknesses in the controls over the preparation and implementation of the environmental analyses required for timber sales. These weaknesses could result in environmental damage that could be either mitigated or avoided. In addition, weaknesses in the FS' environmental analyses process have resulted in successful appeals of FS management decisions. This has halted or delayed FS efforts at ecosystem management. It has also resulted in successful lawsuits for monetary damages from the timber industry and exposed the FS to significant future damages.
- FS has not developed agency-wide policies for dealing with partnerships with private parties. As the agency moves to increase the use of partnerships with private groups to meet its mission requirements, direction will be needed to ensure these relationships comply with existing laws.
- FS' Strategic and Annual Plans have lacked meaningful goals and objectives with relevant performance measures. Past performance measurement data has been irrelevant and lacks basic accuracy.

FS has reported initiating management action to address many of these challenges. However, at this time OIG has not verified the extent or effectiveness of these corrective actions.

9. Forest Service National Fire Plan

As a result of the devastating 2000 wildfire season the President and Congress directed and funded the "National Fire Plan" (NFP). The NFP included objectives to prepare to fight future forest fires, rehabilitate burned lands, actively reduce fuel loads in vulnerable areas, and assist local communities. In October 2000, Congress provided FS over $1.1 billion of additional funding. This increased funding has continued and is projected to continue for at least 10 years. This program has support from both State and local governments. The dramatic increase in funding has presented FS with challenges in effectively and efficiently implementing the NFP. Our initial survey identified issues regarding the agency's ability to accurately project funding requirements and ensure funds were spent for only authorized purposes. Our survey work indicates that this area is vulnerable to waste and misuse of funds.

10. Grant and Agreement Administration

FS has not effectively managed grants agreements to ensure that funds appropriated by Congress were expended for their intended purposes and grantees complied with applicable financial management standards. Our reviews identified the following issues.

- Funds were used for purposes not authorized under the enabling legislation.
- Grantees were not matching Federal funds with required private funding.

- Unauthorized expenditures were paid with Federal funds.
- Accounting records were not adequate to allow for audits.
- Records were not adequate to determine if the grants achieved their intended purpose.
- FS created a new agreement "Participating agreements" that did not conform to the Federal Grants and Cooperative Agreements Act or to the Office of Management and Budget (OMB) and departmental regulations, to transfer funds without obtaining contractual assurance that the recipient will use the funds for intended purposes and without the provisions necessary for effective FS oversight.

FS officials have taken some actions to address these issues. Our future audits will address the adequacy of these actions.

Rural Development

11. Rural Rental Housing (RRH)

Portfolio Management

The Rural Housing Service (RHS) RRH program provides low-cost apartments to residents with low incomes in rural areas. The 2003 budget reflects a decision by the Administration to conduct a thorough review of alternatives for both making new loans and servicing the existing portfolio of over 17,000 RRH projects that contain about 460,000 housing units, with indebtedness of almost $12 billion. A substantial portion of this portfolio is over 20 years old. The FY 2003 proposed budget does not include funding for the direct loans for new RRH projects, although funding for RRH construction may be reinstated. However, it does include $60 million in direct loans for repair and rehabilitation of the current portfolio. RHS faces a major challenge to maintain its current portfolio in good repair so that it will provide safe, decent, and affordable housing for rural Americans.

Guaranteed RRH Program

We reported that during the first 4 years of the pilot program RHS reported to Congress, and included in their Government Performance and Results Act (GPRA) accomplishment report, the construction of over 6,000 apartment units. Our audit found that as of August 25, 2000, the pilot program had completed construction of only 222 units. RHS had reported apartment units that were obligated *to be built*, as being built. RHS restated the GPRA report to reflect the status of the units proposed for construction rather than built. We need to continue to monitor the program's growth and success and whether RHS has implemented sufficient controls to ensure accurate reporting of units built.

Rental Assistance

The RRH rental assistance program was increased from $707 million in FY 2002 to $712 million in FY 2003. This assistance makes up the difference between what the tenant pays and the rent required for the project owner to meet debt servicing and other costs. Tenants receiving this assistance are mostly elderly and have very low incomes. Most recipients pay only a small portion of the average $300 monthly rent.

Currently, there are proposed regulatory changes that will require project owners to increase the balances in the RRH reserve accounts used to fund the increasing demands for repair and rehabilitation of aging projects. The increased reserves will be funded by increased rents. For those tenants on rental assistance, their basic rent will not increase. To match the increased rents, the amount of rental assistance needed to make up the difference between what the tenant pays, and the actual rent necessary for the project owner to meet expenses, will increase. Thus, the cost to the Government will increase because funding for rental assistance will need to increase. RHS needs to plan for these increased funding requirements.

RRH Projects Leaving the Program

As the RRH portfolio continues to mature, the possibility that project owners will want to pre-pay their loans will increase. Loans made between 1979 and 1989 can pre-pay their loans after 20 years. Projects obligated after 1989 cannot pre-pay. However, the majority of the over 17,000 projects in the portfolio are over 20 years old. The incentives for owners to pre-pay include increasing repair costs, loss of tax credits, and the possibility of higher rents from more affluent tenants.

RHS offers incentive payments for project owners to stay in the program. The payments are equal to the equity value in the property at the time pre-payment is planned. To be eligible for the incentive payment, owners must maintain the property in good physical condition and they must continue to serve lower income rural residents. RHS and OIG need to monitor the number of incentive payments and ensure that once made, project owners continue to meet the conditions of the incentive payment.

Unallowable and Excessive Expenses Charged to RRH Projects

RRH programs are vulnerable to program fraud and abuse because of the large cashflows involved. OIG has worked with RHS to detect fraud and abuse and remove from participation those who abuse the program. Our March 1999 report entitled "Uncovering Program Fraud and Threats to Tenant Health and Safety," described the results of our team approach with RHS to identify and act on the worst offenders. We found 18 owners who misused over $4.2 million while neglecting the physical condition of the properties, some of which threatened the health and safety of tenants. Our audits continue to disclose unallowable and excessive expenses charged to RRH projects. Currently, RHS has proposed major regulatory revisions, which are intended to resolve 19 open recommendations from OIG audits that address improper RRH project expenses and program deficiencies. The proposed regulation is intended to bring consistency and better controls to the RRH program, as well as to resolve the open recommendations. We are working with RHS to ensure that the proposed regulation adequately addresses the open recommendations, or that appropriate alternative corrective actions, such as program handbooks to supplement the proposed regulation, are issued along with the regulation. Continued monitoring of the agency's implementation of the new regulation is needed to ensure the desired results are achieved.

12. Rural Business-Cooperative Service (RBS)

Business and Industry (B&I) Loan-making and Servicing Procedures

RBS loan-making and servicing procedures in the B&I guaranteed loan program are not being properly administered by some State and field office program staff. In a few cases, States have had their loan-making and servicing authority rescinded by the National office, due to concerns pertaining to compliance with rules and regulations. We are in the process of conducting a Nationwide review of RBS' B&I program and have, so far, issued 13 reports on the guaranteed B&I program with monetary findings of $32 million. Six more reports on the B&I program have yet to be issued, with two reports due on the direct B&I loan program. An additional $30 million in monetary findings is projected. We have found serious conditions with the B&I loans including borrowers with insufficient collateral to secure the loan, businesses that default within months after the loan is made, and loan proceeds used for unauthorized purposes. We are working with the RBS National office to implement corrective actions to these issues.

Waivers of Internal Controls

The previous Administrator of RBS endangered the integrity of the B&I Program by granting improper and undocumented waivers to B&I loan regulations. Based on these waivers many improper B&I loans were made which resulted in large dollar losses to the Government. RBS' internal review programs and future OIG reviews should focus on any waivers to established regulations and instances where internal control mechanisms have been eliminated or bypassed. In an audit dated January 2001, we recommended the reestablishment of loan review controls which had been abolished by the previous Administrator. RBS agreed to re-establish the requirement that the National Office Executive Loan (NOEL) committee review proposed waivers for consistency with existing regulations. RBS also agreed to have the Under Secretary and the Office of the General Counsel resolve any inconsistencies between the findings of NOEL and the Administrator's reasons for the waiver. We need to continually monitor the use of waiver authority by RBS and Rural Development to ensure that waivers are fully documented and justified.

Administration

13. Civil Rights Complaints

The Director of the Office of Civil Rights (CR) has full responsibility for investigating, adjudicating and resolving complaints of discrimination arising out of USDA employment activities or in the context of federally assisted or federally conducted programs. This includes complaints made by USDA employees, applicants for employment and USDA program participants and customers. During fiscal years 1997 through 2000, OIG performed seven reviews of CR's operations relating to program and employment complaint processing at the requests of the Secretary and the Assistant Secretary for Administration.

Our reviews resulted in seven reports and one Confidential Memorandum with 94 recommendations to address the weaknesses reported. As of April 17, 2002, management decision had been reached on 84 recommendations, but 10 recommendations in four reports and the Confidential Memorandum remain without management decision. These recommendations involved things such as: 1) designing corrective actions to address civil rights review results in two counties; 2) finalizing operating procedures to ensure recipients of USDA financial assistance comply with civil rights laws and regulations; 3) vetting of settlements with OIG to ensure there are no outstanding fraud or criminal actions involving the complainant; 4) re-review of 70 civil rights cases to assess their proper disposition; and 5) review of employment-related case files to assess whether necessary documents are available and accounted for. Until action plans are drafted, and timeframes developed to implement the actions, CR activities will remain a management challenge at USDA.

Chief Financial Officer

14. Financial Management

Financial management in the Department is of major importance; USDA's balance sheet, for example, exceeds $127 billion. Financial management within the Department has not, however, been sufficient to provide assurances that its consolidated financial statements are reliable and presented in accordance with generally accepted accounting principles. For the past eight years our disclaimer of opinion means the Department does not know whether it correctly reported all collected monies, the cost of its operations, or other meaningful measures of financial performance.

The Office of Chief Financial Officer (OCFO) has taken extraordinary strides, however, in the past year to resolve these longstanding issues. According to the Chief Financial Officer, among the initiatives consummated or in process are the following.

- Providing effective leadership and talent from OCFO to USDA's agencies and the National Finance Center (NFC) to capture break-through rather than incremental value from extensive changes in financial management accountability and accounting operations.
- Implementing effective operational accounting processes within the branches of then NFC, problem agencies, and OCFO while transferring knowledge through documentation and training.
- Successfully completing the implementation of a standard accounting system at USDA.
- Renovating related corporate administrative systems during FY 2002 with focused, disciplined effective projects.

- Resolving Credit Reform deficiencies and maintaining improvements.
- Transforming the Forest Service into operating as an effective, sustainable, accountable, financial management function.
- Correcting real and personal property accounting and stewardship inadequacies.
- Developing cost accounting capabilities.
- Enhancing decision-making and cash management of USDA's Working Capital Fund.
- Providing guidance on USDA's lending function.
- Installing the leadership and management structure to support sustained excellence within USDA's financial management and accounting operations.

Although many of these have been completed, others await audit verification, which we will focus upon in our upcoming audit of the FY 2002 Departmentwide financial statements.*

Chief Information Officer

15. Information Resources Management

As the Department continues to expand its use of information technology (IT) for program and service delivery, this component of USDA's infrastructure has become a key element for operational integrity and control. The Department has numerous information assets, which include market-sensitive data on the agricultural economy and its commodities, signup and participation data for programs, personal information on customers and employees, agricultural research, and Federal inspection information ensuring the safety of the food supply, as well as accounting data.

Public confidence in the security and confidentiality of the Department's information and technology is essential. Our audit of USDA Information Technology, required by the Government Information Security Reform Act, found that USDA had initiated actions to strengthen information security in the Department. The Department, through its Chief Information Officer (CIO) has established a Department-wide security program, implemented a departmental security incident response program, and strengthened its oversight function through review of USDA agencies' security programs. In this report we stated that the Department and its agencies had other IT security weaknesses that included:

- The Department is not fully compliant with several requirements of OMB Circular A–130 and Presidential Decision Directive (PDD) 63 that require all Federal departments and agencies (1) prepare and test contingency and business continuity plans, (2) have certified the security controls in place on their systems, and (3) assess the risks to their systems and establish plans to mitigate those risks.
- Inadequate physical and logical access controls to ensure that only authorized users can access critical agency data.
- Nine of 11 USDA agencies had not assessed the risks of their systems and initiated a plan to eliminate or mitigate those risks.
- Inadequate oversight to ensure that contractors have the proper security clearances and background checks and they are sufficiently trained in Federal Security Requirements.

OCIO has reported that many of these items have been mitigated but more needs to be done.

* Note from the Office of the Chief Financial Officer, USDA: On January 7, 2003, USDA obtained a clean audit opinion on the FY 2002 Financial Statements.