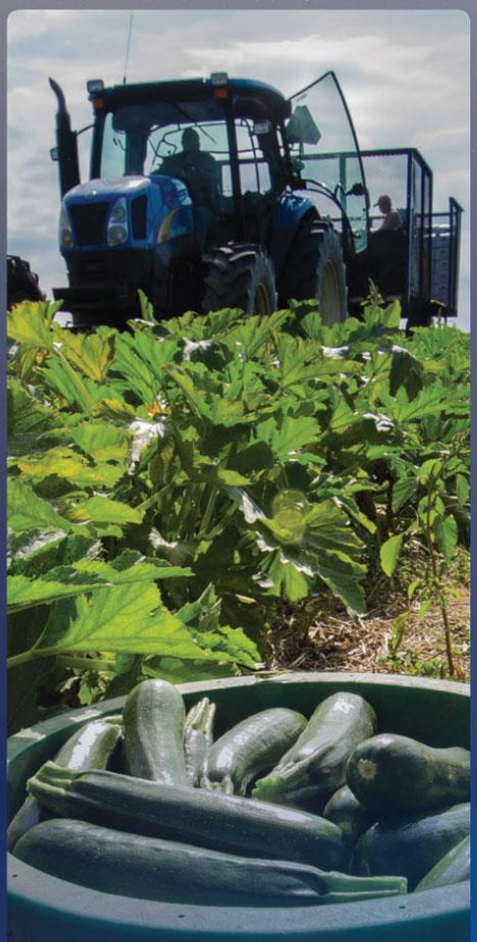
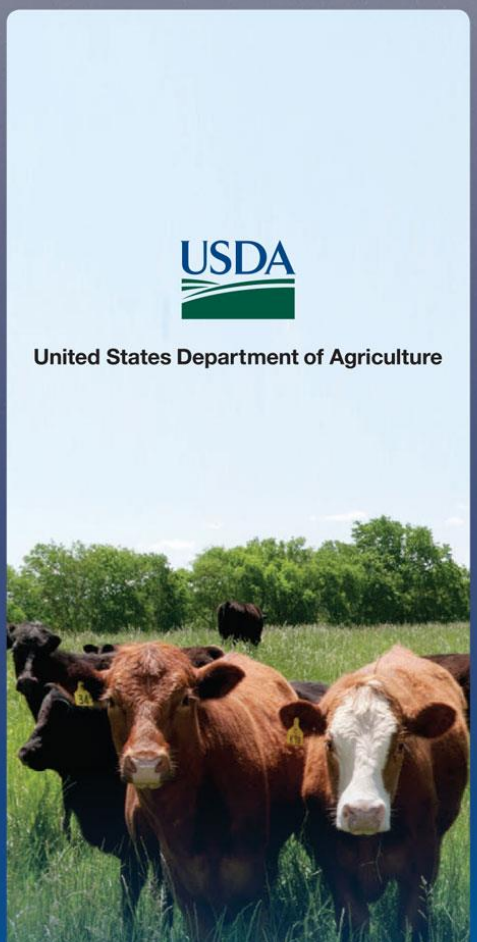


USDA

United States Department of Agriculture



2018 AGENCY FINANCIAL REPORT

Non-Discrimination Statement

The U.S. Department of Agriculture (USDA) prohibits discrimination against its customers, employees, and applicants for employment on the basis of race, color, national origin, age, disability, sex, gender identity, religion, protected genetic information, reprisals for whistle blowing or filing grievances, and, where applicable, political beliefs, marital status, familial or parental status, sexual orientation; or whether all or part of an individual's income is derived from any public assistance program or any program or activity conducted or funded by the Department. (Not all prohibited discrimination will apply to all programs and/or employment activities.)

TO FILE AN EMPLOYMENT COMPLAINT

If you wish to file an employment complaint, you must contact the agency's Equal Employment Opportunity (EEO) Counselor within 45 days of the date of the alleged discriminatory act, event, or personnel action. Contact the EEO Counselor that serves the agency you feel has discriminated against you. Additional information can be found on the USDA Office of the Assistant Secretary of Civil Rights Web site.

TO FILE A PROGRAM COMPLAINT

To file a program discrimination complaint, please complete the USDA Program Discrimination Complaint form. You or your authorized representative must sign the complaint form. You are not required to use the complaint form; you may write a letter as an acceptable alternative. If you write a letter, it must contain all of the information requested in the form and be signed by you or your authorized representative. Incomplete information will delay the processing of your complaint.

Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's Technology Accessible Resources Give Employment Today (TARGET) Center at (202) 720-2600 (voice and Telecommunication Device for the Deaf [TDD]).

Send your completed USDA Program Discrimination Complaint form or letter to us by mail, fax, or email to the address provided on the right. Employment civil rights complaints will not be accepted through the email address.

U.S. Department of Agriculture
Director, Office of Adjudication
1400 Independence Avenue, SW,
Washington, DC 20250-9410

Fax: (202) 690-7442
E-mail: program.intake@usda.gov

About the Report

The purpose of the U.S. Department of Agriculture (USDA) fiscal year (FY) 2018 Agency Financial Report (AFR) is to inform Congress, the President, and the American people how USDA has used Federal resources entrusted to the Department in FY 2018. USDA strives to provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on public policy, the best available science, and effective management. USDA provides economic opportunity through innovation designed to ensure rural America thrives; promotes agriculture production to better nourish Americans while also helping to feed others throughout the world; and preserves our Nation's natural resources through conservation, restored forests, improved watersheds, and healthy private working lands. USDA has demonstrated good stewardship of taxpayer resources by putting in place well-controlled and well-managed business lines and financial management systems and processes. USDA has chosen to produce both an AFR and an Annual Performance Report (APR) for FY 2018. USDA will include its FY 2018 APR with its Congressional Budget Justification and will post this AFR online at www.usda.gov.

This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and USDA stewardship information. The AFR enables the President, Congress, and the public to assess USDA accomplishments and understand its financial position. USDA's end-of-fiscal-year financial position includes, but is not limited to, financial statements, notes to the financial statements, and a report of the independent auditors. The report satisfies the reporting requirements contained in the following laws and regulations:

- Chief Financial Officers Act of 1990;
- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act of 1996;
- Government Performance and Results Act (GPRA) of 1993;
- GPRA Modernization Act of 2010;
- Government Management Reform Act of 1994;
- Grants Oversight and New Efficiency (GONE) Act, Public Law (PL) 114-117;
- Improper Payments Information Act of 2002;
- Improper Payments Elimination and Recovery Act of 2010;
- Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA);

- Office of Management and Budget Circular A-123, Management's Responsibility for Internal Controls;
- Office of Management and Budget Circular A-136, Financial Reporting Requirements; and
- Reports Consolidation Act of 2000.

The AFR is a detailed report on USDA's progress toward achieving the goals and objectives described in the Agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and Agency Priority Goals. The report will be delivered to Congress with the annual budget submission.

This report is to be posted on these Web sites: Performance.gov and www.usda.gov.

Table of Contents

MESSAGE FROM SECRETARY PERDUE VI

SECTION I: MANAGEMENT'S DISCUSSION AND ANALYSIS 1

About USDA 1
Mission Statement 1
Vision Statement 1
USDA Organization Chart1: 2
USDA Mission Areas 3
USDA Program Performance 6
Future Demands, Risks, Uncertainties, Events, Conditions, and Trends 14
Financial Statement Highlights 15
Statement of Assurance 19
Federal Managers' Financial Integrity Act Report on Management Control 20
Compliance with Laws and Regulations 32
Improper Payments Elimination and Recovery Act of 2010 as Amended 39
Federal Financial Management Improvement Act Report on Financial Management Systems Background 40
Financial Management Systems Strategy 42
Other Management Information, Initiatives, and Issues: 48

SECTION II: FINANCIAL INFORMATION 52

Message from the Deputy Chief Financial Officer 52
Independent Auditors Report 54
Agency Response to Auditors Report 74
Consolidated Financial Statements 75
Notes to the Consolidated Financial Statements 79
Required Supplementary Stewardship Information 134
Required Supplementary Information 145

SECTION III: OTHER INFORMATION 151

Response to Management Challenges 151
Summary of Financial Statement Audit and Management Assurances 165
Payment Integrity 167
Fraud Reduction Report 227
Inspector General Act Amendments of 1988: Management's Report on Audit Follow Up 238
Reduce the Footprint 254
Civil Monetary Penalties 256
Grant Oversight and New Efficiency (GONE) Act 273

ABBREVIATIONS—ACRONYMS 275

Message from Secretary Perdue

In my time as U.S. Secretary of Agriculture we have accomplished a great deal. This would not have been possible without the finest group of public servants in the United States who make up the U.S. Department of Agriculture (USDA).

Our policies have been guided by four principles that have informed our every decision and action. First, we have helped maximize the ability of the men and women of America's agriculture and agribusiness sector to create jobs, to produce and sell the foods and fiber that feed and clothe the world, and to reap the earned rewards of their labor. It is our aim to remove every obstacle possible and give farmers, ranchers, foresters, and producers every opportunity to prosper. Second, we have worked hard to prioritize customer service every day for American taxpayers and consumers. They will expect, and have every right to demand, that their government conduct the people's business efficiently, effectively, and with the utmost integrity. Third, as Americans expect a safe and secure food supply, USDA has continued to serve in the critical role of ensuring that the food we put on the table to feed our families meets the strict safety standards we have established. We must never forget that we are the fortunate beneficiaries of past generations who put a premium on smart stewardship—protecting, preserving, and entrusting us with those valuable resources. And finally, we have kept in mind that America's agricultural bounty comes directly from the land. Today, those land resources sustain more than 320 million Americans and countless millions more around the globe. My farmer father's words still ring true: "We're all stewards of the land, owned or rented, and our responsibility is to leave it better than we found it."

Today, we are engaged in a global economy in which the United States is a world leader. We are blessed with the ability to produce more than our citizens can consume, which implies that we should sell the bounty around the world. The relationship between the USDA and its trade representatives, as well as with the U.S. Trade Representative and the U.S. Department of Commerce, have been vital. The work of promoting American agricultural products to other countries began with those relationships and will benefit us domestically, just as it will fulfill the moral imperative of helping to feed the world. These ideas must also light the path we walk at USDA, and just as we have done during my time as Secretary, we will continue to be unapologetic advocates for American agriculture.

The USDA I envisioned in my first days as Secretary was one that is fact-based, and which makes data-driven, customer-focused decisions. We are working each day to make this a reality. We are opposed to lamenting the difficult challenges we face; instead we focus our efforts on finding solutions to problems. The public servants who work at USDA know that they work on behalf of the American people, and those people—our customers—expect results. No doubt, there is great talent here at this agency—probably more than at any other place in the Federal Government—both in the Washington Capital Region and in even greater numbers in the world that stretches out across America and the globe. It truly is a pleasure to learn from them.

As a simple Georgia farm boy, making sure Americans who make their livelihood in the agriculture industry are thriving is near and dear to my heart. We have continued to champion the concerns of American agriculture and worked tirelessly to solve the issues facing our farm families. As shown in this report and mentioned previously, here at USDA, we strive to be the most efficient, most effective, and most customer-focused department in the entire Federal Government. The farmers, ranchers, foresters, and producers we serve are the heart of this country, and we would not be here without them. They deserve the best we have to offer, and I know that is exactly what they get from the USDA family.

Sincerely,

Sonny Perdue
U.S. Secretary of Agriculture

November 14, 2018

Page intentionally left blank

Section I
Management's Discussion and Analysis

About USDA

President Abraham Lincoln founded the U.S. Department of Agriculture (USDA) in 1862 with the goal of providing effective leadership to the Nation on food, agriculture, natural resources, and related issues. Since 1862, the dedicated public servants at USDA help millions of Americans every day. As Americans, you are part of the USDA story that has had a tradition of excellence in public service for more than 150 years.

We would like you to learn more about USDA and the Agencies and Offices that touch every American, every day. More information about the Department, our history, and our leaders can be found at www.usda.gov.

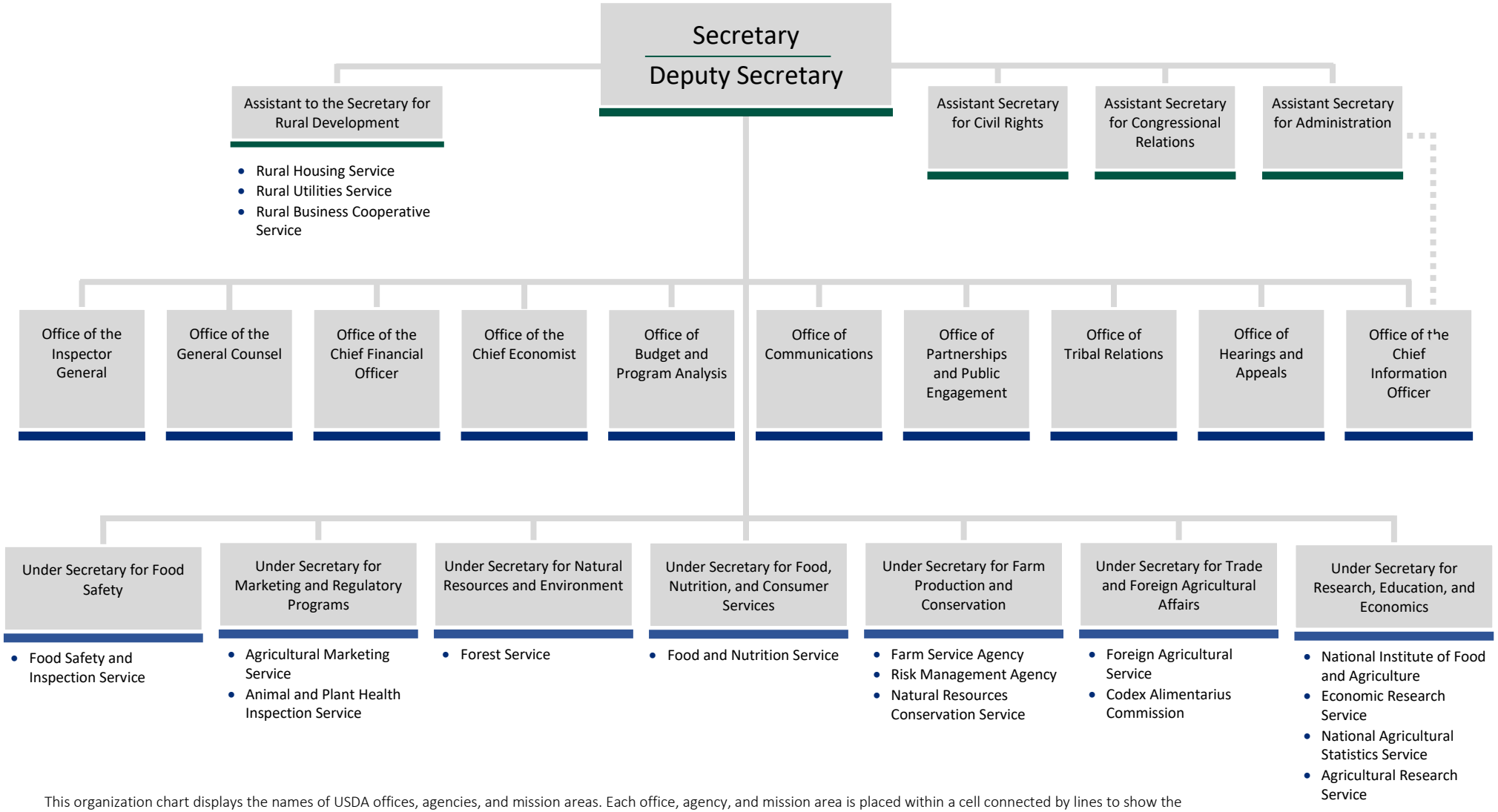
Mission Statement

Provide leadership on agriculture, food, natural resources, rural infrastructure, nutrition, and related issues through fact-based, data-driven, and customer-focused decisions.

Vision Statement

Do right and feed everyone.

USDA Organization Chart



This organization chart displays the names of USDA offices, agencies, and mission areas. Each office, agency, and mission area is placed within a cell connected by lines to show the structure and hierarchy (Under Secretary, Deputy Secretary, or Secretary) for which they fall under. An HTML version that lists USDA Agencies and Offices and USDA Mission Areas is also available on usda.gov.

USDA Mission Areas

RURAL DEVELOPMENT

Rural Development (RD) is committed to helping improve the economy and quality of life in all of rural America by providing financial programs to support essential public facilities and services such as water and sewer systems, housing, health clinics, emergency service facilities, and electric and telecommunications service. RD promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

- Rural Housing Service
- Rural Utilities Service
- Rural Business Cooperative Service

TRADE AND FOREIGN AGRICULTURAL AFFAIRS

Trade and Foreign Agricultural Affairs (TFAA) is American agriculture's unapologetic advocate and chief advocate around the world. With a sharp focus on foreign markets, TFAA ensures that American producers are well equipped to sell their products and feed the world.

- Foreign Agricultural Service
- Codex Alimentarius Commission

FOOD, NUTRITION, AND CONSUMER SERVICES

Food, Nutrition, and Consumer Services (FNCS) works to harness the Nation's agricultural abundance to end hunger and improve health in the United States. FNCS administers Federal domestic nutrition assistance programs.

- Food and Nutrition Service (including Center for Nutrition Policy and Promotion)

FARM PRODUCTION AND CONSERVATION

Farm Production and Conservation (FPAC) is the Department's focal point for the Nation's farmers and ranchers and other stewards of private agricultural lands and non-industrial private forest lands. FPAC agencies implement programs designed to mitigate the significant risks of farming through crop insurance services, conservation programs, technical assistance, and commodity, lending, and disaster programs.

- Farm Service Agency
- Risk Management Agency
- Natural Resources Conservation Service

NATURAL RESOURCES AND ENVIRONMENT

Natural Resources and Environment (NRE) oversees efforts to: get our forests working again to make them more productive, as well as create more jobs. The focus of NRE is on ensuring we are good neighbors and are managing our forests effectively, efficiently, and responsibly, as well as working with states and local governments to ensure the utmost collaboration.

- Forest Service

FOOD SAFETY

The Office of Food Safety ensures that the Nation's commercial supply of meat, poultry, and processed egg products is safe, wholesome, and properly labeled and packaged. Food Safety serves in the critical role of ensuring the food we put on the table to feed our families meets the strict safety standards we have established.

- Food Safety and Inspection Service

RESEARCH, EDUCATION, AND ECONOMICS

Research, Education, and Economics (REE) is dedicated to the creation of a safe, sustainable, competitive U.S. food and fiber system, as well as strong communities, families, and youth through integrated research, analysis, and education.

- Agricultural Research Service
- National Institute of Food and Agriculture

- Economic Research Service
- National Agricultural Statistics Service

MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Programs (MRP) facilitates domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP agencies are active participants in setting national and international standards.

- Agricultural Marketing Service
- Animal and Plant Health Inspection Service

USDA Program Performance

USDA PERFORMANCE AND RESULTS FOR FY 2018

The U.S. Department of Agriculture's (USDA) mission is to provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.

For purposes of the Agency Financial Report (AFR), a performance summary is provided using the Department's key performance indicators as a mechanism to gauge progress in achieving its mission. In fiscal year (FY) 2018, USDA had 35 key performance measures.

The following tables and discussion provide a high-level description of the Department's key focus areas that are being tracked and managed through USDA's performance management process. The tables provide key performance indicator historical results and include FY 2018 preliminary results indicating anticipation in meeting/not meeting performance targets.

Final performance information and a detailed discussion of the Department's FY 2018 performance results, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the FY 2018 USDA Annual Performance Report. The report is planned to be released with the President's 2020 budget in February and will be available on the USDA Performance Improvement and Accountability Web site.

The data used by the Department to measure performance is collected using standardized methodology. This methodology has been vetted by Federally employed scientists and policymakers, and, ultimately, the leadership and Under Secretaries of each respective mission area. All attest to the completeness, reliability, and quality of the data.

STRATEGIC GOAL 1: ENSURE USDA PROGRAMS ARE DELIVERED EFFICIENTLY, EFFECTIVELY, WITH INTEGRITY, AND A FOCUS ON CUSTOMER SERVICE

The Department will modernize and consolidate information technology (IT) infrastructure and services, as well as strengthen management and oversight of procurement, property, and finances to ensure our resources are deployed as effectively and efficiently as possible. We will create a safe and modern space within which employees can work and feel empowered to find innovative solutions to serve our customers' needs and will promote accountability and professional development. USDA will leverage the strength and talent of our employees and reduce regulatory and administrative burdens to allow agencies to focus on our customers. Improved customer service and employee engagement will create a more effective and accessible USDA for all our stakeholders.

EXHIBIT 1: Strategic Goal 1 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Results
Reduce the number of data centers across the Department	39	20	Met
Maintain ranking of the Top 10 Best Places to Work in the Federal Government for large agencies by the Partnership for Public Service	7	Top 10	Deferred
Reduce the Department's overall real property footprint through effective disposal and consolidation efforts (Million Square Feet)	31.9	31.6	Deferred [1]
Reduce the Department's total number of light-duty fleet vehicles (Thousand)	29.4	28.8	Met

[1] The release in the Corporate Property Automated Information System (CPAIS) for tracking Reduce the Footprint status has been delayed. There are also issues with how the General Services Administration data is being replicated from Rent on the Web to CPAIS and how this data is being updated in CPAIS.

STRATEGIC GOAL 2: MAXIMIZE THE ABILITY OF AMERICAN AGRICULTURAL PRODUCERS TO PROSPER BY FEEDING AND CLOTHING THE WORLD

A strong and prosperous agricultural sector is essential to the well-being of the U.S. economy. America's farmers and ranchers ensure a reliable food supply, support job growth, and promote economic development. To maintain a competitive agricultural sector, USDA will support farmers and ranchers' ability to start and maintain profitable businesses as well as offer financial support to producers affected by natural disasters. Furthermore, USDA's research agencies will continue to introduce high-performance plants, animals, and integrated management options that increase the efficiency of farming practices. Lastly, USDA will also provide tools to producers so they are well-positioned to secure a share of a growing market for agricultural products.

EXHIBIT 2: Strategic Goal 2 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
The annual normalized value of risk protection provided to agricultural producers through the Federal Crop Insurance program ($ Billion)	$74.6	$64.0	Met
Average number of days to process direct loans (Farm Service Agency)	31	31	Met
New markets established or expanded through technical assistance	100	104	Met
Percent of high-risk plant pests for which early detection surveys are conducted	92%	93%	Met
Number of National Animal Health Laboratory Network participating labs able to electronically message animal disease testing results to USDA	31	35	Met
Number of hours it takes to mobilize resources once it is determined that a Federal emergency response is needed to manage an agricultural outbreak	24	24	Met

STRATEGIC GOAL 3: PROMOTE AMERICAN AGRICULTURAL PRODUCTS AND EXPORTS

Expanding international marketing opportunities for U.S. farmers and exporters is critical to business and income growth across rural America. It is essential for USDA to continue its efforts to promote American agricultural products and exports through promotional activities, development of international standards, removal of trade barriers by monitoring and enforcing existing trade agreements, and negotiation of new trade agreements that benefit the U.S. agricultural economy. USDA will also partner with developing countries to move them along the agricultural market continuum from developing economies to developed economies with promising demand potential. Ultimately, this work will build the foundations for future markets and create long-term international relationships that advance U.S. agriculture's exports.

EXHIBIT 3: Strategic Goal 3 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows ($ Billion)	$1.52[2]	$1.70	Met
Value of trade preserved through resolution of foreign market access issues such as U.S. export detainment, restrictive Secure Payment System (SPS) and Technical Barriers to Trade (TBT) issues, and trade regulations ($ Billion)	$3.6[3]	$4.0	Met
Percentage of Food for Progress projects that increase a project participant's value of sales by 9% or higher	33%	35%	Met

[2] Baseline Data FY 2015
[3] Baseline Data FY 2015

STRATEGIC GOAL 4: FACILITATE RURAL PROSPERITY AND ECONOMIC DEVELOPMENT

USDA promotes rural prosperity and economic development by financing investments in rural utilities, housing, and businesses. When rural Americans share the same level of infrastructure services as the country's urban areas, rural communities can make even greater economic contributions with healthy businesses and families. Just as economic and social science research informs decision makers regarding current trends in rural America and gaps in existing markets, USDA may then provide benefits to rural American businesses and citizens. USDA will leverage funds, stimulate private-public partnerships, and engage in collaboration to build rural infrastructure including the following: broadband, community facilities, safe and affordable housing, and health services and facilities. The Department will also provide capacity building to help underserved communities become thriving communities.

EXHIBIT 4: Strategic Goal 4 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
Health Facilities: Percent of customers who are provided access to new and/or improved essential community facilities	5.0%	6.8%	Not Met[4]
Safety Facilities: Percent of customers who are provided access to new and/or improved essential community facilities	3.7%[5]	4.5%	Met
Number of borrowers' subscribers receiving new and/or improved electric facilities (Million)	4.6[6]	5.1	Met
Number of borrowers' subscribers receiving new and/or improved telecommunication services (Million, Noncumulative)	0.158	0.175	Not Met[7]
Amount of targeted Rural Development (RD) investments that leverage private sector funding ($ Billion)	$7.0	$7.5	Met

[4] Most of the obligations occur in the fourth quarter, therefore it is difficult to predict the exact percentage. Rural Development may meet the target, although it is being reported as "not met" in this report.
[5] Baseline Data FY 2014
[6] Baseline Data FY 2014
[7] A significant amount of alternative grant funding is available through the Federal Communications Commission (FCC) Connect America Fund II Auction (which occurred between July 24, 2018, and August 21, 2018) and the $600 million in funding from the FY 2018 Omnibus for the Rural Utilities Service (RUS) Broadband Pilot Program (GP 779). The availability of these two sources of grants has negatively impacted the demand for this program's loan funds.

STRATEGIC GOAL 5: STRENGTHEN THE STEWARDSHIP OF PRIVATE LANDS THROUGH TECHNOLOGY AND RESEARCH

The world population is expected to reach 9.6 billion by 2050. Feeding this population will require adoption of new science and technologies and the implementation of science-based conservation plans to sustainably increase agricultural production. To ensure U.S. private working lands and public agricultural landscapes are conserved, the Department will provide technical and financial assistance using the latest technology and research available. New and improved practices result from fundamental and applied research to understand the complex interactions between human systems and the environment and transferring the resulting knowledge into the hands of producers and land managers through information, tools, and decision support.

EXHIBIT 5: Strategic Goal 5 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
Soil carbon retained on cropland to improve yields and sequester carbon (Thousand Tons)	140	140	Met
Cropland with conservation applied to improve soil quality (Million Acres)—Environmental Quality Incentive Program (EQIP)	3.0	3.0	Met
Cropland with conservation applied to improve soil quality (Million Acres)—Conservation Technical Assistance (CTA)	5.9	5.9	Not Met[8]
Tons of sediment prevented from leaving cropland and entering waterbodies (Million Tons)	4.6	4.6	Met
Working land protected by conservation easements (Thousand Acres)	60.7	80.0	Met
Acreage enrolled in Conservation Reserve Program (CRP) riparian and grass buffers (Cumulative, Million Acres)	1.6	1.6	Met
CRP restored wetland acreage (Million Acres)	1.9	1.9	Met

[8] Increasing demand for technical assistance and a potential for delay in implementation of conservation planned practices may present a challenge in meeting targets. The vacancies of key field staff, such as soil conservationists in some areas, combined with severe weather is a risk, although the agency does have an aggressive field hiring plan being implemented. The full impact of these risks will not be clear until after the fourth quarter reporting period.

STRATEGIC GOAL 6: FOSTER PRODUCTIVE AND SUSTAINABLE USE OF OUR NATIONAL FOREST SYSTEM LANDS

The Nation's forests and grasslands are a fundamental part of the American landscape and are a legacy that the USDA Forest Service holds in trust for present and future generations. Forests provide clean air and water, forest and rangeland products, mineral and energy resources, jobs, quality habitat for fish and wildlife, recreational opportunities, and memorable experiences. The Forest Service plays a critical role in making America's forests and grasslands resilient to threats and disturbances while mitigating wildfire risk. The Department also manages the National Forests and grasslands to ensure that they are healthy and sustainable—while also allowing rural communities to access and benefit from economic opportunities that our Nation's forests offer. This work is complemented by USDA's research in forestry, ecology, and economics to ensure that world-class science guides effective policies and management practices.

EXHIBIT 6: Strategic Goal 6 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
Percent of customers satisfied with recreation facilities, services, and settings on National Forests	95%	95%	Met
Timber volume sold (Billion Board feet)	2.9	3.4	Met
Percent of National Forest Systems (NFS) watersheds in a functioning condition	53%	53%	Met
Annual acreage of NFS lands where final treatment effectively mitigates wildfire risk	741,765	1,100,000	Met
Annual acreage treated to reduce or maintain fuel conditions on NFS and non-federal lands	2,776,486	3,000,000	Met

STRATEGIC GOAL 7: PROVIDE ALL AMERICANS ACCESS TO A SAFE, NUTRITIOUS, AND SECURE FOOD SUPPLY

USDA has critical roles in preventing foodborne illness and protecting public health while also ensuring Americans have access to food, a healthful diet, and nutrition education in a manner that supports American agriculture and inspires public confidence. The Department will take a number of actions to achieve this goal. First, to ensure the food supply is safe, the Department will continue to prevent contamination and limit foodborne illness by expanding its modernization of food inspection systems, and USDA's research, education, and extension programs will continue to provide information, tools, and technologies about the causes of foodborne illness and its prevention. Second, USDA will continue to develop partnerships that support best practices in implementing effective programs to ensure that eligible populations have access to programs that support their food needs. This work includes research on the nutritional quality of Americans' food and diets, as well as the continuing of the discovery of the drivers of poor diets and nutritional choices. Lastly, USDA will collaborate with partners and stakeholders on strategies to reduce foodborne illness and childhood obesity and to improve diets. USDA ensures agriculture production incorporates the best available science into its modernization efforts to produce food that is safer, more nutritious, and secure.

EXHIBIT 7: Strategic Goal 7 Performance Measures

Performance Measures	FY 2017 Baseline Data	FY 2018 Target	FY 2018 Preliminary Result
Percentage of establishments that meet pathogen reduction performance standards	75%	78%	Met
Percentage of establishments whose noncompliance rate decreases 120 days after receiving early warning alert	70%	71.4%	Met
Percentage of American households with consistent, dependable access to food	87.3%[9]	87.7%	Deferred
Annual percentage of eligible children participating in the National School Lunch Program (NSLP)	58%	59%	Met
Percentage of Supplemental Nutrition Assistance Program (SNAP) Employment and Training participants engaged in education and skills-based training	33%[10]	35%	Deferred

[9] Baseline Data FY 2015
[10] Baseline Data FY 2016

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

Farmers and ranchers operate in highly competitive markets, both domestically and internationally. Rapid shifts in consumer demands associated with quality, convenience, taste, and nutrition dictate that farming, ranching, and marketing infrastructures become more fluid and responsive. National security is a significant, ongoing priority for the U.S. Department of Agriculture (USDA). USDA science research, education, and extension services will continue to be the foundation for understanding developments and making advances in solving agricultural and societal challenges. USDA is working with the U.S. Department of Homeland Security to help protect agriculture from intentional and accidental acts that might impact America's food supply or natural resources.

EXTERNAL FACTORS THAT CHALLENGE USDA'S ABILITY TO ACHIEVE ITS GOALS INCLUDE THE FOLLOWING:

- Weather-related hardships, including disasters related to the increasing intensity and duration of extreme weather and climate change, both domestically and internationally;
- The risk of catastrophic fire, depending on weather, drought conditions, and the expanding number of communities in the wildland-urban interface;
- Non weather-related hardships and other uncontrollable events, both domestically and internationally;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage debt;
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across domestic and international boundaries;
- Potential exposure to hazardous substances, which may threaten human health as well as the environment; and
- The ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts.

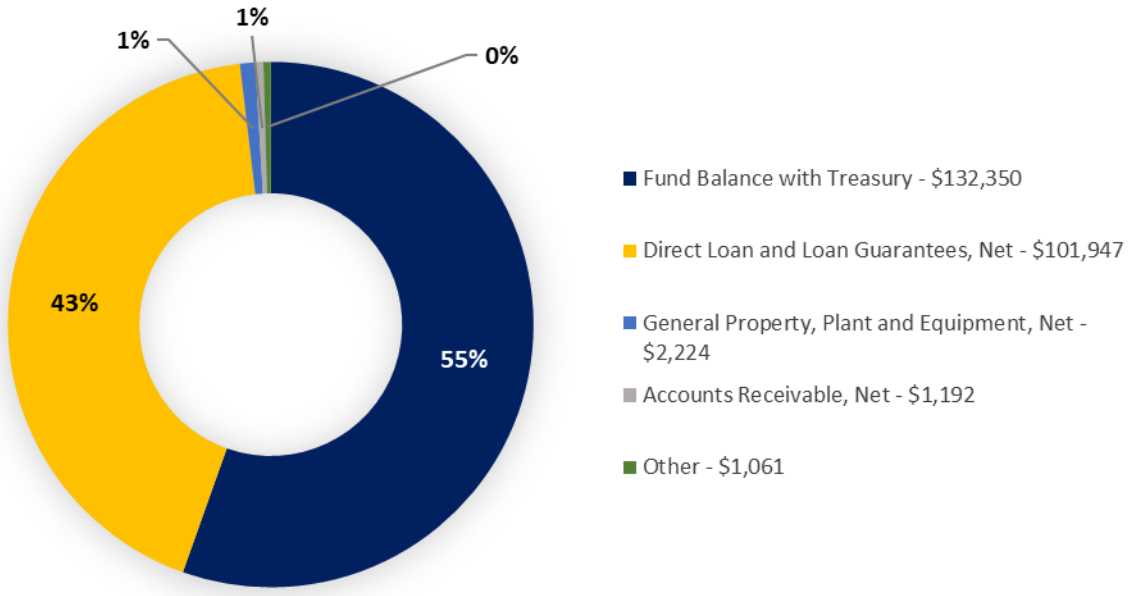
Financial Statement Highlights

BALANCE SHEET

Total Assets

Total assets for FY 2018 were $238,774 million. The following exhibit presents FY 2018 total assets.

EXHIBIT 8: Total Assets ($ in millions)

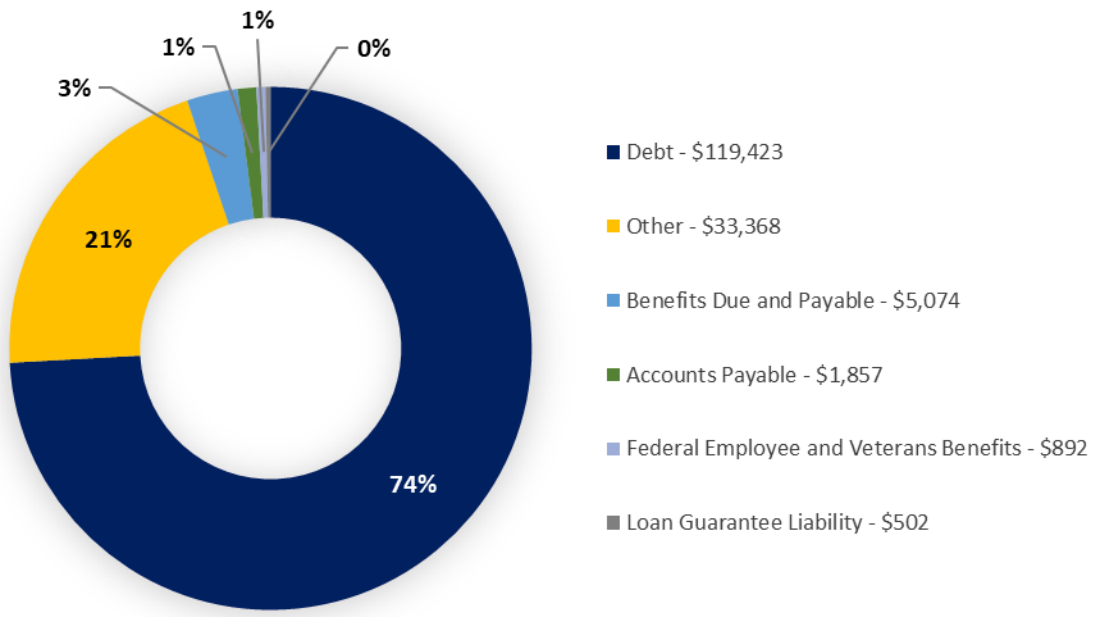


Direct Loan and Loan Guarantees, Net, is one of the largest assets on the USDA Balance Sheet. RD, which comprises 87% of total Departmental loans, offers both direct and guaranteed loan products for rural housing and rural business infrastructure. Loan programs administered by FSA to farmers who are temporarily unable to obtain private, commercial credit represent 11% of the total. The remaining 2% represents commodity loans and credit programs administered by the Commodity Credit Corporation (CCC). Their loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide international food assistance, expand international markets, and provide domestic low cost financing to protect farm income and prices.

Total Liabilities

Total liabilities for FY 2018 were $161,116 million. The following exhibit presents FY 2018 total liabilities.

EXHIBIT 9: Total Liabilities ($ in millions)

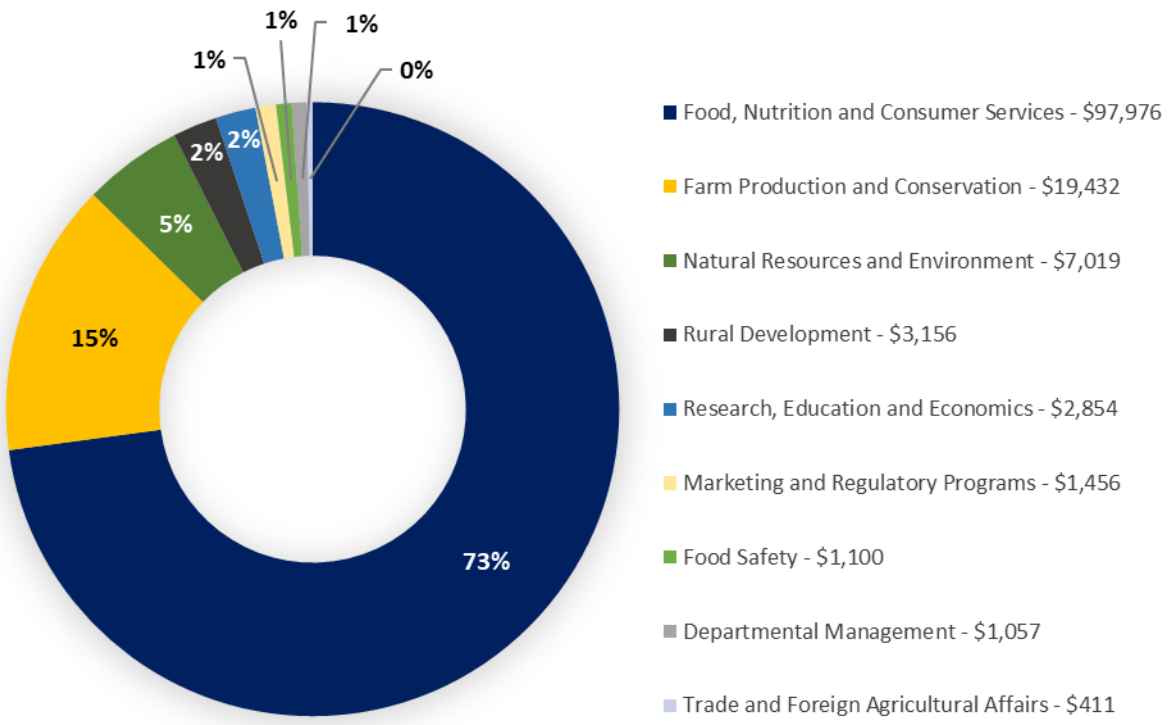


Debt is the single largest liability on USDA's balance sheet. It represents amounts owed primarily to Treasury by CCC, FSA and RD. For CCC, the debt primarily represents financing for price support, export credit guarantees, disaster programs and loans related to farm storage facilities. For FSA, the debt primarily represents financing to support direct and guaranteed loan programs, with the majority supporting operating, ownership, and emergency loans. For RD, the debt primarily represents financing to support electric and housing loan programs.

Net Cost of Operations

Net cost of operations for FY 2018 was $134,461 million. The following exhibit presents FY 2018 net cost of operations by mission area.

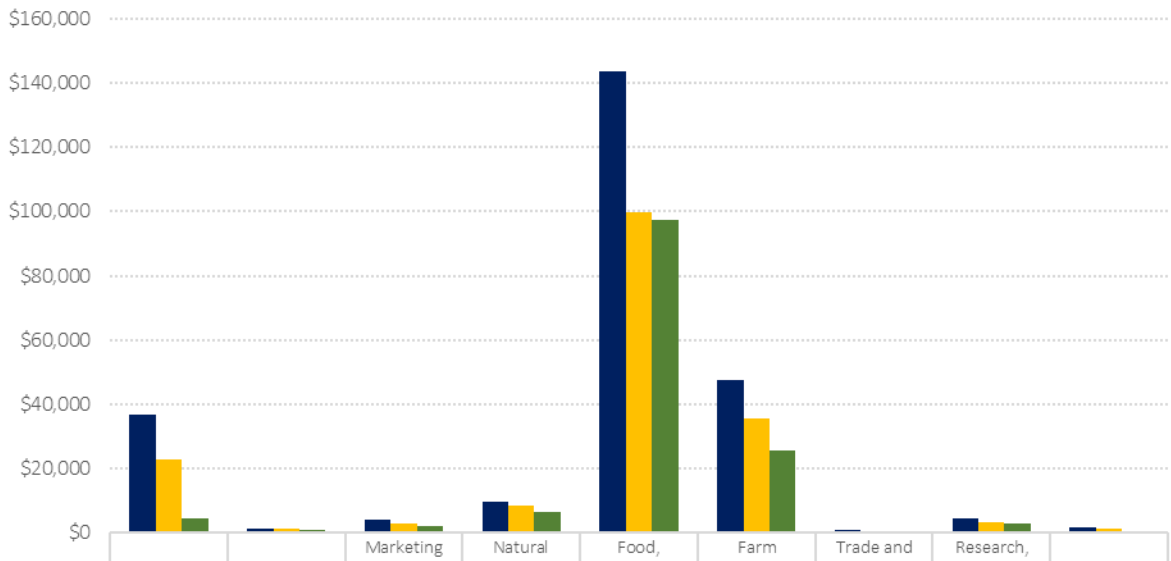
EXHIBIT 10: Net Cost of Operations by Mission Area ($ in millions)



Statement of Budgetary Resources

The following exhibit presents FY 2018 total budgetary resources, obligations incurred, and net outlays by mission area.

EXHIBIT 11: Budgetary Resources, Obligations Incurred, and Net Outlays by Mission Area ($ in millions)



	Rural Development	Food Safety	Marketing and Regulatory Programs	Natural Resources and Environment	Food, Nutrition and Consumer Services	Farm Production and Conservation	Trade and Foreign Agricultural Affairs	Research, Education and Economics	Departmental Management
Budgetary Resources	$36,919	$1,370	$4,243	$9,641	$143,711	$47,365	$849	$4,376	$1,866
Obligations Incurred	$22,646	$1,295	$2,984	$8,476	$99,734	$35,663	$525	$3,345	$1,476
Net Outlays	$4,568	$1,055	$2,147	$6,498	$97,228	$25,451	$366	$2,778	$327

Statement of Assurance

The U.S. Department of Agriculture (USDA) is providing modified assurance that USDA's systems of internal control comply with the Federal Managers' Financial Integrity Act (FMFIA) objectives. USDA's systems of internal control meet the objectives of the FMFIA and the Federal Financial Management Improvement Act (FFMIA), with the exception of two material weaknesses in internal control, one financial system non-conformance, and three instances of noncompliance with laws and regulations. Management is providing reasonable assurance that the internal controls over operations are effective. The details of the exceptions are provided in the FMFIA, FFMIA, and Summary of Financial Statement Audit and Management Assurances sections of this report.

USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2018, and financial reporting as of June 30, 2018. The assessment included the safeguarding of assets and compliance with applicable laws and regulations in accordance with the requirements of Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

No other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2018, and (2) internal control over reporting as of June 30, 2018.

Sonny Perdue
Secretary of Agriculture

November 14, 2018

Federal Managers' Financial Integrity Act Report on Management Control

BACKGROUND

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

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

The U.S. Department of Agriculture (USDA) evaluated its internal controls in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular No. A-123, Appendices A through D. All USDA managers must ensure their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure financial management systems conform to applicable laws, standards, principles, and related requirements.
In conjunction with the Office of Inspector General (OIG) and the Government Accountability Office, USDA's management works decisively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

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

FISCAL YEAR (FY) 2018 RESULTS

The Department has two existing material weaknesses in internal controls over financial reporting: Information Technology (IT) and financial management. The material weakness for financial management is due to improvements needed in accounting and internal controls related to the Natural Resources Conservation Service (NRCS), Commodity Credit Corporation (CCC) and the Risk Management Agency (RMA). USDA also has one existing system non-conformance related to Funds Control Management within the CCC, which will be resolved by the end of fiscal year (FY) 2020.

The Food and Nutrition Service and the Farm Service Agency (FSA) are non-compliant with laws and regulations related to the Improper Payments Elimination and Recovery Act of 2010, as amended.

USDA has identified violations or potential violations with the Anti-deficiency Act (ADA). Eight confirmed violations are in the process of being reported to the President and Congress. A detailed description and summary of the Department's ADAs, can be found in the Compliance with Laws and Regulations section of this report.

The Secretary's Statement of Assurance provides modified assurance that USDA's system of internal control complies with FMFIA objectives. For additional details on the results reported in USDA's Consolidated Financial Statements Audit Report, see the Summary of Financial Statement Audit and Management Assurances section of this report.

SUMMARY OF OUTSTANDING MATERIAL WEAKNESSES

The following exhibit provides FY 2018 accomplishments and FY 2019 planned actions toward resolving the outstanding material weaknesses.

EXHIBIT 12: Summary of Outstanding Material Weaknesses

1. USDA Information Technology (IT)	
Material Weaknesses Existing	The Department lacks an effective information security program. Unimplemented recommendations that address many longstanding weaknesses (related to risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response, and contingency planning) remain outstanding.
Overall Estimated Completion Date	FY 2020

FY 2018 Accomplishments:	FY 2019 Planned Actions:
During FY 2018, the Office of the Chief Information Officer (OCIO): ▪ Tracked outdated Plans of Actions and Milestones (POA&M) identified as part of material weaknesses and reported progress to USDA leadership on a weekly basis. Leveraged the department's biweekly scorecard reports and weekly meetings with our agencies; OCIO worked with specific agencies to achieve proper and full remediation of weaknesses across USDA; ▪ Performed security assessments on select agencies; ▪ Began performing penetration testing of all USDA agencies; ▪ OCIO continued to assess the U.S. Department of Homeland Security's (DHS) Cyber Hygiene Assessment reports and worked with agencies to remediate findings of critical vulnerabilities in 30 days or less; OCIO continued its integration of the Continuous Diagnostics Mitigation (CDM);	**For FY 2019, OCIO will:** ▪ Perform security assessments on select agencies; ▪ Continue to perform penetration tests of all USDA agencies, including DHS' Risk and Vulnerability Assessment (RVA) of select agencies with High Value Assets (HVAs); ▪ Transition CDM Phase 2 tools to full operations in Q2 FY 2019; ▪ Close all outstanding OIG Federal Information Security Management Act Audit Recommendations from FY 2010 through FY 2016; ▪ Assess, plan, design, and implement a consolidated Cybersecurity Operations organization at USDA to provide a centralized and enterprise-level source of cyber security and risk management controls, functions, and capabilities; ▪ Develop processes and procedures to track, monitor, and enforce security configuration baselines for USDA servers;

1. USDA Information Technology (IT) Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
▪ Continued integration of the Continuous Centralized configuration management monitoring by leveraging CDM Phase 1 tools; ▪ Formalized internal monitoring processes into a Standard Operating Procedure (SOP); ▪ Continued to mature and evolve the Change Advisory Board roles and responsibilities to meet the needs of the organization, including evolving to a paperless electronic process conducive to seamless customer service; ▪ Transitioned CDM Phase 1 tools and CDM dashboard to full operations in Q2 FY 2018. OCIO maintained operations of CDM Phase 1 tools and CDM dashboard through Q4 FY 2018; and ▪ In collaboration with USDA agencies and mission areas, OCIO defined a high-level strategy for "further enforcing" Personal Identity Verification (PIV) authentication for logical system access throughout USDA, a high-level milestone for accomplishing that strategy, and a process to oversee and measure progress.	▪ Develop and implement a plan of action for deploying interim solutions to address recommendations from OIG Audit Reports on Improper Usage of USDA's Information Technology Resources and Security Over Select USDA Agencies' Networks and Systems; begin developing and executing solutions requirements and implementation plans for standing centralized, enterprise-wide solutions, processes, and procedures; and ▪ Initiate planning and execution to deploy CDM Phase 3 tools.

2. Financial Management—Natural Resources Conservation Service (NRCS)	
Material Weakness Existing	NRCS needs improved controls over obligations and undelivered orders (UDO), as well as accounting and controls over expenses.
Overall Estimated Completion Date	FY 2019

FY 2018 Accomplishments:	FY 2019 Planned Actions:
During FY 2018, NRCS: ▪ Re-engineered the process for reviewing data files to ensure invalid upward and downward adjustments are identified and negated in a timely manner; ▪ Improved the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ezFedGrants; ▪ Implemented a confirmation process, including negative confirmations, for all divisions to ensure direct-entry expense accruals outside the scope of the corporate accrual process are recorded; and ▪ Implemented a corporate accrual process to record accruals for all 41xx and 25xx Budget Object Code transactions at the macro level to ensure expense accruals for the majority of the unliquidated obligation population are recorded.	NRCS will: ▪ Enhance processes and NRCS feeder systems to improve monitoring of activity in U.S. Standard General Ledger (USSGL) 4871 and 4881; ▪ Continue to improve the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ServiceNow; and ▪ Review all grant UDOS and validate period of performance.

2. Financial Management—Commodity Credit Corporation (CCC)	
Material Weaknesses Existing	CCC needs to address material weaknesses related to accounting estimates (prior year material weakness downgraded to a significant deficiency for FY 2018) and Accounting for Budgetary Transactions (FY 2018).
Overall Estimated Completion Date	FY 2019

FY 2018 Accomplishments:	FY 2019 Planned Actions:
During FY 2018, CCC: ▪ Refined SOPs, policies, checklists, etc., to incorporate the requirements for identifying the need for preparing, supporting, validating, reviewing and recording, and performing look-backs of accounting estimates; ▪ Designed and implemented processes, procedures, and controls to ensure data used in its accounting estimates are complete and accurate. This included procedures to review and validate published prices prior to calculating the accrual to ensure the latest prices are considered within the calculation. In addition, if published prices are subsequently updated prior to year-end, evaluate the impact and determine if adjustments are necessary. Ensure the manual calculation of Fruits and Vegetables (FAV) acres considers the appropriate planted acres; ▪ Updated the Agriculture Risk Coverage and Price Loss Coverage (ARC/PLC) SOP to indicate that the most reliable data must be used for the estimate which, in the absence of contrary evidence, is presumed to be the latest available data; ▪ Conducted meetings with the Farm Programs' management and staff to	**CCC will:** ▪ Continue to implement effective UDO monitoring controls at the program level, to assess the accuracy and validity of open obligations, and the accounting execution, if necessary, as a result of the programmatic monitoring reside with the CCC accountants; ▪ Provide necessary training to the County field offices' personnel over the requirements of OMB A-11 for recording obligations, and, ensure program handbooks are up to date regarding execution and related accounting; ▪ Begin the process to implement effective automated and/or manual controls to evaluate the relationship between a CRP annual rental contract and CRP cost share contract; and develop and implement data analytic routines and management review controls related to program UDO populations to identify and correct for abnormalities in the data; ▪ Update documentation and continue to strengthen management controls related to the annual ARC/PLC UDO calculation to ensure that it is performed at a level of precision to include relevant and accurate data elements, such as enrollments and crop prices that reflect the documentation submitted by the producer and approved by management;

2. Financial Management—Commodity Credit Corporation (CCC) Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
update procedures to ensure items requiring manual calculation to complete the ARC/PLC payment process (particularly FAV) be reviewed with responsible state/county personnel prior to the annual stress lab or actual payment runs; ▪ Updated SOPs to emphasize the importance of adequate supervisory review and approval of the estimates by appropriate levels of management, including review of the sources of relevant factors, development of assumptions, and reasonableness of assumptions and resulting estimates. These reviews should be at a sufficient level of precision to detect errors in the estimates that would be material to the financial statements. In addition, these reviews should also include an evaluation of adjusting entries recorded because of the executed methodology; ▪ Performed a detailed review of the export credit reform loans to include potentially writing down the relevant facts and circumstances unique to each loan and documenting procedures performed for each loan (or obligor) to evidence the review; ▪ Established and documented a process for reviewing credit reform loan portfolios and established written SOPs to write off non-performing loans that ensure manual journal entries are reviewed at the appropriate level of precision. CCC conducted training sessions with the subject matter experts responsible for overseeing this process; ▪ CCC completed an Accrual Review Methodology SOP that enhanced review	▪ Implement processes, procedures, and controls to ensure accurate recognition of adjustments to delivered orders are posted into the accounting systems and perform periodic reviews of the accounting events to validate the results of recorded transactions; ▪ Implement effective internal controls to review and reconcile the general ledger account inter-relationships, between borrowing authority and other budgetary accounts; ▪ Record borrowing authority at the appropriate program level to prevent abnormal balances, which will assist in meaningful account review and reconciliation; ▪ Continue to evaluate all budgetary general and subsidiary ledgers to ensure they reflect the appropriate accounting and reporting guidance provided by OMB and the U.S. Department of the Treasury (Treasury); ▪ Continue to ensure the month-end reconciliations for significant accounts are performed in a timely manner and reviewed at the appropriate precision levels through the implementation of dollar materiality thresholds that are monitored by management. Reconciled differences identified should be corrected in a timely manner in the subsidiary or General Ledger (GL). Researched and identified existing unknown differences per Account Reconciliation and Analysis Policy; ▪ Continue with the execution of the existing OMB A-123, Appendix A Corrective Action Plan over Accounting Estimates by further improving and enhancing the analysis,

2. Financial Management—Commodity Credit Corporation (CCC) Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
controls to validate the completeness and accuracy of the data being used in the grant calculator (estimate methodology) and related look-back analysis. This process was refined to include a more thorough review and analysis using other source documentation and an assessment of the data used to complete the advances/accruals for the grant portfolio; ▪ Implemented processes, procedures, and controls to improve the accuracy and timeliness of the Fund Balance with Treasury (FBWT) reconciliation, including reconciliations of related child agency FBWT accounts; ▪ Ensured the month-end reconciliations for significant accounts were performed in a timely manner and reviewed at the appropriate precision levels through the implementation of dollar materiality thresholds that were monitored by management. Reconciled differences identified should be corrected in a timely manner in the subsidiary or GL. Researched and identified existing unknown differences per Account Reconciliation and Analysis Policy; ▪ Developed effective information and communication processes to ensure policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner; ▪ Continued to implement processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions;	review, and recordation process; and ▪ Continue with the execution of the existing OMB A-123, Appendix A Corrective Action Plan.

2. Financial Management—Commodity Credit Corporation (CCC) Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
▪ Continued with the execution of the existing OMB A-123, Appendix A Corrective Action Plan, Maintaining, Controlling, and Monitoring the CORE GL by further improving and enhancing CCC reconciliations and account analysis; and ▪ Continued to refine the reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, UDOs, delivered orders, expended appropriations, and operating expenses.	

2. Financial Management—Risk Management Agency (RMA))	
Material Weaknesses Existing	RMA needs to develop change controls over the program production model used to calculate actuarial projections to avoid inadvertent modifications to the model.
Overall Estimated Completion Date	FY 2019
FY 2018 Accomplishments:	FY 2019 Planned Actions:
	RMA will: ▪ Create separate libraries of the program code for production calculations and sensitivity or other analysis; ▪ Implement peer reviews of calculation; and ▪ Continue process of review of inputs in the model.

SUMMARY OF OUTSTANDING SYSTEM NON-CONFORMANCE

Funds Control Management non-conformance is also reported as a system noncompliance and is included in the FFMIA Report on Financial Management Systems (*Exhibit 13*). The weakness involves component agency-specific deficiencies for CCC.

The following exhibit provides FY 2018 accomplishments and FY 2019 planned actions toward resolving the Department's outstanding system non-conformance.

EXHIBIT 13: Summary of Outstanding System Non-Conformance

1. Funds Control Management	
System Non-conformance Existing	CCC system improvements needed in recording obligations at the transactional level.
Overall Estimated Completion Date	FY 2020

FY 2018 Accomplishments:	FY 2019 Planned Actions:
During FY 2018 CCC: ▪ Developed and implemented necessary policies, procedures, and controls at the appropriate level of precision to record, monitor, and validate UDO balances periodically and, when necessary, deobligate UDOs in a timely manner (appropriate FY) at the individual producer and/or transaction level; ▪ Designed and implemented effective internal controls to periodically (quarterly) review and validate UDO balances with sufficient input from the program offices and financial management to timely identify UDOs that should be deobligated; ▪ Performed a detailed review of the individual contracts that make up the Conservation Reserve Program UDO balances to ensure they are appropriately accounted for and are valid UDOs of CCC; ▪ Developed an overall 48XX UDO Plan, documenting at a high level the risks, system issues, and potential manual controls by program. Completed analysis	CCC will: ▪ Continue to evaluate all budgetary general and subsidiary ledgers to ensure they reflect the appropriate accounting and reporting guidance provided by OMB and the U.S. Treasury; ▪ Continue with the execution of the existing OMB A-123, Appendix A Corrective Action Plan for Funds Control and Budgetary Accounting; ▪ Continue to partner with Deputy Administrator Farm Programs and Information Technology Services Division toward completing software modifications that will ensure all program applications are in full compliance with the Funds Control/Obligation Requirements (i.e., business events, establishments, liquidations, adjustments [downward and upward], etc.) related to obligations at the transaction level in order to prepare for Financial Management Modernization Initiative implementation; and

2. 1. Funds Control Management Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
of controls by program. Completed analysis and corrective plan for all known and unknown differences in 48XX balances; ▪ Provided training sessions to instruct individuals processing, reviewing, and approving UDO balances to review the open obligations at the individual contract/producer level; ▪ Developed a methodology for the "past" and current crop years for the ARC/PLC program at an appropriate level of precision to accurately account for the "do not pay" direct attributions that may get resolved. Management's methodology should be consistent with the historical evidence maintained by management; ▪ Implemented necessary policies, procedures, and/or trainings to instruct individuals processing, reviewing, and approving ARC/PLC payments in the County Offices to de-obligate [at the individual producer level] the undelivered orders that will not be paid due to payment attributions that cannot be resolved and will result in a position where the producer will not be paid; ▪ Updated and performed ARC/PLC lookback analysis in FY 2018 Q1 and Q2; ▪ Updated the ARC/PLC Obligation paper, when necessary, based on the results of ARC/PLC lookback analysis; ▪ Completed analysis and corrective plan for all known and unknown differences in ARC/PLC balances;	▪ Implement the FSA/CCC Financial Improvement Program that will be a multi-phased, multi-year project to move all financial management processes from FPAC and its affiliated agencies' accounting and feeder systems to FMMI. FSA will need to remediate its feeder systems to create auditable financial data to integrate with FMMI.

2. 1. Funds Control Management Continued	
FY 2018 Accomplishments:	FY 2019 Planned Actions:
▪ Continued to partner with Deputy Administrator Farm Programs and Information Technology Services Division towards completing software modifications to ensure all program applications are in full compliance with the Funds Control/Obligation Requirements (i.e., business events, establishments, liquidations, adjustments [downward and upward], etc.) related to obligations at the transaction level; and ▪ Implemented the ARC County Pilot Program with the electronic Funds Management System/County Operated Facility to achieve full funds control at a transaction level.	

Compliance with Laws and Regulations

In the prior fiscal year (FY), the U.S. Department of Agriculture (USDA) did not publish their civil monetary penalty initial catch-up inflation adjustments by December 31, 2016.
The Department also did not submit complete, accurate, and timely files by April 30, 2017, as required by the Digital Accountability and Transparency Act (DATA Act) of 2014. However, during FY 2018, to comply with the Federal Civil Penalties Inflation Adjustment Act of 1990, as amended, (the IAA), USDA published an initial catch-up inflation adjustment rule in the Federal Register. The Department is compliant with the IAA. In addition, USDA is compliant with the DATA Act. USDA submitted DATA Act data each quarter in FY 2018.
USDA continues to improve in its submission of quality, timely, accurate, and complete data.
USDA remains noncompliant or potentially noncompliant with the Anti-deficiency Act (ADA) identified in the following table, as well as in the Improper Payments Elimination and Recovery Act of 2010 (IPERA) as Amended and Federal Financial Management Improvement Act sections of this report.

The Department has developed strategies to reduce and/or mitigate these violations during FY 2019. The following tables provide further details of each violation.

ANTI-DEFICIENCY ACT

EXHIBIT 14: ADA Violations Reported to the President and Congress During FY 2018

Agency:	Office of the Secretary (USDA/OSEC)	Year Identified
Violation:	(ADA) 31 United States Code 1301, 1342	FY 2017
Description		Status
USDA/OSEC, from the prior administration, violated the purpose statute, improperly augmented several of its appropriations, and violated the ADA when it obligated several of its appropriations for the expenses of separately funded USDA components. USDA improperly relied on the Economy Act to enter into interagency agreements, under which the agency obligated its appropriations for (1) Rural Development Salaries and Expenses, (2) Food and Nutrition Service, Nutrition Programs Administration, and (3) Office of Civil Rights, for personnel details that did not actually occur. Instead, these appropriations were used for the salaries and benefits of employees performing work for separately funded USDA components. The Economy Act was referenced as the authority to transfer the appropriations. The purpose statute was violated when the incorrect appropriation was used for the salaries and benefits in question and improperly augmented the appropriations of these other USDA components. USDA incurred obligations in excess of appropriations and therefore violated the ADA.		ADA violation was reported to Congress and the President on August 27, 2018.

EXHIBIT 15: ADA Violations Pending Submission to the President and Congress.
The violations include three prior years and four newly identified during FY 2018.

AGENCY	Description of Violation	Status
Commodity Credit Corporation (CCC)	PRIOR YEAR: FY 2016, expenditures for CCC interest to the U.S. Department of the Treasury (Treasury) exceeded amounts initially apportioned by the Office of Management and Budget (OMB). CCC expended approximately $46.1 million in interest to Treasury, more than the apportioned amount of $29.9 million.	After review by OGC and OMB, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.
Office of Advocacy and Outreach (OAO)	PRIOR YEAR: The OAO identified an ADA violation for FYs 2011 and 2012 under the Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008). OAO awarded more than $19 million for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" (Section 2501) Grants in excess of amounts permitted by the Farm Bill of 2008.	The ADA violation is in the process of being reported to Congress and the President.
Office of the Chief Financial Officer/ National Finance Center (OCFO/NFC)	PRIOR YEAR: The NFC managed web pages for the New Orleans chapter of the Association of Government Accountants (AGA), which is a non-governmental organization, on the NFC Web site at no cost to AGA. An investigation into this situation determined in FY 2017 that NFC has been maintaining the AGA web pages since 1999.	The ADA violation pertaining to the services NFC provided for maintaining the AGA web pages is in the process of being reported to Congress and the President.
CCC	FY 2018: Agriculture Risk Coverage-County (ARC-CO) (occurred in the prior fiscal year but was identified in the current fiscal year): On November 10, 2016, the Office of Management and Budget (OMB) approved an ARC-CO apportionment providing a total of $850,924,690 for crop year 2017 ARC funding. This funding was divided between ARC-CO ($775,924,690) and Agricultural Risk Coverage-Individual County ($75,000,000). As part of fiscal year-end close for FY 2017, CCC recorded an obligation of $2,319,369,741.34 for crop year 2017 ARC-CO. This exceeded the apportioned amount by $1,543,445,051.	The ADA violation is in the process of being reported to Congress and the President.

AGENCY	Description of Violation	Status
Farm Service Agency (FSA)	FY 2018: FSA issued a contract for Information Technology investments including the CCC Budget Formulation (CCC BF) system. The CCC BF was not included in the approved Acquisition Approval Request (AAR). The AAR and the contract will be amended to include $300,000 for CCC BF. The FY 2018 Consolidated Appropriation Act, Section 706, states "none of the funds available to the Department of Agriculture for information technology shall be obligated for projects, contracts, or other agreements over $25,000 prior to written approval by the Chief Information Officer."	After review by OGC, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.
FSA	FY 2018: Government Collections during shutdown—Field staff spent time verifying deposit transactions. These deposit verifications were not part of the orderly shutdown activities.	After review by OGC, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.
FSA	FY 2018: FSA identified an ADA violation with the U.S. Warehouse Act. FSA business practices dating back to FY 2000 supported Warehouse User Activities with Administrative S&E funds for direct and indirect costs. The user fee collections were not adequate to fully fund the costs, and S&E funds were used and not reimbursed; therefore, improperly augmenting the User Fee program. When FSA adjusted its accounts to correct the error, the user fee account was deficient, resulting in an ADA violation.	After review by OGC, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.

EXHIBIT 16: Determined Not to be an ADA Violation.

AGENCY	Description of Violation	Status
OCFO/NFC	PRIOR YEAR: The NFC managed web pages for the Federal Executive Board (FEB), which is a quasi-governmental entity. Working Capital Fund (WCF) monies may have been used for the web service, and use of the WCF to provide unreimbursed services to the FEB would be an ADA violation if no other funds are available to reimburse the WCF. Funds other than those in the WCF may have been available to pay for services to the FEB.	After conducting research, it was determined that the administrative expenses of the FEB—which include the hosting of web pages—are not charged to the WCF. Rather, those costs are covered by (1) an interagency agreement between NFC and the Agricultural Research Services agency in New Orleans that provides direct reimbursement for some FEB administrative expenses, and (2) the remaining FEB costs are included as overhead and administrative expenses in reimbursable agreements to NFC's customers. Therefore, NFC's hosting of the FEB web pages is not an ADA violation.

Potential ADA Violations—one prior year and 9 new potential violations were identified during FY 2018. These occurrences are pending results from research and investigation for a determination as to whether or not a violation actually occurred. This table provides a description and status.

EXHIBIT 17: Potential ADA Violations Identified During FY 2018

AGENCY	Description of Violation	Status
CCC	FY 2017: The prior year accounting treatment for obligations related to the Conservation Reserve Program—Annual Rental contracts was determined to be in error. Only the annual portion of the contract values was recorded as an obligation.	The Office of the General Counsel (OGC) determined that the error was not an ADA violation; however, the incident has been referred to GAO for additional investigation and determination.
CCC	FY 2018: Emergency Forestry Conservation Reserve Program—CCC failed to record the obligation for the full value of the long-term contract when the contact was signed. CCC obligated a total of $2,230,309 for long-term contracts.	The Office of the General Counsel (OGC) determined that the error was not an ADA violation; however, the incident has been referred to GAO for additional investigation and determination.
CCC	FY 2018: FAS/Food for Progress—The Foreign Agriculture Service paid Food for Progress freight invoices from administrative funds. There was a zero balance in the administrative funds for this agreement; however, there were funds available as a result of downward adjustments.	Agency is seeking an OGC opinion.
CCC	FY 2018: Puerto Rico Tree Assistance Program (TAP)— Contracts approved from prior fiscal years. TAP contracts from FY 2014 through FY 2017 were approved but not recorded into the program application timely. An obligation is triggered when an application is approved via a producer's and FSA representative's signature. CCC received input from the Puerto Rico District Directors that indicates that there are 1,973 unrecorded TAP contracts representing 2014, 2015 and 2017.	Pending a determination.

AGENCY	Description of Violation	Status
CCC	FY 2018: FSA/CCC: Non-Insured Assistance Program (NAP) Frost Freeze (FFN) (occurred in the prior fiscal year but identified in the current fiscal year)—During the reclassification process in FY 2018, CCC discovered NAP payments exceeding apportionments by $888. Documentation of the background, and Statement of Facts and Analysis was still underway as of September 30, 2018.	Pending determination.
CCC	FY 2018: Agriculture Risk Coverage (ARC) (occurred in the prior fiscal year but was identified in current fiscal year)—In FY 2018, CCC identified crop year 2017 enrollments for the ARC program that exceeded available funding.	Pending a determination.
CCC	FY 2018: United States Agency for International Development (USAID) grants (occurred in the prior fiscal year, but identified in the current fiscal year)—Pursuant to the Grants Oversight and New Efficiency (GONE) Act, CCC is required to report quarterly, the number of federal grant and cooperative agreement awards and balances of USAID (CCC child agency) for which closeout has not yet occurred, but for which the period of performance has elapsed more than two years with zero and undisbursed balances. At the end of 3rd quarter FY 2018, USAID reported grants that had not been closed out in the greater than 5-years category. As part of the grant closeout in FY 2018, it was determined in some cases that additional funds were needed to fully execute agreements and perform the closeout. As a result, FY 2018 funds were used.	Pending a determination.

AGENCY	Description of Violation	Status
CCC	FY 2018: Biomass Crop Assistance Program (BCAP) (occurred in the prior fiscal year but was identified in the current fiscal year)—During the FY 2017 Quarterly Unliquidated Obligations (ULO) Certification process, the program office identified 12 contracts as invalid and requiring deobligation that were in fact deobligated through a Data Change Request (DCR) in the electronic Funds Management System (eFMS). After further analysis in FY 2018, the program office determined that such contracts were still valid. However, there were no funds available in FY 2018 to re-establish the related obligations.	Pending a determination.
National Institute of Food and Agriculture (NIFA)	FY 2018: USDA's OIG office completed a 3-year audit in August 2018 on NIFA Formula Grant Program Controls Over Fund Allocations to States. To date, NIFA has not received the final disposition from the review. An earlier draft of the OIG report indicated there could be potential reportable ADA violations. NIFA is working with USDA's OGC to determine if there will be actual ADA violations based on the final report.	NIFA is waiting on the final letter from OIG regarding the review.
Office of Partnerships and Public Engagement (OPPE)	FY 2018: A potential ADA related to cooperative agreements may exist. OPPE may have exceeded its authority by charging USDA agencies for cooperative agreements that the agencies lacked legislative authority to enter into.	OPPE is waiting an OGC determination.

Improper Payments Elimination and Recovery Act of 2010 as Amended

The following exhibit provides a summary of agency programs not compliant with the Improper Payment Elimination and Recovery Act of 2010 as Amended (IPERA). The Office of Inspector General's FY 2017 Compliance with IPERA Requirements (Audit Report 50024-0013-11, dated May 2018) found that two USDA agencies were noncompliant. The following exhibit identifies the noncompliance related to IPERA and target dates by which the deficiencies will be mitigated. The summary of corrective actions can be found in the Payment Integrity Management Section III of this report.

EXHIBIT 18: Outstanding Initiative to Achieve Compliance

Initiative	Section of Noncompliance	Agency/Program	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010, as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012	Publish improper payment estimates for all high-risk programs and activities	Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program	11/15/2018
		FNS Child and Adult Care Food Program	11/15/2020
	Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments	FNS National School Lunch Program (NSLP)	11/15/2018
		FNS School Breakfast Program (SBP)	11/15/2018
		FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	11/15/2018
		Farm Service Agency Noninsured Assistance Program	11/15/2018
	Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the Performance and Accountability Report (PAR) or Agency Financial Report (AFR)	FNS NSLP	11/15/2020
		FNS SBP	11/15/2020

Federal Financial Management Improvement Act Report on Financial Management Systems Background

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply with (1) Federal Financial Management System (FFMS) requirements; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures, or practices to be substantially compliant with FFMIA. The information technology (IT) noncompliance is also reported as a material weakness and is included in the Federal Managers' Financial Integrity Act Report on Management Control. Failure to resolve prior-year recommendations identified by USDA's Office of Inspector General (OIG) has prevented the Department from mitigating repeated deficiencies and from receiving a quality rating on the five Cybersecurity Framework security functions. More detailed information on the status of corrective actions planned and to be completed to comply with FISMA is also provided in the Response to Management Challenges section of this report.

The following exhibit contains the outstanding initiatives to achieve compliance.

EXHIBIT 19: Initiatives to be Completed

Outstanding Initiatives to Achieve FFMIA Compliance

Initiative	Section of Noncompliance	Agency	Target Completion Date
Information Technology	FFMS requirements and information security policies, procedures, and/or practices.	Multiple	12/31/2020
Financial Management	Federal accounting standards and USSGL at the transaction level.	Natural Resources Conservation Service	9/30/2019
	Federal accounting standards and USSGL at the transaction level.	Commodity Credit Corporation	9/30/2019

FISCAL YEAR 2018 RESULTS

During fiscal year (FY) 2018, the U.S. Department of Agriculture (USDA) evaluated its financial management systems to assess compliance with FFMIA. In assessing FFMIA compliance, USDA considered auditors' opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the FY 2017 Agency Financial Report. USDA is not compliant with Federal accounting standards and the USSGL at the transaction level due to deficiencies identified for the CCC and NRCS. Additionally, as reported in the FFMIA section of this report, USDA continues to have weaknesses in IT controls and FFMS requirements that result in noncompliance with the FISMA requirement. As part of its financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

COMMODITY CREDIT CORPORATION (CCC)

Noncompliance with Federal accounting standards was noted for weaknesses in the accounting for budgetary transactions. The financial management systems did not record certain accounting events at the transaction level in accordance with the USSGL. Significant progress was made in accounting for obligation activity. CCC was able to provide detailed populations for both beginning balance and current year obligation activity for audit testing purposes.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

Deficiencies in applicable Federal accounting standards, including the USSGL at the transaction level, were noted for obligations incurred, including accrued expenses and undelivered orders; recoveries of prior-year unpaid obligations; and unexpended appropriations as it relates to accrued expenses.

NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA.

Financial Management Systems Strategy

The Financial Management Systems (FMS) component of the Office of the Chief Financial Officer (OCFO) is responsible for providing timely, accurate, and complete financial information to U.S. Department of Agriculture (USDA) agencies to enable them to execute the mission of USDA. Specifically, FMS provides cloud-based, Commercial Off-the-Shelf (COTS) Enterprise Resource Planning (ERP) software that provides USDA Agencies with the functionality they need to distribute, obligate, expend, and report on the funds entrusted to them by Congress.

FMS Operates as an Internal Shared Services Provider to USDA agencies, pooling resources to offer cost-effective systems and support through the consolidation of functions, standard processing, and repeatable processes.

FINANCIAL MANAGEMENT LINES OF BUSINESS

FMS' mission as an internal Financial Shared Service Provider is to provide reliable, cost-effective, employee-centric systems and services to USDA organizations, thus allowing customers to focus on serving this great Nation through their mission delivery. FMS' goal is to provide the necessary activities for executing the Financial Management Lines of Business vision. The three key components of this vision are communication, governance, and operations. By executing these components, USDA will deliver a successful shared service offering.

FMS' activities are focused on financial management services. The list of financial management services includes:

- Budget execution;
- General ledger accounting;
- Financial reporting;
- Audit support;
- Payroll accounting;
- Investment accounting;
- Commercial vendor payments;
- Temporary duty travel payments;
- Permanent change of station employee relocation payments;
- Grant payments;

- Purchase card payments;
- Lease accounting;
- Intragovernmental payments;
- Intragovernmental collections;
- Receivable management;
- Property accounting;
- Child care; and
- Grants management.

By offering a solution that is proven and operating, and which meets all compliance requirements, a customer is jump-started in coming online with a state-of-the-art, fully configured ERP solution built for financials. FMS' primary objectives for this shared services effort are to provide the following:

- An enterprise financial management service that allows customers to reap the benefits of faster, less expensive, and less risky services as compared to starting with a new ERP or financial management implementation;
- Integration with the National Finance Center (NFC) payroll processing services;
- Budget status forecasting;
- An enterprise grants management service that allows customers to utilize a full life-cycle management tool for grants administration that provides visibility to both the government and the grant recipient;
- A complete audit-compliant financial solution with full documentation meeting financial requirements;
- Continuous process, operational, and organizational improvements for those shared services retained in the future state portfolio;
- More powerful and flexible financial management and reporting;
- Administrative payments, collections, and certifications;
- Editing/auditing capabilities that are 100-percent computerized; and
- The best possible customer-focused service and support.

RECENT ACCOMPLISHMENTS AND SHORT TERM PLANS

The COTS ERP Systems, Applications, and Products (SAP) offering is housed in the FMS Division. Under the Financial Management Modernization Initiative (FMMI), this system has become the USDA financial management solution that covers almost all USDA accounting activity. Over $70 billion per year in grants activity has been added over the past 3 years, which means that the USDA core accounting system supports the majority of USDA financial transaction processing. Over the next few years, Forest Service Grants will come on board.

FUTURE PLANS

As part of the Farm Production and Conservation (FPAC) consolidation effort, the Commodity Credit Corporation's (CCC) grants will also become part of the core accounting solution. At that point, almost all USDA grants activity will be in FMMI. The final major type of program activity in USDA relates to loans. The first release of the new CCC accounting structure in FMMI will go live in October 2019. It will put loan activity in FMMI for the first time.

FMS will roll the remaining CCC accounting transactions into FMMI over the next 2 years. Forest Service and CCC grants are complex and are estimated to take 2 years for full implementation.

By the end of the 2-year development period, the SAP infrastructure used by the FMMI will be nearing the end of its useful life. SAP has notified USDA of its plans for major systems upgrades, and FMS has begun to analyze the impact of the changes. The guiding principles of FMS are:

- Eliminate custom-built products when possible, due to the cost of maintaining them;
- Increase the amount of automation when feasible, such as with automated testing tools and process robotics; and
- Change outdated processes where appropriate.

With these principles in mind, and with careful planning for IT upgrades, USDA will keep pace with the constant advancements in technology.

SUCCESSES DURING FISCAL YEAR (FY) 2018

- Implemented a new Automated Cash Reconciliation Worksheet System (ACRWS) that replaced obsolete technology and provided an enhanced automated cash reconciliation process for USDA;

- Implemented improvements to the Digital Accountability and Transparency Act (DATA) processing that streamlined the error correction process and significantly reduced the number of errors contained in File C (transaction-level financial information on agency procurements and awards). This reduced the time required for agencies to research File C errors and allowed USDA to report a better representation of USDA's data to Treasury;
- Conducted an in-depth analysis of the existing FMMI infrastructure and identified areas for consolidation of data or decommissioning of obsolete servers. This resulted in 17 servers being decommissioned and a savings in excess of $350,000 per year;
- Successfully migrated the following to the cloud: the Financial Statements Data Warehouse (FSDW), Reconciliation of Intra-Governmental Payment and Collection (IPAC) Transactions for Agriculture (RITA), and Automated Cash Reconciliation Worksheet System (ACRWS). Due to the age of the previous infrastructure, this migration provided a technical refresh of the hardware, software, and network components that will enable USDA to improve the stability, security, and efficiency of the systems. In addition, this migration is in alignment with USDA Departmental Regulation (DR) on cloud computing (DR 3650-001) and will serve to consolidate all FMS applications into a single Cloud Hosting environment;
- Successfully migrated the FMMI lower-level environments to a new data center in the cloud. The new data center has a top-tier data center certification with greater fault tolerance and redundancy, which will serve to improve the stability and availability of USDA systems;
- Implemented Attunity's Gold Client software, which will result in a significant reduction in the amount of time and manual effort required to perform data refreshes to mirror production in the lower FMMI test environments. Gold Client will allow the testers to execute test scenarios with production-like data, which will result in increased accuracy of test results and reliability of software deployed to production;
- Upgraded Solution Manager, a configuration management tool, to version 7.2, which focused on the risk of identified vulnerabilities not being addressed by the vendor, as the product was reaching end-of-life at the end of 2017. In addition, this implementation resulted in more robust SAP early watch reports that issued notifications to the Basis team of possible areas of concern or improvement to the system configuration for action prior to problems occurring;
- Provided functional, technical, and testing support for the implementation of approximately 200 software changes that either enhanced the functionality of FMMI or corrected issues with the software. These changes impacted all functional areas of FMMI to improve usability and accuracy, and to reduce the number of errors encountered;

- Corrected issues with the Work in Progress (WIP) process in the Corporate Property Automated Information System (CPAIS) Personal Property. This resolved an audit finding identified by the Office of Inspector General (OIG);
- Corrected issues with the FMMI outbound interface to CPAIS Personal Property, which was responsible for a multitude of receipts missing from CPAIS Personal Property. This issue was identified by the Office of Contracting and Procurement (OCP) as the highest priority issue. These corrections improve the accuracy of the property data stored and reported in CPAIS Personal Property;
- Completed the fiscal year (FY) 2017 Federal Real Property Profile (FRPP) reporting/data submission to the General Services Administration (GSA) for USDA. The data submission to GSA complied with the FY 2017 FRPP changes and satisfied the mandatory reporting requirement;
- Successfully exported data from the Management Information Tracking System (MITS) into Microsoft Access and developed reports in the required format to be used for data conversion in the new Governance, Risk, and Compliance (GRC) Archer system. The data conversion is necessary in order to have historical audit tracking information in the GRC Archer system;
- Executed an orderly transition from the U.S. Department of Veterans Affairs involving personnel and contracts;
- Deployed 2,500 new grant agreements through the Natural Resources Conservation Service (NRCS) ezFedGrants, the Department's grants management solution;
- Provided training to a few hundred new users on EzFedGrants;
- Performed planning requirements and design prototyping for Interagency Agreement (IAA) implementation into the ezFedGrants Enterprise;
- Began design and implementation of Forest Service ezFedGrants pilot;
- Provided approximately 500 interactions per month through Grants Helpdesk Support;
- Completed ezFedGrants Pega assessment and began design and implementation of enhancements;
- Began implementation of ezFedGrants enhancements for the Animal and Plant Health Inspection Service (APHIS);
- Implemented formula grants and other functionality for the National Institute of Food and Agriculture (NIFA); and

- Conducted Marketing and Customer Outreach through:
  - Association of Government Accountants (AGA);
  - National Extension and Research Administrative Officers Conference (NERAOC);
  - USDA's Financial Management Training (FMT); and
  - PegaWorld (ezFedGrants external portal).

In summary, USDA has re-focused its efforts on internal development, taken steps to stay technically relevant, and worked to reduce costs by taking advantage of automation opportunities.

Other Management Information, Initiatives, and Issues:

DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT (DATA ACT)

In May 2014, the Digital Accountability and Transparency (DATA) Act was enacted. This Act extends Federal Funding Accountability and Transparency Act (FFATA) reporting by adding additional data elements to the previous FFATA reporting on financial assistance and procurements. The U.S. Department of Treasury (Treasury) and the Office of Management and Budget (OMB) are responsible for implementing the Act. Federal agencies are required to produce seven files as listed below and report them to the Treasury Broker (Broker) quarterly:

EXHIBIT 20: Government-Wide Requirements

File	Description	Submission	Frequency
File A—Appropriations Account data	Summary financial data	Agency submits to Data Broker	Quarterly
File B—Object Class/ Program Activity data	Summary financial data	Agency submits to Data Broker	Quarterly
File C—Award Financial data	Detailed financial/ award data	Agency submits to Data Broker	Quarterly
File D1—Procurement data	Detailed procurement award data	External— (FPDS to Data Broker)	Daily/Pulled Quarterly[11]
File D2—Financial Assistance data	Detailed assistance award data	External— (FABS to Data Broker)	Semi-Monthly/ Pulled Quarterly[12]
File E—Additional Awardee Attributes	Awardee/ recipient data	External— (SAM.gov to Data Broker)	Quarterly
File F—Sub-award Attributes	Sub-award data	External— (FSRS to Data Broker)	Quarterly

[11] USDA's file D1 data is reported daily to FPDS-NG. It is pulled into the Treasury Broker quarterly as part of USDA's quarterly DATA Act submission.

[12] USDA's file D2 data is reported semi-monthly to USAspending.gov. It is pulled into the Treasury Broker quarterly as part of USDA's quarterly DATA Act submission.

Government-wide Implementation

OMB and Treasury issue guidance for implementation of the DATA Act. The latest OMB guidance is OMB Memorandum 18-16. This guidance instructs Federal Agencies to develop a DATA Act Data Quality Plan for implementation in fiscal year (FY) 2019. In the last two quarters of FY 2018, USDA staff worked on several Chief Financial Officers Council committees to develop a DATA Act Playbook and a Data Quality Plan template that USDA will leverage to comply with the OMB Memorandum.

Treasury maintains data elements and guidelines for reporting in the DATA Act Information Model Schema (DAIMS). Version 1.2 of DAIMS is being used for FY 2018. DAIMS 1.3 will be implemented in FY 2019. USDA is fully compliant with DAIMS 1.2 and is set to be compliant with DAIMS 1.3 in FY 2019.

USDA Implementation

The Office of the Chief Financial Officer (OCFO) oversees the DATA Act implementation for USDA. OCFO's Financial Management Services (FMS) manages a data repository for the Department to collect and report all DATA Act elements to the Treasury Broker for publication on the USAspending.gov Web site. This data repository contains the data necessary to create Files A-C.

USDA reports the following information in compliance with the DATA Act:

- Files A-C: The data for Files A-C come from three sources:
  - Data is pulled from the Financial Management Modernization Initiative (FMMI) General Ledger (GL).
  - The Rural Development (RD) and Farm Service Agencies (FSA) use separate GLs (RD and FSA also have FMMI activity) and submit file A-C data to the repository.
  - USDA is also a Financial Shared Service Provider, servicing 23 small government agency clients. All USDA and customer data are held in the FMMI repository.

  USDA submitted third-quarter 2018 data to the USAspending.gov Beta Web site in August 2018. USDA reported all Treasury symbols in File A as being error-free. The Department was 99.9 percent accurate in reporting on Budget Object Classification Codes and Program Activity codes in File B. The awards financial attributes data in File C was 77 percent accurate, a significant improvement over the prior quarters.

- File D1: Data is submitted as frequently as daily to Federal Procurement Data System (FPDS). The Treasury Broker pulls in all data submitted to FPDS at quarter end for reconciliation purposes.
- File D2: Data is submitted from Agencies and components to USAspending.gov for posting. Error records are sent back to the Agencies for correction and resubmission.

  For third-quarter 2018, Files D1 and D2 reported contracts and Federal financial assistance data, respectively. As of June 30, 2018, USDA reported 45,982 procurement award transactions with a dollar value of $3.5 billion and 452,406 Federal financial assistance award transactions with a dollar value of $74.6 billion.
- Files E and F: Data is pulled by the Treasury broker quarterly; this data is not maintained in Agency systems.

Fourth-quarter data will be reported in November 2018. USDA is focused on improving data quality. In the fourth quarter, USDA implemented warnings to assist USDA Agencies and Staff Offices to report financial assistance and procurement award identification numbers (IDs) to its GLs. These warnings are designed to prompt users to ensure Award IDs are captured. Missing Award IDs represent a significant error problem in File C. As Agencies address transactions and associate the correct Award ID or mark the transaction as not DATA Act reportable, matching transactions in the GLs to the Awards reported in files D1 and D2 will improve. OCFO began training agencies in August 2017 and will conduct several such trainings to assist the agencies with this task. The level of effort and research required to address transactions without Award IDs, or marked as not reportable, will take several reporting quarters to complete.

At least four USDA agencies are using the Department's grants system, which will improve reporting capabilities and will provide standardization for many grants programs. More agencies are exploring migration to the Department's grants solution, which may potentially yield even more efficiencies and standardization.

OCFO also works with the Office of Contracting and Procurement (OCP) to ensure that procurement reporting will adhere to DATA Act requirements. Together, OCFO and OCP are reviewing procurement reporting policies and procedures to ensure that data is reported and certified by the agencies to be both timely and accurate in the Department's Integrated Acquisition System (IAS), as well as other procurement systems used by the Forest Service and FSA.

LIMITATIONS OF FINANCIAL STATEMENT

The principal financial statements are prepared to report the financial position and results of operations of the reporting entity, pursuant to the requirements of 31 United States Code (U.S.C.) 3515(b). The statements are prepared from the books and records of the entity in accordance with Federal Generally Accepted Accounting Principles (GAAP) and the formats prescribed by the Office of Management and Budget (OMB). Reports used to monitor and control budgetary resources are prepared from the same books and records. The financial statements should be read with the realization that they are for a component of the U.S. Government.

Section II:
Financial Information

Message from the Deputy Chief Financial Officer

As Deputy Chief Financial Officer for the U.S. Department of Agriculture (USDA), I am pleased to present our Agency Financial Report (AFR) for fiscal year (FY) 2018. This report shows the progress we've made to provide fiscally sound, cost-effective program delivery. We are accountable to the American taxpayer and strive for peak performance in all facets of our work. Through the collaborative efforts of USDA managers, employees, business partners, and stakeholders, we have made significant strides in advancing the Department's goal of ensuring USDA programs are delivered efficiently, effectively, with integrity and a focus on customer service. The mission of the Office of the Chief Financial Officer (OCFO), is to provide world-class financial management policy, systems and services so our customers can focus on their core mission.

USDA made significant progress in FY 2018. Some of our accomplishments include:

- After two years of presenting a Balance Sheet only opinion; USDA achieved a full scope unmodified audit opinion on all principal statements.
- Made significant improvement in audit recommendation closures. USDA agencies closed 44 audits, representing 321 recommendations during FY 2018. These recommendations represent a 28% increase over the number closed in FY 2017.
- Despite challenges in the early part of FY 2017, USDA has been compliant with the DATA Act since the third quarter of FY 2017 and each quarter thereafter including the quarter ending September 30, 2018.
- USDA is compliant with the GONE Act and achieved a 50% reduction of aged grants and cooperative agreements against the FY 2017 GONE Act baseline.
- USDA agencies implemented innovative processes such as Robotics Process Automation and PayPal payments to improve operational efficiency and customer experience.

- USDA was awarded $15 million from the Technology Modernization Fund at GSA for Information Technology (IT) modernization. This was the result of the enacted Modernizing Government Technology (MGT) Act which has provided an exceptional opportunity to update the Department's legacy IT infrastructure. OCFO's Working Capital fund will be tracking these expenditures as we work in collaboration with the Chief Information Officer to modernize IT.
- The Food Nutrition Service moved USDA into the top five Federal entities utilizing the Treasury Offset Program; recovering an unprecedented $207 million in delinquent Supplemental Nutrition Assistance Program (SNAP) recipient debt in FY 2018 and more than $2.2 billion since the inception of the program.

FY 2018 at USDA can best be described as the "Year of Renewed Focus." Throughout this year, we have taken a hard look at our operations and have made rigorous efforts to drive enterprise solutions, eliminate redundancies, modernize information technology and centralize administrative functions under Business Center models. Through these efforts, we are making USDA the most efficient, effective, and customer-focused department in the federal government.

We are proud of our hard-working employees' accomplishments at USDA. We remain steadfast and committed to making greater financial management improvements in FY 2019. At every level, we are committed to be a proactive, cost-effective organization that is transparent and accountable for the programs we deliver. Ultimately, our efforts will result in setting the highest achievable standard of excellence in managing taxpayers' dollars.

Lynn M. Moaney
Deputy Chief Financial Officer

November 15, 2018

Independent Auditors Report

Independent Auditor's Report

Lynn Moaney
Deputy Chief Financial Officer
Office of the Chief Financial Officer

The United States Department of Agriculture's (USDA) Office of Inspector General (OIG) audited the consolidated financial statements of the Department for fiscal year 2018. We also considered USDA's internal control over financial reporting and tested USDA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct effect on the determination of material financial statement amounts and disclosures on these financial statements.

The "Findings and Recommendation" section presents the material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations, as of and for the year ended September 30, 2018. Exhibit A summarizes the current year status of the prior year open audit recommendation. Exhibit B shows the status of prior year internal control weaknesses. Exhibit C provides an update to previously reported instances of noncompliance with laws and regulations. USDA's response is presented in its entirety in Exhibit D.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of USDA, which comprise the balance sheet as of September 30, 2018, and the related consolidated statement of net cost and changes in net position; and the combined statement of budgetary resources for the fiscal year then ended and the related notes to the financial statements (hereinafter referred to as the "consolidated financial statements"). The objective of our audit was to express an opinion on the fair presentation of these consolidated financial statements.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); and the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of the consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 19-01, Audit Requirements for Federal Financial Statements. Those standards and OMB Bulletin 19-01 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit also included performing such other procedures as we considered necessary in the circumstances.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA as of September 30, 2018, and its net cost, changes in net position, and budgetary resources for the year then ended, in accordance with accounting principles generally accepted in the U.S.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI)[1], and Required Supplementary Stewardship Information be presented to supplement the consolidated financial statements. Although the RSI is not a part of the consolidated financial statements, FASAB considers this information to be an essential part of financial reporting for placing the consolidated financial statements in appropriate operational, economic, or historical context. We have applied certain limited procedures to the RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the RSI and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

[1] The RSI consists of the Deferred Maintenance and Repairs, Statement of Budgetary Resources (by component), and Risk Assumed Information, which are included with the financial statements.

Other Information

Our audit was conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The "Message from the Secretary" and "Other Information" sections are presented for purposes of additional analysis, and are not a required part of the consolidated financial statements or the required supplementary information. This information has not been subjected to the auditing procedures applied in our audit of the consolidated financial statements and, accordingly, we express no opinion and provide no assurance on it.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statements, we considered USDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the consolidated financial statements, but not for the purpose of expressing an opinion on the effectiveness of USDA's internal control. Accordingly, we do not express an opinion on the effectiveness of USDA's internal control. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of internal control was for the limited purposes described in the preceding paragraph and was not designed to identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of USDA's consolidated financial statements will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

OMB Bulletin 19-01 requires us to describe significant deficiencies and material weaknesses identified during our audit, and in the event that no material weaknesses were identified, to so report. In our fiscal year 2018 audit, we noted certain matters involving internal control that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

- overall financial management,
- information technology (IT) security program, and
- controls over unliquidated obligations.

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

Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

As part of obtaining reasonable assurance about whether USDA's consolidated financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct effect on the determination of material amounts and disclosures in the consolidated financial statements. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We also performed tests of USDA's compliance with certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA disclosed instances, described in more detail in Finding 4 in the "Findings and Recommendation," Section 3, of this report, where USDA was not substantially compliant with Federal Financial Management System Requirements (FFMSR), applicable Federal Accounting Standards, and the U.S. Standard General Ledger (USSGL) at the transaction level.

As discussed in Finding 5 of the "Findings and Recommendation," Section 3, of this report, our tests disclosed instances of noncompliance with the Anti-Deficiency Act (ADA); some of these ADA violations are still in the process of being reported to Congress and the President.

Additionally, during fiscal year 2018, we identified instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), regarding the design of program internal controls related to reporting improper payments. A separate report will be issued with further details on the Department's compliance with improper payment requirements.[2]

Management's Responsibility for Internal Control and Compliance

USDA's management is responsible for (1) evaluating the effectiveness of internal control over financial reporting based on criteria established under FMFIA, (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting, (3) ensuring USDA's financial management systems are in substantial compliance with FFMIA requirements, and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

[2] IPERA amended the Improper Payments Information Act of 2002, Public Law 107-300. These two laws address improper payment requirements.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether USDA's financial management systems substantially comply with FFMIA requirements referred to above, and (3) testing compliance with certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the consolidated financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. Because of inherent limitations, internal control over financial reporting may not prevent, or detect and correct misstatements due to fraud or error.

We did not test compliance with all laws, regulations, contracts, and grant agreements applicable to USDA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements that have a direct effect on the determination of material amounts and disclosures in the consolidated financial statements that we deemed applicable to USDA's consolidated financial statements for the fiscal year ended September 30, 2018. We caution that noncompliance may occur and not be detected by these tests.

Management's Response

Management's response to the report is presented in Exhibit D. We did not audit USDA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Findings and Recommendations

We reviewed the status of open recommendations from prior year, prior year internal control deficiencies, and prior year noncompliance issues. The status of these items is presented in Exhibits A, B, and C.

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance with Laws, Regulations, Contracts, and Grant Agreements" sections of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of USDA's internal control or compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering USDA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Gil H. Harden
Assistant Inspector General for Audit
Washington, D.C.
November 14, 2018

Findings and Recommendation

Section 1: Material Weaknesses in Internal Control Over Financial Reporting

Finding 1: Improvements are Needed in Overall Financial Management

The material weakness for financial management is due to improvements needed in accounting and internal controls related to the Commodity Credit Corporation (CCC) and the Natural Resources Conservation Service (NRCS). In addition, improvements are needed in internal controls over estimating losses on insurance claims related to Federal Crop Insurance Corporation/Risk Management Agency (FCIC/RMA). In conducting our review, we noted the following areas where improvements are needed in overall financial management. Specifically:

- One component of USDA's financial reporting, CCC, disclosed a material weakness related to accounting for budgetary transactions.
- One component of USDA's financial reporting, NRCS, disclosed material weaknesses related to controls over obligations and undelivered orders; and accounting and controls over expenses.
- One component of USDA's financial reporting, FCIC/RMA, disclosed a material weakness related to review of estimated loss calculations.

In its FMFIA Report on Management Control for fiscal year 2018, the Department reported the above material weakness for overall financial management with the following corrective action plans:

- CCC, in fiscal year 2019, plans to continue to evaluate and refine processes for account reconciliations and analysis. Some of these actions include updating guidance and improving timeliness of analysis, review, and recordation processes.
- NRCS, in fiscal year 2019, plans to enhance processes and NRCS feeder systems to improve monitoring of USSGL activity and continue to improve the transparency of recording and liquidating obligations.
- FCIC/RMA, in fiscal year 2019, plans to implement change controls over the model used to calculate actuarial projections.

Since USDA has actions planned and in progress, we are making no further recommendations herein.

Finding 2: Improvements are Needed in Overall Information Technology Security Program

As required by the Federal Information Security Modernization Act of 2014 (FISMA), OIG reviewed USDA's ongoing efforts to improve its IT security program and practices during fiscal year 2018.[3]

USDA continues to take positive steps to improve its IT security posture, but many longstanding weaknesses remain. In fiscal years 2009 through 2017, OIG made 67 recommendations for improving the overall security of USDA's systems. Forty-seven recommendations are completed and 20 open recommendations are overdue, an improvement over the 27 open recommendations in fiscal year 2017. Testing shows weaknesses still exist in six of the closed recommendations.

Testing also identified weaknesses in eight subject areas as defined for review by FISMA: risk management, configuration management, identity and access management, data protection and privacy, security training, information security continuous monitoring, incident response, and contingency planning.

The report notes the Office of the Chief Information Officer (OCIO) continues to take positive steps towards improving the Department's security posture. For instance, for the Continuous Diagnostic and Mitigation project, the Department should expand its continuous diagnostic capabilities by increasing network sensor capacity, automating sensor collections, prioritizing risk alerts, and increasing the coordination with agencies by sharing and reconciling IT technical information. This is a positive step to attain a higher security capability.

OCIO generally agreed with the findings in the report and stated it has developed corrective actions and project plans to address prior year recommendations. Eight new recommendations were issued based on security weaknesses identified in fiscal year 2018.

In addition, OIG conducted an audit of Security Over Select USDA Agencies' Networks and Systems.[4] We reviewed: (1) relevant laws, regulations, and industry best practices in order to gain sufficient knowledge to evaluate USDA's IT security posture and (2) each entity's responses to OIG's IT security survey and follow-up interviews. We found that the Department did not fully implement these Federally-mandated controls. The Department concurred with our findings and recommendations. As a result, we are making no further recommendations in this report.

[3] Audit Report 50501-0018-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2018 Federal Information Security Modernization Act*, issued October 2018.
[4] Audit Report 50501-0017-12, *Security Over Select USDA Agencies' Networks and Systems*, issued September 2018.

Section 2: Significant Deficiency in Internal Control Over Financial Reporting

Finding 3: Controls Over Unliquidated Obligations Can Be Strengthened

For several years, our report identified deficiencies with controls over inactive unliquidated obligations (ULO).[5] This year, our review disclosed that additional improvements are needed.

We reviewed the completeness of ten obligation certifications submitted to the Department for the third quarter of fiscal year 2018; and for those agencies, further reviewed a nonstatistical selection of 137 obligation balances for validity. We found that 17 ULOs were invalid and should have been deobligated prior to the sample date because no future expenditures were expected. In addition, we found that 19 intra-departmental ULOs were valid but should have been liquidated in a prior fiscal year. These ULOs inappropriately remained open in part because USDA agencies failed to bill, or submit final payments, to other USDA agencies.

We also found that the ULO certification cutoff dates, cutoff amounts, and transaction types were inconsistent among the agencies tested because each agency developed its own criteria query to obtain the certification population. In addition, we statistically sampled 32 obligation balances, which were not included as part of the agency certifications. We found one balance which was invalid because it was an adjustment that lacked support.

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2018-07, Yearend Closing, dated July 31, 2018), requires an annual review of ULOs. Departmental Regulation 2230-1, Reviews of Unliquidated Obligations, dated October 15, 2014, further requires quarterly reviews and certifications as to the validity of ULO balances from agency Chief Financial Officers (CFO).

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

Management generally agreed with our findings and will continue to implement controls over unliquidated obligations.

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

Recommendation 1:

Develop an ULO Aging Report in FMMI that reconciles to the general ledger to help ensure that the ULO populations that agencies certify to the Office of Chief Financial Officer (OCFO) are consistent, accurate and complete.

Section 3: Noncompliance with Laws and Regulations

Finding 4: Lack of Substantial Compliance with FFMIA Requirements

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

During fiscal year 2018, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not compliant with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements. As noted in its MD&A, USDA continues its work to meet FFMIA and FISMA objectives.

Specifically, in its FFMIA and FMFIA reports, the Department reported an ineffective information security program due to many longstanding weaknesses with outstanding recommendations. See Finding 2 of this report for more details.

Additionally, in its FFMIA report, the Department noted noncompliance for two of its component agencies relating to financial management, described below.

1. CCC was not compliant with Federal accounting standards for weaknesses in the accounting for budgetary transactions. The financial management system did not record certain accounting events at the transaction level in accordance with the USSGL. Significant progress was made in accounting for obligation activity. CCC was able to provide detailed populations for both beginning balances and current year obligation activity for audit testing purposes.

2. Deficiencies in NRCS' applicable Federal accounting standards, including the USSGL at the transaction level, were noted for obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations as it relates to accrued expenses. NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA.

See Finding 1 of this report for more details on CCC and NRCS issues.

Due to planned actions, we are making no further recommendations in this report.

Finding 5: Anti-Deficiency Act Violations

In fiscal year 2018, the Department reported several actual and potential ADA violations in its Agency Financial Report. These violations are discussed in detail below.

In fiscal year 2017, the Office of the Secretary violated the Purpose statute, improperly augmented several of its appropriations, and violated the ADA when it obligated several of its appropriations for the expenses of separately funded USDA components. USDA improperly relied on the Economy Act to enter into interagency agreements, under which the agency obligated its appropriations for (1) Rural Development Salaries and Expenses, (2) Food and Nutrition Service, Nutrition Programs Administration, and (3) Office of Civil Rights, for personnel details that did not actually occur. Instead, these appropriations were used for the salaries and benefits of employees performing work for separately funded USDA components. The Economy Act was referenced as the authority to transfer the appropriations. The Purpose statute was violated when the incorrect appropriation was used for the salaries and benefits in question and improperly augmented the appropriations of these other USDA components. USDA incurred obligations in excess of appropriations and therefore violated the ADA. The ADA violation was reported to Congress and the President on August 27, 2018.

In fiscal year 2016, CCC identified an ADA violation for expenditures for CCC interest to the Treasury exceeded amounts initially apportioned by OMB. CCC expended approximately $46.1 million in interest to Treasury, more than the apportioned amount of $29.9 million. The ADA violation is in the process of being reported to Congress and the President.

The Office of Advocacy and Outreach (OAO) identified an ADA violation for fiscal years 2011 and 2012, under the Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008). OAO awarded more than $19 million for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" (Section 2501) Grants in excess of amounts permitted by the Farm Bill of 2008. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2017, the National Finance Center (NFC) identified an ADA violation. The NFC managed Web pages for the New Orleans chapter of the Association of Government Accountants (AGA), which is a non-governmental organization, on the NFC Web site at no cost to AGA. An investigation into this situation determined in fiscal year 2017 that NFC has been maintaining the AGA Web pages since 1999. The ADA violation pertaining to the services NFC provided for maintaining the AGA Web pages is in the process of being reported to Congress and the President.

In fiscal year 2018, CCC identified an ADA violation. Agriculture Risk Coverage-County (ARC-CO) (occurred in the prior fiscal year but was identified in the current fiscal year). On November 10, 2016, OMB approved an ARC-CO apportionment providing a total of $850,924,690 for crop year 2017 ARC funding. This funding was divided between ARC-CO ($775,924,690) and Agricultural Risk Coverage-Individual County ($75,000,000). As part of fiscal year-end close for fiscal year 2017, CCC recorded an obligation of $2,319,369,741.34 for crop year 2017 ARC-CO.

This exceeded the apportioned amount by $1,543,445,051. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2018, the Farm Service Agency (FSA) identified an ADA violation. FSA issued a contract for IT investments including the CCC Budget Formulation CCC (BF) system. The CCC BF was not included in the approved Acquisition Approval Request (AAR). The AAR and the contract will be amended to include $300,000 for CCC BF. The fiscal year 2018 Consolidated Appropriation Act, Section 706, states "none of the funds available to the Department of Agriculture for information technology shall be obligated for projects, contracts, or other agreements over $25,000 prior to written approval by the Chief Information Officer." After review by the Office of the General Counsel (OGC), it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2018, FSA identified an ADA violation. Government Collections during shutdown—Field staff spent time verifying deposit transactions. These deposit verifications were not part of the orderly shutdown activities. After review by OGC, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2018, FSA identified an ADA violation with the U.S. Warehouse Act. FSA business practices dating back to fiscal year 2000, supported Warehouse User Activities with Administrative S&E funds for direct and indirect costs. The user fee collections were not adequate to fully fund the costs, and S&E funds were used and not reimbursed; therefore, improperly augmenting the User Fee program. When FSA adjusted its accounts to correct the error, the user fee account was deficient, resulting in an ADA violation. After review by OGC, it was determined that a violation occurred. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2017, NFC identified an ADA violation. The NFC managed web pages for the Federal Executive Board (FEB), which is a quasi-governmental entity. Working Capital Fund (WCF) monies may have been used for the web service, and use of the WCF to provide unreimbursed services to the FEB would be an ADA violation if no other funds are available to reimburse the WCF. Funds other than those in the WCF may have been available to pay for services to the FEB. After conducting research, it was determined that the administrative expenses of the FEB – which include the hosting of web pages – are not charged to the WCF. Rather, those costs are covered by (1) an interagency agreement between NFC and the Agricultural Research Service agency in New Orleans that provides direct reimbursement for some FEB administrative expenses, and (2) the remaining FEB costs are included as overhead and administrative expenses in reimbursable agreements to NFC's customers. Therefore, NFC's hosting of the FEB web pages is not an ADA violation.

Potential ADA Violations—one prior year and 9 new potential violations were identified during FY 2018. These occurrences are pending results from research and investigation for a determination as to whether or not a violation actually occurred.

In fiscal year 2017, CCC identified a potential ADA violation. The prior year accounting treatment for obligations related to the Conservation Reserve Program-Annual Rental contracts was determined to be in error. Only the annual portion of the contract values was recorded as an obligation. OGC determined that the error was not an ADA violation; however, the incident has been referred to the Government Accountability Office (GAO) for additional investigation and determination.

In fiscal year 2018, CCC identified a potential ADA violation for Emergency Forestry Conservation Reserve Program. CCC failed to record the obligation for the full value of the long-term contract when the contact was signed. CCC obligated a total of $2,230,309 for long-term contracts. OGC determined that the error was not an ADA violation; however, the incident has been referred to GAO for additional investigation and determination.

In fiscal year 2018, CCC identified a potential ADA violation for Foreign Agricultural Service/Food for Progress. The Foreign Agricultural Service paid Food for Progress freight invoices from administrative funds. There was a zero balance in the administrative funds for this agreement; however, there were funds available as a result of downward adjustments. The agency is seeking an OGC opinion.

In fiscal year 2018, CCC identified a potential ADA violation for Puerto Rico Tree Assistance Program (TAP) – Contracts approved from prior fiscal years. TAP contracts from fiscal year 2014 through 2017 were approved but not recorded into the program application timely. An obligation is triggered when an application is approved via a producer's and FSA representative's signature. CCC received input from the Puerto Rico District Directors that indicates that there are 1,973 unrecorded TAP contracts representing 2014, 2015 and 2017. Pending a determination.

In fiscal year 2018, FSA/CCC identified a potential ADA violation for FSA/CCC Non-Insured Assistance Program (NAP) Frost Freeze (occurred in the prior fiscal year but identified in the current fiscal year). During the reclassification process in fiscal year 2018, CCC discovered NAP payments exceeding apportionments by $888. Documentation of the background, and Statement of Facts and Analysis was still underway as of September 30, 2018. Pending determination.

In fiscal year 2018, CCC identified a potential ADA violation for ARC (occurred in the prior fiscal year but was identified in current fiscal year). In fiscal year 2018, CCC identified crop year 2017 enrollments for the ARC program that exceeded available funding. Pending a determination.

In fiscal year 2018, CCC identified a potential ADA violation for the United States Agency for International Development (USAID) grants (occurred in the prior fiscal year, but identified in the current fiscal year). Pursuant to the Grants Oversight and New Efficiency Act, CCC is required to report quarterly, the number of federal grant and cooperative agreement awards and balances of USAID (CCC child agency) for which closeout has not yet occurred, but for which the period of performance has elapsed more than 2 years with zero and undisbursed balances. At the end of

third quarter fiscal year 2018, USAID reported grants that had not been closed out in the greater than 5-years category. As part of the grant closeout in fiscal year 2018, it was determined in some cases that additional funds were needed to fully execute agreements and perform the closeout. As a result, fiscal year 2018 funds were used. Pending a determination.

In fiscal year 2018, CCC identified a potential ADA violation for Biomass Crop Assistance Program (occurred in the prior fiscal year but was identified in the current fiscal year). During the fiscal year 2017 Quarterly ULO Certification process, the program office identified 12 contracts as invalid and requiring deobligation that were in fact deobligated through a Data Change Request in the electronic Funds Management System. After further analysis in fiscal year 2018, the program office determined that such contracts were still valid. However, there were no funds available in fiscal year 2018 to re-establish the related obligations. Pending a determination.

In fiscal year 2018, the National Institute of Food and Agriculture (NIFA) identified a potential ADA violation. USDA's OIG office completed a 3-year audit in August 2018 on NIFA Formula Grant Program Controls Over Fund Allocations to States. To date, NIFA has not received the final disposition from the review. An earlier draft of the OIG report indicated there could be potential reportable ADA violations. NIFA is working with USDA's OGC to determine if there will be actual ADA violations based on the final report.

In fiscal year 2018, the Office of Partnerships and Public Engagement (OPPE) identified a potential ADA violation related to cooperative agreements may exist. OPPE may have exceeded its authority by charging USDA agencies for cooperative agreements that the agencies lacked legislative authority to enter into. Pending an OGC determination.

Abbreviations

AAR…….Acquisition Approval Request
ARC…….Agriculture Risk Coverage
ARC-CO……..Agriculture Risk Coverage-County
ADA..... Anti-Deficiency Act
AGA ..... Association of Government Accountants
CCC..... Commodity Credit Corporation
BF……Budget Formulation
CFO..... Chief Financial Officer
DATA Act……Digital Accountability and Transparency Act of 2014
FASAB……Federal Accounting Standards Advisory Board
FCIC…… Federal Crop Insurance Corporation
FEB ..... Federal Executive Board
FFMIA ..... Federal Financial Management Improvement Act of 1996
FFMSR..... Federal Financial Management System Requirements
FISMA ..... Federal Information Security Modernization Act of 2014
FMFIA ..... Federal Managers' Financial Integrity Act of 1982
FMMI……...Financial Management Modernization Initiative
FSA ..... Farm Service Agency
GAO ..... Government Accountability Office
IT..... information technology
IPERA ..... Improper Payments Elimination and Recovery Act of 2010
MD&A…….Management's Discussion and Analysis
NAP…….Non-Insured Assistance Program
NFC ..... National Finance Center
NIFA……National Institute of Food and Agriculture
NRCS ..... Natural Resources Conservation Service
OAO..... Office of Advocacy and Outreach
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
OPPE……....Office of Partnerships and Public Engagement
RMA……Risk Management Agency
RSI ..... required supplementary information
S&E……..salary and expense
TAP……..Tree Assistance Program
Treasury ..... U.S. Department of the Treasury
ULO ..... unliquidated obligations
U.S. ..... United States of America
USAID…….United States Agency for International Development
USSGL..... U.S. Standard General Ledger
USDA..... United States Department of Agriculture
WCF…….Working Capital Fund

Exhibit A: Summary of Open Recommendation from Prior Year

Report 50401-0013-11, *U.S. Department of Agriculture's Consolidated Balance Sheet for Fiscal Year 2017,* issued November 15, 2017.

Finding 3: Controls Over Unliquidated Obligations Can be Strengthened

Recommendation 1

Provide additional oversight to ensure that financial reporting controls over ULOs are strengthened and maintained.

Departmental Status

OCFO is working to address the recommendation.

OIG Results

We continue to find similar deficiencies related to ULOs and have issued a repeat Finding 3 and recommendation.

Exhibit B: Status of Prior Year Material Weaknesses and Significant Deficiencies

This table reports the fiscal year 2018 status of material weaknesses and significant deficiencies reported in fiscal year 2017.

Control Deficiency	2017 Status	2018 Status
Overall Financial Management	Material Weakness	Material Weakness
Overall Information Technology Security Program	Material Weakness	Material Weakness
Financial Reporting Controls	Significant Deficiency	Significant Deficiency

Exhibit C: Status of Prior Year Noncompliance Findings

Report 50401-0013-11, *U.S. Department of Agriculture's Consolidated Balance Sheet for Fiscal Year 2017*, issued November 15, 2017.

Finding 4: Lack of Substantial Compliance with FFMIA Requirements

Reported Noncompliance

The Department reported a lack of substantial compliance with the FFMIA requirements. The Department reported that it was not compliant with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements.

Status

In fiscal year 2018, the Department continued to report substantial noncompliance with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements, as discussed in Finding 4.

Finding 5: ADA Violations

Reported Noncompliance

In fiscal year 2017, the Department reported seven actual and four potential ADA violations in its Agency Financial Report. Specifically, FSA reported an ADA exceeding OMB approved apportionment request by $302,823.57, FS identified an ADA related to the agency's employment of non-U.S. citizens, OCFO obligated funds for IT on four occasions prior to an approved AAR from the CIO, and OAO identified an ADA exceeding the amount available for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" grants. The first three ADA were reported to Congress and the President and the last is in the process of being reporting to Congress and the President.

Also, CCC identified a potential ADA with expenditures for interest to Treasury that appear to have exceeded amounts initially apportioned by OMB; NFC managing Web pages for New Orleans AGA Chapter on NFC Web Site at no cost since 1999; OSEC violated the Purpose statute, and improperly augmented several of its appropriations when it obligated several of its appropriations for the expenses of separately funded USDA components; and CCC prior year accounting treatment for obligations related to the Conservation Reserve Program annual rental contracts was determined to be in error. These potential ADAs are in the process of being researched to make final determinations.

Also in fiscal year 2017, the Department reported a potential ADA by Foreign Agriculture Service associated the fiscal year 2009 appropriation; however, after further research, it was determined that it was not an ADA violation.

Status

As discussed in Finding 5, this weakness continues to exist.

Finding 6: DATA Act Non-Compliance

Reported Noncompliance

In Audit Report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act*, issued November 2017, OIG identified USDA's noncompliance with the Digital Accountability and Transparency Act of 2014 (DATA Act). Specifically, we found while USDA submitted and certified second quarter files to Treasury's broker by the reporting deadline, the files were incomplete and of insufficient quality.

Status

Closed. Final action for the five recommendations from Audit Report 11601-0001-22, *USDA's 2017 Compliance with the DATA Act*, was achieved during fiscal year 2018.

Agency Response to Auditors Report

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, DC 20250

November 14, 2018

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

FROM: Lynn Moaney /S/
Deputy Chief Financial Officer

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Year 2018

The Department is pleased to respond to your audit report on the consolidated financial statements for fiscal year 2018.

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

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

AN EQUAL OPPORTUNITY EMPLOYER

Consolidated Financial Statements

CONSOLIDATED BALANCE SHEET

As of September 30, 2018 ($ in millions)

	2018
Assets (Note 2):	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	$ 132,350
Investments (Note 5)	228
Accounts Receivable, Net (Note 6)	78
Other (Note 11)	9
Total Intragovernmental	132,665
Cash and Other Monetary Assets (Note 4)	236
Investments (Note 5)	3
Accounts Receivable, Net (Note 6)	1,114
Direct Loan and Loan Guarantees, Net (Note 7)	101,947
Inventory and Related Property, Net (Note 8)	46
General Property, Plant, and Equipment, Net (Note 9)	2,224
Other (Note 11)	539
Total Assets	238,774
Stewardship PP&E (Note 10)	
Liabilities (Note 12):	
Intragovernmental:	
Accounts Payable	3
Debt (Note 13)	119,423
Other (Note 15)	9,910
Total Intragovernmental	129,336
Accounts Payable	1,854
Loan Guarantee Liability (Note 7)	502
Federal Employee and Veteran Benefits	892
Environmental and Disposal Liabilities (Note 14)	200
Benefits Due and Payable	5,074
Other (Notes 15 & 16)	23,258
Total Liabilities	161,116
Commitments and Contingencies (Note 17)	
Net Position:	
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	168
Unexpended Appropriations - All Other Funds	65,238
Cumulative Results of Operations - Funds From Dedicated Collections(Note 18)	2,243
Cumulative Results of Operations - All Other Funds	10,009
Total Net Position - Funds From Dedicated Collections	2,411
Total Net Position - All Other Funds	75,247
Total Net Position	77,658
Total Liabilities and Net Position	238,774

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Year Ended September 30, 2018 ($ in millions)

	2018
Rural Development:	
Gross Costs	$ 6,987
Less: Earned Revenue	3,831
Net Costs	3,156
Food Safety:	
Gross Costs	1,342
Less: Earned Revenue	242
Net Costs	1,100
Marketing and Regulatory Programs:	
Gross Costs	2,660
Less: Earned Revenue	1,204
Net Costs	1,456
Natural Resources and Environment:	
Gross Costs	7,871
Less: Earned Revenue	852
Net Costs	7,019
Food, Nutrition, and Consumer Services:	
Gross Costs	98,033
Less: Earned Revenue	57
Net Costs	97,976
Farm Production and Conservation:	
Gross Costs	20,512
Less: Earned Revenue	1,080
Net Costs	19,432
Trade and Foreign Agricultural Affairs:	
Gross Costs	470
Less: Earned Revenue	59
Net Costs	411
Research, Education, and Economics:	
Gross Costs	3,000
Less: Earned Revenue	146
Net Costs	2,854
Departmental Management:	
Gross Costs	1,333
Less: Earned Revenue	276
Net Costs	1,057
Total Gross Costs	142,208
Less: Total Earned Revenue	7,747
Net Cost of Operations (Note 19)	$ 134,461

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2018 ($ in millions)

	Funds From Dedicated Collections (Note 18)	All Other Funds	Eliminations	Consolidated Total
Unexpended Appropriations:				
Beginning Balances	$ 156	$ 55,947	$ -	$ 56,103
Budgetary Financing Sources:				
Appropriations Received	12	148,936	-	148,948
Appropriations Transferred In (Out)	-	1	-	1
Other Adjustments	-	(8,764)	-	(8,764)
Appropriations Used	-	(130,882)	-	(130,882)
Total Budgetary Financing Sources	12	9,291	-	9,303
Total Unexpended Appropriations	168	65,238	-	65,406
Cumulative Results of Operations:				
Beginning Balances	2,270	2,989	-	5,259
Budgetary Financing Sources:				
Other Adjustments	-	(285)	-	(285)
Appropriations Used	-	130,882	-	130,882
Non-exchange Revenue	-	8	-	8
Donations and Forfeitures of Cash and Equivalents	1	1	-	2
Transfers In (Out) without Reimbursement	513	10,345	1,220	12,078
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	-	1,219	(1,220)	(1)
Imputed Financing	54	3,288	(2,355)	987
Other	33	(2,250)	-	(2,217)
Total Financing Sources	601	143,208	(2,355)	141,454
Net Cost of Operations	(628)	(136,188)	2,355	(134,461)
Net Change	(27)	7,020	-	6,993
Cumulative Results of Operations	2,243	10,009	-	12,252
Net Position	$ 2,411	$ 75,247	$ -	$ 77,658

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Year Ended September 30, 2018 ($ in millions)

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:		
Unobligated balance from prior year budget authority, net	60,455	3,470
Appropriations (discretionary and mandatory)	143,914	-
Borrowing authority (discretionary and mandatory)	9,888	17,208
Spending authority from offsetting collections (discretionary and mandatory)	9,838	5,567
Total budgetary resources	224,095	26,245
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 23)	157,385	18,759
Unobligated balance, end of year:		
Apportioned, unexpired accounts	20,869	6,547
Exempt from apportionment, unexpired accounts	1	-
Unapportioned, unexpired accounts	12,845	939
Unexpired unobligated balance, end of year	33,715	7,486
Expired unobligated balance, end of year	32,995	-
Total unobligated balance, end of year	66,710	7,486
Total budgetary resources	224,095	26,245
Outlays, Net:		
Outlays, net (discretionary and mandatory)	139,567	3,705
Distributed offsetting receipts (-)	(962)	(1,892)
Agency outlays, net (discretionary and mandatory)	$ 138,605	$ 1,813

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2018 ($ in millions)

NOTE 1: SIGNIFICANT ACCOUNTING POLICIES

Organization

USDA provides a wide variety of services in the United States and around the world. USDA is organized into eight distinct mission areas and their agencies that execute these missions. See MD&A for listing of the missions and the agencies within each mission.

Consolidation

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

Use of Estimates

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

Revenue and Other Financing Sources

Revenue from exchange transactions is recognized when persuasive evidence of an arrangement exists, delivery has occurred or services have been rendered, sales price is fixed or determinable, and collection is reasonably assured. In certain cases, the prices charged by the Department are set by law or regulation, which for program and other reasons may not represent full cost. Prices set for products and services offered through the Department's working capital funds are intended to recover the full costs incurred by these activities. Revenue from non-exchange transactions is recognized when a specifically identifiable, legally enforceable claim to resources arises, to the extent that collection is probable and the amount is reasonably estimable. Appropriations are recognized as a financing source when used. An imputed financing source is recognized for costs subsidized by other Government entities.

Investments

The Department is authorized to invest certain funds in excess of its immediate needs in Treasury securities. Investments in non-marketable par value Treasury securities are classified as held to maturity and are carried at cost. Investments in market-based Treasury securities are classified as held to maturity and are carried at amortized cost. The amortized cost of securities is based on the purchase price adjusted for amortization of premiums and accretion of discounts using the straight-line method over the term of the securities.

Accounts Receivable

Accounts receivable are reduced to net realizable value by an allowance for uncollectible accounts. The adequacy of the allowance is determined based on past experience and age of outstanding balances.

Direct Loans and Loan Guarantees

Direct loans obligated and loan guarantees committed after FY 1991 are reported based on the present value of the net cash-flows estimated over the life of the loan or guarantee.
The difference between the outstanding principal of the loans and the present value of their net cash inflows is recognized as a subsidy cost allowance; the present value of estimated net cash outflows of the loan guarantees is recognized as a liability for loan guarantees. The subsidy expense for direct or guaranteed loans disbursed during the year is the present value of estimated net cash outflows for those loans or guarantees. A subsidy expense also is recognized for modifications made during the year to loans and guarantees outstanding and for reestimates made as of the end of the year to the subsidy allowances or loan guarantee liability for loans and guarantees outstanding.

Direct loans obligated and loan guarantees committed before FY 1992 are valued using either the present-value or net realizable methods. 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. Under the net realizable value method, the average rate of the last five years of write-offs is used.

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method. Commodities are valued at the lower of cost or net realizable value using a weighted average method.

Property, Plant and Equipment

Property, Plant and Equipment (PP&E) are stated at cost less accumulated depreciation.

Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are $25,000 and $100,000, respectively, for internal use software. There are no restrictions on the use or convertibility of PP&E.

Pension and Other Retirement Benefits

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

Other Post-Employment Benefits

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

Funds from Dedicated Collections

In accordance with Statement of Federal Financial Accounting Standards (SFFAS) 43, Funds from Dedicated Collections, USDA has reported the funds from dedicated collections for which it has program management responsibility when the following three criteria are met: 1) a statute committing the Federal Government to use specifically identified revenues and/or other financing sources that are originally provided to the Federal Government by a non-Federal source only for designated activities, benefits or purposes; 2) explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and 3) a requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the Federal Government's general revenues.

Contingencies

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

Allocation Transfers

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

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

Inter-Entity Costs

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

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

Fiduciary Activities

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

Asbestos-Related Cleanup Costs

Effective October 1, 2012, Technical Bulletin (TB) 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, as amended, requires an estimate of both friable and

non-friable asbestos-related cleanup costs; recognition of a liability and related expense for those costs that are both probable and reasonably estimable; and disclosure of information related to friable and non-friable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements.

Deferred Maintenance and Repairs

Deferred maintenance and repairs are such that were not performed when they should have been or were scheduled to be and which are put off or delayed for a future period. Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, or components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use. SFFAS 42, Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32, became effective October 1, 2014. Estimates for deferred maintenance and repairs are disclosed in required supplementary information.

Budget and Accrual Reconciliation

SFFAS 53, Budget and Accrual Reconciliation (BAR) amends requirements for a reconciliation between budgetary and financial accounting information established by SFFAS 7, Accounting for Revenue and Other Financing Sources and Concepts for Reconciling Budgetary and Financial Accounting. The BAR explains the relationship between the entity's net outlays on a budgetary basis and the net cost of operations during the reporting period. SFFAS 53 is effective for FY 2019, but early implementation is permitted. USDA chose to adopt the new format for FY 2018 presented in Note 30.

NOTE 2: NON-ENTITY ASSETS

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

	FY 2018
Intragovernmental:	
Fund balance with Treasury	$ 277
Accounts Receivable	186
Subtotal Intragovernmental	463
With the Public:	
Cash and other monetary assets	46
Accounts receivable	149
Subtotal With the Public	195
Total non-entity assets	658
Total entity assets	238,116
Total Assets	$ 238,774

NOTE 3: FUND BALANCE WITH TREASURY

Borrowing Authority not yet Converted to Fund Balance represents unobligated and obligated amounts recorded at year-end that will be funded by future borrowings. Non-Budgetary Fund Balance with Treasury includes special fund receipt accounts, and clearing and suspense account balances awaiting disposition or reclassification.

	FY 2018
Status of Fund Balance with Treasury:	
Unobligated Balance:	
Available	27,417
Unavailable	46,823
Obligated Balance not yet Disbursed	78,722
Borrowing Authority not yet Converted to Fund Balance	(44,123)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(33)
Non-Budgetary Fund Balance with Treasury	23,544
Total	$ 132,350

NOTE 4: CASH AND OTHER MONETARY ASSETS

For FY 2018, cash mostly consists of Federal crop insurance escrow of $119 million, deposits in transit of $71 million and single family housing escrow of $46 million

	FY 2018
Cash	$ 236

NOTE 5: INVESTMENTS

FY 2018	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	227	-	1	228	228
Total		$ 227	$ -	$ 1	$ 228	$ 228
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

NOTE 6: ACCOUNTS RECEIVABLE, NET

FY 2018	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 78	$ -	$ 78
With the Public	1,170	(56)	1,114
Total	$ 1,248	$ (56)	$ 1,192
Criminal Restitution	$ 4	$ (4)	$ -

NOTE 7: DIRECT LOANS AND GUARANTEES, NON-FEDERAL BORROWERS

Direct Loans

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

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

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

Direct Loan and Loan Guarantees, Net at the end of FY 2018 was $101,947 million. Loans exempt from the Federal Credit Reform Act of 1990 represent $475 million of the total. *Table 1* illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2018.

Beginning in FY 2012, advance payments surpassed the loans receivable balance in the Rural Utilities Liquidating Fund. This was due to an increased volume in advance payments and a normal reduction to the Liquidating Portfolio. The Omnibus Budget Act of 1987, section 313, authorized the accumulation of Cushion of Credit (CoC) in the Revolving Fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt. To accurately represent the value of Electric and Telecommunication assets, RD reports the CoC amounts as a separate line item in *Table 1*.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance was $4,102 million during FY 2018. *Table 2* shows the subsidy cost allowance balances for FY 2018.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2018 was $112 million. *Table 3* illustrates the breakdown of total subsidy expense for FY 2018 by program.

Direct loan volume was $9,221 million in FY 2018. Volume distribution between mission area and program is shown in *Table 4*.

Guaranteed Loans

Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Estimated losses on loan and foreign credit guarantees are reported at net present value as Loan Guarantee Liability. Defaulted guaranteed loans are reported at net present value as Loans Receivable and Related Foreclosed Property, Net.

Guaranteed loans outstanding at the end of FY 2018 were $150,891 million in outstanding principal and $134,691 million in outstanding principal guaranteed. *Table 5* shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification, and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. *Table 6* shows that total liability was $502 million during FY 2018. *Table 7* shows the total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2018 was negative $160 million. *Table 8* illustrates the breakdown of total subsidy expense for FY 2018 by program.

Guaranteed loan volume was $24,758 million in FY 2018. Volume distribution between mission area and program is shown in *Table 9*.

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990, as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2018 are shown in *Table 10*.

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses. The subsidy rates disclosed in *Table 11* and *Table 12* pertain only to the FY 2018 cohorts. These rates cannot be applied to the

direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

Credit Program Discussion and Descriptions

The Department offers direct and guaranteed loans through credit programs in the FPAC mission area through the FSA and the CCC, and in the RD mission area.

Farm Production and Conservation (FPAC) Mission Area

The FPAC mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FPAC delivers commodity, credit, conservation, disaster, and emergency assistance programs that help strengthen and stabilize the agricultural economy. FPAC contributes to the vitality of the farm sector with programs that encourage the expansion of export markets for U.S. agriculture.

FSA offers direct and guaranteed loans to farmers who are temporarily unable to obtain private, commercial credit, and nonprofit entities that are engaged in the improvement of the nation's agricultural community. Often, FSA borrowers are beginning farmers who cannot qualify for conventional loans due to insufficient financial resources. Additionally, the agency helps established farmers who have suffered financial setbacks from natural disasters or have limited resources to maintain profitable farming operations. FSA officials also provide borrowers with supervision and credit counseling.

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rates, 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 giving humanitarian assistance to the most disadvantaged people throughout the world. CCC offers both credit guarantee and direct credit programs for buyers of U.S. exports, suppliers, and sovereign countries in need of food assistance.

CCC permits debtor nations to reschedule debt under the aegis of the Paris Club. The Paris Club is an informal group of official creditors whose role is to facilitate debt treatments based on an internationally recognized set of rules and principles, facilitated by the senior officials of the French Treasury. Its sole purpose is to assess, on a case-by-case basis, liquidity problems faced by economically disadvantaged countries. The general premise of Paris Club is to provide

disadvantaged nations short-term liquidity relief to enable them to reestablish their credit worthiness. The U.S. Departments of State and Treasury lead the U.S. Delegation and negotiations for all U.S. Agencies.

CCC also provides loans for Farm and Sugar Storage Facilities (FSFL). FSFL provides low interest financing for producers to build or upgrade farm storage and handling facilities. FSFL program regulations were amended during FY 2017 to add eligibility for portable storage structures, portable equipment, and storage and handling trucks, and to reduce the down payment and documentation requirements for a new "microloan" category of FSFLs up to $50,000.

EXHIBIT 21: Farm Production and Conservation List of Programs

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

Rural Development (RD) Mission Area

RD offers both direct and guaranteed loans administered through three agencies with unique missions to bring prosperity and opportunity to rural areas. Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing, business, and utilities. 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 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 choice of servicing options depends on the loan program and the individual borrower.

Rural Housing programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities. They also help finance new or improved housing for moderate,

low, and very low-income families each year. Other programs help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

Rural Business programs promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. They also provide technical assistance to rural businesses and cooperatives, conduct research into rural economic issues, and provide cooperative educational materials to the public.

Rural Utilities programs help to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. These programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology, and development of water resources.

EXHIBIT 22: Rural Development List of Programs

Rural Housing Program	Rural Business Program	Rural Utilities Program
Single Family Housing Direct Loans (including Self-Help Loans)	Business and Industry Loan Guarantees	Water and Waste Disposal Direct Loans, Loan Guarantees
Single Family Housing Loan Guarantees	Intermediary Relending Program Loans	Water and Waste Disposal Technical Assistance
Single Family Housing Repair Loans	Rural Microentrepreneur Assistance Program	Rural Broadband Direct Loans and Loan Guarantees
Rural Rental Housing Direct Loan	Rural Economic Development Loans	Electric and Telecommunications Direct Loans and Loan Guarantees
Rural Rental Housing Loan Guarantees	Rural Energy for America Program Loan Guarantees	Distance Learning and Telemedicine Loans
Farm Labor Housing Loans	Biorefinery Renewable Chemical, and Bio-based Product Manufacturing Assistance Program Loan Guarantees	
Community Facilities Direct Loans and Loan Guarantees		

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

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

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates, and updated estimates for future loan performance. The FY 2018 reestimate process resulted in a $227 million increase in the post-1991 estimated cost of the direct loan portfolio and a $180 million decrease in the post-1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs.

Direct Loans

The Direct Community Facility Program had a net upward reestimate of $134 million. Cohorts 2015 through 2017 had an upward reestimate of $161 million due primarily to projected borrowing rates from Treasury rising higher than initially budgeted. Treasury rates on older cohorts do not change as Treasury sets fixed borrowing rates on each cohort after 90% of the loans have been disbursed.

The Direct Water and Environmental Program had an upward reestimate of $72 million, representing less than one percent of the outstanding principal. The majority of the reestimate was caused by projected borrowing rates from Treasury rising higher than initially budgeted for the 2015 through 2017 cohorts.

Guaranteed Loans

The Guaranteed Single Family Housing Section 502 program is the largest of RD's guaranteed housing program and is a portion of the ($112 million) downward reestimate for the overall Housing Guaranteed Loan Programs. The Guaranteed Single Family Housing Section 502 Program had an overall downward reestimate of ($100 million). The downward reestimate of ($100 million) is the result of a downward reestimate of ($93 million) in the Blended component of the program and a downward reestimate of ($7 million) in the Purchase component of the program. The Blended component's change is attributed to the upward reestimates for cohorts 2011 through 2017, along with a larger offsetting downward reestimate for cohort 2018 of $111 million, or less than one percent of the outstanding principal, due to projected losses lower than originally budgeted. In the Blended component of the program, the upward reestimate for

cohorts 2011 through 2017 is due to the increase in projected loss claims and a decrease in projected annual fees, reducing the future cash flows and increasing the subsidy cost. The Purchase component's change is mainly attributed to cohorts 2008 through 2010.

The downward reestimate change in the Guaranteed Business and Industry Program is a portion of the overall downward reestimate in the Business and Industry Loans of ($69 million). The Guaranteed Business and Industry Program had an overall downward reestimate of ($90 million), which was the result of higher projected recoveries and lower than foreclosed claims paid through FY 2018.

Loan Modifications

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

Multi-Family Housing direct loan modifications related to the revitalization program, which began in FY 2006, continued through FY 2018. In this program, Rural Development provides restructured loans and grants to development owners to revitalize multi-family housing development projects in order to extend the affordable use without displacing tenants due to the increased rent.

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

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, 2018, foreclosed property consisted of 1,238 rural single family housing dwellings, with an average holding period of 16 months. As of September 30, 2018, FSA-Farm Loan Program properties consist primarily of 107 farms. The average holding period for these properties in inventory for FY 2018 was 67 months. Certain properties can be leased to eligible individuals.

Other Information

Non-performing loans are defined as receivables that are in arrears by 90 or more days or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling. When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Approximately $14,954 million of Rural Housing Service unpaid loan principal as of September 30, 2018 were receiving interest credit. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $709 million higher for FY 2018.

At the end of FY 2018, the RD portfolio contained approximately 55,938 restructured loans with an outstanding unpaid principal balance of $2,869 million. At the end of FY 2018, the farm loan portfolio contained approximately 17,739 restructured loans with an outstanding unpaid principal balance of $1,315 million. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2018 were $1,005 million.

TABLE 1: Direct Loan and Loan Guarantees, Net

FY 2018 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 227	$ 13	$ 5	$ (14)	$ 231
Export	-	-	-	-	-
Food Aid	844	11	-	(179)	676
Housing	6,375	66	15	(25)	6,431
Community Facility	13	-	-	-	13
Electric	2,284	9	-	(1,593)	700
Telecommunications	82	-	-	-	82
Water and Environmental	274	2	-	-	276
Intermediary Relending	6	-	-	-	6
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
Pre-1992 Total	10,105	101	20	(1,811)	8,415
Obligated Post-1991					
Farm	11,663	186	12	(420)	11,441
Export	-	-	-	-	-
Food Aid	612	9	-	(102)	519
Housing	17,930	126	75	(2,085)	16,046
Community Facility	8,562	65	-	(168)	8,459
Electric	47,037	296	-	(560)	46,773
Telecommunications	3,510	5	-	121	3,636
Water and Environmental	12,506	95	-	(265)	12,336
Intermediary Relending	363	2	-	(85)	280
Business and Industry	43	-	-	(1)	42
Economic Development	183	-	-	(13)	170
Post-1991 Total	102,409	784	87	(3,578)	99,702
Cushion of Credit	(7,115)	-	-	-	(7,115)
Total Direct Loan Program Receivables	105,399	885	107	(5,389)	101,002
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	-	-	-	-	-
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Community Facility	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
Pre-1992 Total	-	-	-	-	-
Post-1991					
Farm	186	1	-	(185)	2
Export	439	10	-	(220)	229
Food Aid	-	-	-	-	-
Housing	89	1	-	(57)	33
Community Facility	5	-	-	-	5
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	260	3	-	(62)	201
Economic Development	-	-	-	-	-
Post-1991 Total	979	15	-	(524)	470
Total Defaulted Guarantee Loans	979	15	-	(524)	470
Loans Exempt from Credit Reform Act:					
Commodity Loans	471	5	-	(1)	475
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	471	5	-	(1)	475
Total Direct Loan and Loan Guarantees, Net					$ 101,947

TABLE 2: Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans

		FY 2018
Beginning balance of the subsidy cost allowance	$	4,384
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs		(240)
Default costs (net of recoveries)		176
Fees and other collections		(11)
Other subsidy costs		(40)
Total subsidy expense prior to adjustments and reestimates		(115)
Adjustments		
Loan modifications		-
Fees received		75
Loans written off		(412)
Subsidy allowance amortization		(99)
Other		42
Total subsidy cost allowance before reestimates		3,875
Add or subtract subsidy reestimates by component		
Interest rate reestimate		499
Technical/default reestimate		(272)
Total reestimates		227
Ending balance of the subsidy cost allowance	$	4,102

TABLE 3: Subsidy Expense for Direct Loans by Program and Component

FY 2018

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (35)	$ 74	$ (1)	$ 3	$ 41	$ -	$ (108)	$ 116	$ 8	$ 49
Export	-	-	-	-	-	-	-	(17)	(17)	(17)
Food Aid	-	-	-	-	-	-	-	(2)	(2)	(2)
Housing	22	50	-	9	81	-	16	30	46	127
Community Facility	(154)	43	-	5	(106)	-	42	91	133	27
Electric	(126)	4	(10)	(30)	(162)	-	538	(489)	49	(113)
Telecommunications	1	4	-	(4)	1	-	(36)	(25)	(61)	(60)
Water and Environmental	43	1	-	(23)	21	-	50	23	73	94
Intermediary Relending	5	-	-	-	5	-	(2)	1	(1)	4
Business and Industry	-	-	-	-	-	-	-	-	-	-
Economic Development	4	-	-	-	4	-	(1)	-	(1)	3
Total Direct Loan Subsidy Expense	$ (240)	$ 176	$ (11)	$ (40)	$ (115)	$ -	$ 499	$ (272)	$ 227	$ 112

TABLE 4: Total Amount of Direct Loans Disbursed (Post-1991)

	FY 2018
Direct Loan Programs	
Farm	$ 2,390
Export	-
Food Aid	-
Housing	1,185
Community Facility	1,354
Electric	3,236
Telecommunications	232
Water and Environmental	766
Intermediary Relending	19
Business and Industry	7
Economic Development	32
Total Direct Loans Disbursed	$ 9,221

TABLE 5: Guaranteed Loans Outstanding

FY 2018	Pre-1992 Outstanding Principal, Face Value	Post-1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre-1992 Outstanding Principal, Guaranteed	Post-1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 1	$ 17,168	$ 17,169	$ 1	$ 15,473	$ 15,474
Export	-	1,877	1,877	-	1,840	1,840
Food Aid	-	-	-	-	-	-
Housing	1	122,965	122,966	1	110,632	110,633
Community Facility	-	1,142	1,142	-	1,017	1,017
Electric	-	161	161	-	161	161
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	91	91	-	80	80
Intermediary Relending	-	-	-	-	-	-
Business and Industry	3	7,482	7,485	3	5,483	5,486
Economic Development	-	-	-	-	-	-
Total Guarantees Outstanding	$ 5	$ 150,886	$ 150,891	$ 5	$ 134,686	$ 134,691

TABLE 6: Liability for Loan Guarantees (Present Value Method For Pre-1992 Guarantees)

FY 2018	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ -	$ 215	$ 215
Export	-	4	4
Food Aid	-	-	-
Housing	-	(212)	(212)
Community Facility	-	52	52
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	1	1
Intermediary Relending	-	-	-
Business and Industry	-	442	442
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ -	$ 502	$ 502

TABLE 7: Schedule for Reconciling Loan Guarantee Liability

	FY 2018
Beginning balance of the loan guarantee liability	$ 794
Add:Subsidy expense for guaranteed loans disbursed during the year by component	
Interest supplement costs	-
Default costs (net of recoveries)	845
Fees and other collections	(824)
Other subsidy costs	(1)
Total of the above subsidy expense components	20
Adjustments	
Loan guarantee modifications	-
Fees received	643
Interest supplements paid	(8)
Foreclosed property and loans acquired	63
Claim payments to lenders	(680)
Interest accumulation on the liability balance	10
Other	(160)
Ending balance of the loan guarantee liability before reestimates	682
Add or subtract subsidy reestimates by component:	
Interest rate reestimate	(82)
Technical/default reestimate	(98)
Total of the above reestimate components	(180)
Ending balance of the loan guarantee liability	$ 502

TABLE 8: Subsidy Expense for Loan Guarantees by Program and Component

FY 2018

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ -	$ 25	$ (13)	$ -	$ 12	$ -	$ 1	$ 3	$ 4	$ 16
Export	-	-	10	(2)	8	-	(1)	(7)	(8)	-
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	-	623	(753)	-	(130)	-	(88)	(25)	(113)	(243)
Community Facility	-	5	(1)	-	4	-	-	5	5	9
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Intermediary Relending	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	192	(67)	1	126	-	6	(74)	(68)	58
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ -	$ 845	$ (824)	$ (1)	$ 20	$ -	$ (82)	$ (98)	$ (180)	$ (160)

TABLE 9: Guaranteed Loans Disbursed

	FY 2018	
Loan Guarantee Programs	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Farm	$ 3,150	$ 2,839
Export	1,961	1,918
Food Aid	-	-
Housing	17,526	15,773
Community Facility	105	93
Electric	-	-
Telecommunications	-	-
Water and Environmental	2	1
Intermediary Relending	-	-
Business and Industry	2,014	1,553
Economic Development	-	-
Total Guaranteed Loans Disbursed	$ 24,758	$ 22,177

TABLE 10: Administrative Expenses

	FY 2018
Direct Loan Programs	$ 509
Guaranteed Loan Programs	432
Total Administrative Expenses	$ 941

TABLE 11: Subsidy Rates For Direct Loans (percentage)

FY 2018	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Ownership	(3.60)	0.17	-	(0.38)	(3.81)
Farm Operating	(3.10)	6.84	-	0.31	4.05
Emergency Disaster	(4.06)	8.72	-	0.26	4.92
Indian Tribe Land Acquisition	(26.34)	-	-	-	(26.34)
Boll Weevil Eradication	(0.54)	-	-	(0.15)	(0.69)
Indian Highly Fractionated Land	24.15	0.05	-	(1.48)	22.72
Farm Storage Facility Loan	(0.97)	0.02	(0.27)	(0.05)	(1.27)
Sugar Storage Facility Loan Program	(2.37)	0.03	-	-	(2.34)
Multi-Family Housing Relending Demo	29.50	-	-	(0.01)	29.49
Multi-Family Housing Revitalization Seconds	54.28	0.46	-	(0.06)	54.68
Multi-Family Housing Revitalization Zero	48.75	0.37	-	(0.20)	48.92
Community Facility Loans	(12.99)	3.48	-	1.42	(8.09)
Section 502 Single-Family Housing	(2.37)	5.13	-	1.09	3.85
Section 515 Multi-Family Housing	26.57	0.73	-	(0.98)	26.32
Section 504 Housing Repair	15.65	(0.02)	-	(3.30)	12.33
Section 514 Farm Labor Housing	27.11	0.28	-	(0.67)	26.72
Section 524 Site Development	0.45	-	-	0.71	1.16
Section 523 Self-Help Housing	2.55	4.74	-	0.06	7.35
Single-Family Housing Credit Sales	(11.90)	2.39	-	4.06	(5.45)
Rural Microenterprise Direct Loans	7.28	2.70	-	-	9.98
Intermediary Relending Program	23.03	1.53	-	(1.47)	23.09
Rural Economic Development Loans	13.09	0.02	-	(0.18)	12.93
Water and Waste Disposal Loans	4.01	0.08	-	(3.92)	0.17
FFB Electric Loans	(4.39)	0.02	-	(0.79)	(5.16)
Treasury Telecommunication Loans	0.14	0.37	-	(0.27)	0.24
FFB Telecommunications Loans	(0.10)	0.24	-	(2.63)	(2.49)
FFB Guaranteed Underwriting	-	1.39	(5.25)	-	(3.86)
Rural Energy Savings Program	12.48	1.29	-	(0.43)	13.34
Broadband Treasury Loans	0.14	16.74	-	(0.13)	16.75

TABLE 12: Subsidy Rates for Loan Guarantees (percentage)

FY 2018	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	0.99	(1.17)	-	(0.18)
Farm Operating—Unsubsidized	-	2.35	(1.24)	-	1.11
Conservation—Guaranteed	-	0.78	(1.13)	-	(0.35)
GSM 102	-	0.32	(0.51)	-	(0.19)
Export Guarantee Program—Facilities	-	0.71	(3.57)	-	(2.86)
Community Facility Loan Guarantees	-	4.16	(0.88)	-	3.28
Guaranteed 538 Multi-Family Housing	-	4.05	(7.67)	-	(3.62)
Guaranteed 502 Single-Family Housing	-	3.54	(4.26)	-	(0.72)
Business and Industry Loan Guarantees	-	8.02	(3.96)	-	4.06
Renewable Energy Loan Guarantees	-	5.27	(1.40)	-	3.87
Section 9003 Loan Guarantees	-	25.88	(4.72)	0.08	21.24
Water and Waste Disposal Loans	-	1.33	(0.87)	-	0.46

NOTE 8: INVENTORY AND RELATED PROPERTY, NET

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries, and providing price support and stabilization.

(Quantities In Millions)

		FY 2018										FY 2018	
		Beginning Inventory		Acquisitions		Collateral Acquired		Donations		Other		Ending Inventory	
Commodities:	**Unit of Measure**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**
Corn Meal	Pounds	2	$ 1	33	$ 7	-	$ -	(34)	$ (7)	-	$ -	1	$ 1
Blended Foods	Pounds	4	2	114	39	-	-	(107)	(37)	-	-	11	4
Dry Edible Beans	Cwt.	-	-	-	1	-	-	-	(1)	-	-	-	-
Dry Whole Peas	Cwt.	-	6	3	64	-	-	(3)	(64)	-	-	-	6
Emergency Food Ration Bars	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Grain Sorghum	Bushels	-	2	12	61	-	-	(12)	(60)	-	-	-	3
Lentils Dry	Cwt.	-	-	-	10	-	-	-	(10)	-	-	-	-
Nonfat Dry Milk	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Rice Products	Cwt., Pounds	-	1	-	10	-	-	-	(11)	-	-	-	-
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	21	13	259	127	-	-	(265)	(131)	-	(1)	15	8
Wheat Products	Bushels, Pounds	-	-	36	175	-	-	(36)	(175)	-	-	-	-
Peanuts	Pounds	56	10	-	-	156	28	(12)	(13)	(66)	(1)	134	24
Soybeans	Bushels, Pounds	-	-	68	17	-	-	(68)	(17)	-	-	-	-
Other	Various	XXXX	-	XXXX	4	XXXX	-	XXXX	(4)	XXXX	-	XXXX	-
Total Commodities		XXXX	$ 35	XXXX	$ 515	XXXX	$ 28	XXXX	$ (530)	XXXX	$ (2)	XXXX	$ 46

NOTE 9: GENERAL PROPERTY, PLANT, AND EQUIPMENT (PP&E), NET

FY 2018 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 70	$ -	$ 70
Improvements to Land	10 - 50	757	(740)	17
Construction-in-Progress		72	-	72
Buildings, Improvements and Renovations	15 - 30	3,109	(1,986)	1,123
Other Structures and Facilities	15 - 50	1,850	(1,634)	216
Equipment	5 - 20	1,770	(1,275)	495
Assets Under Capital Lease	3 - 20	34	(29)	5
Leasehold Improvements	10	86	(78)	8
Internal-Use Software	5 - 8	1,167	(991)	176
Internal-Use Software in Development		42	-	42
Total		$ 8,957	$ (6,733)	$ 2,224

NOTE 10: STEWARDSHIP PP&E

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

Heritage Assets

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

National Forests, National Grasslands and Other Sites

FS manages its heritage assets by site. Sites include national forests, national grasslands, other FS-managed sites, and non-FS-managed sites such as museums and university laboratories. The mission of the FS is to sustain the health, diversity, and productivity of the Nation's forests

and grasslands to meet the needs of present and future generations. The FS strives to achieve quality land management under the sustainable multiple-use management concept, to deliver the necessary products and services that are essential for enhancing natural resource stewardship, and to meet the diverse needs of people.

Heritage Asset categories can include the following:

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

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

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

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

Research Centers

The Agricultural Research Service (ARS) was established on November 2, 1953. Congress first authorized federally supported agricultural research in the Organic Act of 1862. The statute directed the Commissioner of Agriculture “to acquire and preserve in his department all information he can obtain by means of books and correspondence, and by practical and scientific experiments.” The scope of USDA’s agricultural research has been expanded and extended more than 60 times since the Department was created.

NRCS owns one heritage asset, the Tucson Plant Materials Center (TPMC), which is included in general PP&E as a multi-use asset. It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. The TPMC provides technical assistance to NRCS field offices; Resource Conservation and Development (RC&D) groups; conservation districts; Federal, State, and Tribal agencies; and private landowners through the Southwest. Research centers are considered

heritage assets because one or more buildings or structures at these centers is on (or eligible for inclusion on) the NRHP.

Library Collections

The National Agricultural Library (NAL) supports agricultural research through the acquisition, curation, and dissemination of information needed to solve today's agricultural challenges. The Library holds more than 3.5 million items. NAL's content ranges from special collections materials dating from the early 16th century to near-real time observational research data. NAL was created as the departmental library for USDA in 1862 and became a national library in 1990. One of five national libraries of the U.S., it is also a key member of the Agriculture Network Information Collaborative (AgNIC) partnership. In its international role, NAL participates, as appropriate, in international agricultural information initiatives.

Acquisition and Withdrawal of Heritage Assets

The FS generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets may be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total.

Stewardship Land

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

National Forests

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

National Grasslands

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

Research and Experimental Areas

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

National Preserves and Other Areas

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

Conservation Easements

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

NRCS' objectives in managing, monitoring and enforcing the terms and conditions of easement deeds are to ensure that: 1) taxpayer investments are properly used in accordance with the intent of the program; 2) the agency is a good steward of the land; and 3) the land is properly maintained.

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

NRCS, on behalf of USDA, administers and owns conservation easements on private lands through a variety of programs. The specific uses for the land are identified under each program. Landowners are not allowed to withdraw from the program. However, termination or expiration may occur. For the purpose of reporting, all easements where NRCS is listed as a grantee of the easement are included in the agency's stewardship land count. Also included are easements that are administered by NRCS on behalf of other USDA agencies.

Acquisition and Withdrawal of Stewardship Lands

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the FS National Forest System (NFS). The program coordinates with a variety of partners,

including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

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

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

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

FY 2018 (In Units)

	Ending Balance	Additions	Withdrawals	Beginning Balance
Heritage Assets				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Other Sites	173	7	(9)	175
Research Centers	34	-	-	34
Library Collections	1	-	-	1
Total	382	7	(9)	384
Stewardship Land				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	2	-	-	2
Conservation Easements	18,344	390	-	17,954
Total	18,523	390	-	18,133

NOTE 11: OTHER ASSETS

In FY 2018, other assets included investments in trust for loan asset sales of $35 million and cost of loans sold of $2 million.

	FY 2018
Intragovernmental:	
Advances to Others	$ 9
Subtotal Intragovernmental	9
With the Public:	
Advances to Others	502
Other Assets	37
Total Other Assets	$ 548

NOTE 12: LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In FY 2018, other intragovernmental liabilities not covered by budgetary resources included accruals for Federal Employee Compensation Act (FECA) of $143 million, contract disputes claims payable to Treasury's Judgment Fund of $26 million, and unemployment compensation of $15 million.

In FY 2018, other liabilities with the public not covered by budgetary resources included estimated losses on insurance claims of $5,972 million, underwriting gain of $1,638 million, contingent liabilities of $923 million, unfunded leave of $602 million, Payments to States of $272 million, single family housing escrow of $46 million, loans paid in advance for multi-family housing of $24 million, and stewardship contracting product sales of $21 million.

	FY 2018
Intragovernmental:	
Other	$ 184
Subtotal Intragovernmental	184
With the Public:	
Federal employee and veterans' benefits	892
Environmental and disposal liabilities	200
Other	9,498
Subtotal With the Public	10,590
Total liabilities not covered by budgetary resources	10,774
Total liabilities covered by budgetary resources	149,101
Total liabilities not requiring budgetary resources	1,241
Total Liabilities	$ 161,116

NOTE 13: DEBT

FY 2018	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 72,598	$ 177	$ 72,775
Debt to the Federal Financing Bank	45,433	1,215	46,648
Total Intragovernmental	118,031	1,392	119,423
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 118,031	$ 1,392	$ 119,423

NOTE 14: ENVIRONMENTAL AND DISPOSAL LIABILITIES

USDA is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. In FY 2018, FS estimates the liability for total cleanup costs for sites known to contain hazardous waste to be $2 million, based on actual cleanup costs at similar sites. In FY 2018, CCC estimates the liability for total cleanup costs for sites known to contain hazardous waste to be $21 million, based on actual cleanup costs at similar sites. CCC estimates the range of potential future losses due to remedial actions to be between $21 million and $145 million. These estimates will change as new sites are discovered, remedy standards change, and new technology is introduced.

In FY 2018, ARS estimated the liability for cleanup of the Beltsville Agricultural Research Center (BARC) to be $21 million. ARS is evaluating and remediating areas of concern on BARC that are contaminated or threaten to contaminate ground and surface water with pesticides, solvents, metals, and other hazardous substances.

USDA is also subject to Asbestos National Emissions Standards for Hazardous Air Pollutants. In FY 2018, the Department estimated its liability for asbestos-related cleanup of real property to be $156 million. The liability is calculated using total square footage of real property expected to contain asbestos times a cost factor based on historical actual cleanup costs, adjusted for inflation, including any other identifiable costs, e.g., survey cost. As additional information becomes available, key assumptions will be reevaluated, cost estimates will be revised, and necessary adjustments will be made to the liability recognition.

NOTE 15: OTHER LIABILITIES

In FY 2018, other liabilities with related budgetary obligations with the public included Agricultural Risk Coverage of $1,063 million; Price Loss Coverage of $1,893 million; Grants, Subsidies, and Contributions of $3,770 million; Conservation Reserve Program of $1,845 million; and other accrued liabilities of $866 million.

In FY 2018, other liabilities without related budgetary obligations with the public included Payments to States of $272 million, single family housing escrow of $46 million, loans paid in advance for multi-family housing of $24 million, and other accrued liabilities of $21 million.

FY 2018	Non-Current	Current	Total
Intragovernmental:			
Other Liabilities With Related Budgetary Obligations	$ -	$ 72	$ 72
Employer Contributions and Payroll Taxes	-	84	84
Unfunded FECA Liability	77	66	143
Other Unfunded Employment Related Liability	-	15	15
Liability for Advances and Prepayments	-	1	1
Liability for Clearing Accounts	-	(73)	(73)
Custodial Liability	-	60	60
Liability for Non-entity Assets Not Reported on the Statement of Custodial Activities	-	9,582	9,582
Other Liabilities Without Related Budgetary Obligations	26	-	26
Subtotal Intragovernmental	103	9,807	9,910
With the Public:			
Other Liabilities With Related Budgetary Obligations	-	9,437	9,437
Accrued Funded Payroll and Leave	-	343	343
Unfunded Leave	-	601	601
Liability for Advances and Prepayments	-	155	155
Other Deferred Credits	-	690	690
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	448	448
Liability for Clearing Accounts	-	(41)	(41)
Actuarial Liability for Federal Insurance and Guarantee Programs	1,638	8,688	10,326
Contingent Liabilities	-	931	931
Capital Lease Liability	3	2	5
Other Liabilities Without Related Budgetary Obligations	24	339	363
Subtotal With the Public	1,665	21,593	23,258
Total Other Liabilities	$ 1,768	$ 31,400	$ 33,168

NOTE 16: LEASES

Capital Leases

USDA enters into leasing agreements through leasing authority delegated by the General Services Administration (GSA). USDA acquires use of various general facilities (buildings and plant material centers), equipment, and land with renewal options that range from 0 to 10 years and which are located mainly in urban areas. The portfolio includes leases with escalation clauses based on the Consumer Price Index (CPI), and amortization periods with a range of 8 to 25 years.

Operating Leases

USDA enters into leasing agreements through leasing authority delegated by GSA. USDA leases various land, buildings and equipment.

Major non-cancelable operating leases consists primarily of office space, most with renewal options that range from 1 to 25 years with escalation clauses based on the CPI, and lease periods with a range of 1 to 30 years.

The USDA Headquarters complex (Whitten Building and South Building) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999. At current market rate, the estimated yearly rental payment for the above mentioned space would be $64 million. This agreement is still in effect and as a result, USDA activities located in the Headquarters complex are not billed for rental costs.

FY 2018

Capital Leases:

Summary of Assets Under Capital Leases	Federal	Non Federal	Total
Land and Building	$ -	34	34
Machinery and Equipment	-		
Accumulated Amortization	-	(29)	(29)
Total	-	5	5

Future Payments Due:

	Land & Buildings		Machinery & Equipment		Totals	
Fiscal Year	Federal	Non Federal	Federal	Non Federal	Federal	Non Federal
2019	-	4	-	-	-	4
2020	-	3	-	-	-	3
2021	-	3	-	-	-	3
2022	-	2	-	-	-	2
2023	-	2	-	-	-	2
After 5 Years	-	2	-	-	-	2
Total Future Lease Payments	-	16	-	-	-	16
Less: Imputed Interest	-	8	-	-	-	8
Less: Executory Costs	-	3	-	-	-	3
Net Capital Lease Liability	-	5	-	-	-	5
Capital lease liabilities covered by budgetary resources	-	5	-	-	-	5

Operating Leases:

Future Payments Due for Non-Cancellable Operating Leases:

	Land & Buildings		Machinery & Equipment		Totals	
Fiscal Year	Federal	Non Federal	Federal	Non Federal	Federal	Non Federal
2019	29	86	-	1	29	87
2020	22	70	-	-	22	70
2021	18	60	-	-	18	60
2022	15	48	-	-	15	48
2023	13	36	-	-	13	36
After 5 Years	49	106	-	-	49	106
Total Future Lease Payments	$ 146	$ 406	$ -	$ 1	$ 146	$ 407

NOTE 17: COMMITMENTS AND CONTINGENCIES

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

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $931 million has been accrued in the financial statements as of September 30, 2018.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $18 million to $82 million as of September 30, 2018.

Commitments to extend loan guarantees are estimated to be $3,857 million in FY 2018.

NOTE 18: FUNDS FROM DEDICATED COLLECTIONS

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

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

Agricultural Marketing Service (AMS)

Funds for Strengthening Markets, Income, and Supply

This fund is used to purchase commodities for schools and elderly feeding programs, to provide goods and other necessities in emergencies and disasters, and to purchase agricultural commodities to stabilize markets. The fund is permanently financed by statutory transfer of an amount equal to 30 percent of customs receipts collected during each calendar year and is automatically appropriated for expanding outlets for perishable, non-price supported commodities. An amount equal to 30 percent of receipts collected on fishery products is transferred to the Food and Nutrition Service and is used to purchase commodities under section 6 of the National School Lunch Act and other authorities specified in the child nutrition appropriation. Funds are available under section 32 of the Act of August 24, 1935, as amended (7 U.S.C. 612c).

Expenses and Refunds, Inspection and Grading of Farm Products

The commodity grading programs provide grading, examination, and certification services for a wide variety of fresh and processed food commodities using federally approved grade standards and purchase specifications. This fund is financed by the collection of fees charged to producers of various food commodities who request, on a voluntary basis, inspection and grading of agricultural food commodities. This program is authorized by the Agricultural Marketing Act of 1946 (7 U.S.C. 1621–1627).

Animal Plant Health Inspection Service (APHIS)

Agricultural Quarantine Inspection User Fee Account

This fund is used to record and report expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services and

to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund its expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

Forest Service (FS)

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the FS. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of July 31, 1914 (16 U.S.C. 498) and the Knutson Vandenberg Act.

Land Acquisition

Each fiscal year this fund receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 460l-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Payments to States, National Forest Fund

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as Payments to States, requires with a few exceptions, that 25 percent of all monies received from the national forests and deposited into the National Forest Fund during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated.

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

The FY 2004 Department of the Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of the Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of the Treasury established a new special fund, "State, Private and International Forestry, Land and Water Conservation

Fund." The program expenditures include grants and an occasional land purchase, but no real property will be procured or constructed.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program fund receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration Program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by 16 U.S.C. 4601-6(a).

National Forest Fund Receipts

The Act of May 23, 1908, as amended (16 U.S.C. 500), requires (with a few exceptions) that all receipts from national forest activities be aggregated each fiscal year in order to calculate the portion which is paid to the States in which the national forests are located. The payments must be used for public schools and roads in the county or counties in which the national forests are situated. Originally, the States' portion of receipts was 25 percent, but past statutory amendments have changed the calculation factors from time to time. Receipts include revenues from the sale of timber and other forest products; fees for grazing, special-use permits, power and mineral leases; and recreation user fees.

Restoration of Forest Lands and Improvements

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) states any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the United States Treasury and are appropriated and made available until expended to cover the cost to the United States of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement: Provided, that any portion of the monies received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

Payments to Counties, National Grasslands

Payments to Counties, Title III, Bankhead-Jones Farm Tenant Act (Act) authorizes national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act. At the end of each calendar year, 25 percent of the net

revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. These payments are not in lieu of taxes. Receipts from the Act designated as either national grasslands or land utilization projects are to be credited to a special account.

Acquisition of Lands to Complete Land Exchanges

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

Stewardship Contracting Product Sales

Stewardship End Result Contracting Projects (16 U.S.C. 6591c), amends the Healthy Forests Restoration Act of 2003, and states the Forest Service, via agreement or contract as appropriate, may enter into stewardship contracting projects with private persons or other public or private entities to perform services to achieve land management goals for the national forests and the public lands that meet local and rural community needs. The value of timber or other forest products removed may be applied as an offset against the cost of services received under the agreements or contracts. Monies earned from such agreements or contracts may be retained by the Forest Service and shall be available for expenditure without further appropriation at the project site from which the monies are collected or at another project site. In addition, if the offset value of the forest products exceeds the value of the resource improvement treatments, the Forest Service may collect any residual receipts under the Act of June 9, 1930 (commonly known as the Knutson-Vandenberg Act, 16 U.S.C. 576); and apply the excess to other authorized stewardship projects. Finally, the Forest Service is required to annually report to the Committee of Agriculture, Nutrition, and Forestry of the Senate and the Committee on Agriculture of the House of Representatives on the status and accomplishments of these agreements and contracts.

National Institute of Food and Agriculture (NIFA)

Native American Institutions Endowment Fund

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

instruments can be used for the purposes described above. After the close of a fiscal year, the income is distributed after making adjustments for the cost of administering the fund.

Other

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

Agricultural Marketing Service

- Perishable Agricultural Commodities Act
- Wool Research, Development and Promotion Trust Fund
- Inspection and Weighing Services

Animal Plant Health Inspection Service

- Miscellaneous Contributed Funds

Forest Service

- Roads and Trails for States, National Forest Fund
- Reforestation Trust Fund
- Timber Sales Pipeline Restoration Fund
- Operation and Maintenance of Forest Service Quarters
- Timber Roads, Purchaser Elections
- Range Betterment Fund
- Acquisition of Lands for National Forests, Special Acts
- Receipts for Construction of Administrative Improvements- Taos, New Mexico, Land Conveyance
- Payment to Minnesota (Cook, Lake and Saint Louis Counties)
- Licensee Program
- Resource Management Timber Receipts
- Quinault Special Management Area
- MNP Rental Fee Account
- Land Between the Lakes Management Fund
- Administration of Rights-of-Way and Other Land Uses Fund

- Hardwood Technology Transfer and Applied Research Fund
- Gifts, Donations and Bequests for Forest and Rangeland Research
- Land Between the Lakes Trust Fund
- Timber Salvage Sales
- Expenses, Brush Disposal
- Midewin National Tallgrass Prairie Restoration Fund
- Gifts and Bequests

Natural Resources Conservation Service

- Damage Assessment and Restoration Revolving Fund
- Miscellaneous Contributed Funds

Agricultural Research Service

- Concessions Fees and Volunteer Services
- Gifts and Bequests
- Miscellaneous Contributed Funds

Rural Development

- Alternative Agricultural Research and Commercialization Revolving Fund

Foreign Agricultural Service

- Miscellaneous Contributed Funds
- Gifts and Bequests
- Foreign Service National Separation Liability Trust Fund

Food Safety and Inspection Service

- Expenses and Refunds, Inspection of Farm Products

National Agricultural Statistics Service

- Miscellaneous Contributed Funds

Economic Research Service

- Miscellaneous Contributed Funds

Office of the Secretary

- Gifts and Bequests

Office of Communications

- Gifts and Bequests

Office of General Counsel

- Gifts and Bequests

Office of the Inspector General

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

	AMS	AMS	APHIS	FS	FS	FS	FS	FS
	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	State, Private, and International Forestry, Land and Water Conservation Fund	Recreation Fee Demonstration Program
Balance Sheet As of September 30, 2018								
Fund Balance with Treasury	$ 804	$ 71	$ 257	$ 132	$ 53	$ 59	$ 144	$ 113
Investments	-	-	-	-	-	-	-	-
Other Assets	1	20	152	11	41	1	11	4
Total Assets	805	91	409	143	94	60	155	117
Other Liabilities	37	60	66	79	-	249	-	3
Total Liabilities	37	60	66	79	-	249	-	3
Unexpended Appropriations	-	-	-	-	-	-	-	-
Cumulative Results of Operations	768	31	343	64	94	(189)	155	114
Total Liabilities and Net Position	805	91	409	143	94	60	155	117
Statement of Net Cost For the Period Ended September 30, 2018								
Gross program costs	724	223	228	115	47	327	46	91
Less Earned Revenue	5	169	717	105	-	82	-	100
Net Cost of Operations	719	54	(489)	10	47	245	46	(9)
Statement of Changes in Net Position For the period Ended September 30, 2018								
Net Position Beginning of Period	519	44	296	169	92	57	143	94
Non-Exchange Revenue	-	-	-	-	-	-	-	-
Other Financing Sources	968	41	(442)	(95)	49	-	58	11
Net Cost of Operations	(719)	(54)	489	(10)	(47)	(246)	(46)	9
Change in Net Position	249	(13)	47	(105)	2	(246)	12	20
Net Position End of Period	$ 768	$ 31	$ 343	$ 64	$ 94	$ (189)	$ 155	$ 114

	FS	FS	FS	FS	FS	NIFA		
	National Forest Fund Receipts	Restoration of Forest Lands and Improvements	Payments to Counties, National Grasslands	Acquisition of Lands to Complete Land Exchanges	Stewardship Contracting Product Sales	Native American Institutions Endowment Fund	Other	Total
Balance Sheet As of September 30, 2018								
Fund Balance with Treasury	$ 176	$ 128	$ 128	$ 27	$ 41	$ 15	$ 286	$ 2,434
Investments	-	-	-	-	-	222	8	230
Other Assets	5	2	-	51	36	-	13	348
Total Assets	181	130	128	78	77	237	307	3,012
Other Liabilities	-	2	18	-	22	-	65	601
Total Liabilities	-	2	18	-	22	-	65	601
Unexpended Appropriations	-	-	-	-	-	167	1	168
Cumulative Results of Operations	181	128	110	78	55	70	241	2,243
Total Liabilities and Net Position	181	130	128	78	77	237	307	3,012
Statement of Net Cost For the Period Ended September 30, 2018								
Gross program costs	-	44	24	4	54	6	238	2,171
Less Earned Revenue	67	2	25	-	68	5	198	1,543
Net Cost of Operations	(67)	42	(1)	4	(14)	1	40	628
Statement of Changes in Net Position For the period Ended September 30, 2018								
Net Position Beginning of Period	116	193	75	81	52	226	269	2,426
Non-Exchange Revenue	-	-	-	-	-	-	-	-
Other Financing Sources	(2)	(23)	34	-	(11)	12	13	613
Net Cost of Operations	67	(42)	1	(3)	14	(1)	(40)	(628)
Change in Net Position	65	(65)	35	(3)	3	11	(27)	(15)
Net Position End of Period	$ 181	$ 128	$ 110	$ 78	$ 55	$ 237	$ 242	$ 2,411

NOTE 19: SUB-ORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2018	FSA	CCC	NRCS	RMA	FPAC Business Center	FNS
Rural Development:						
Gross Costs	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Natural Resources and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	98,793
Less: Earned Revenue	-	-	-	-	-	57
Net Costs	-	-	-	-	-	98,736
Farm Production and Conservation:						
Gross Costs	2,292	9,844	4,302	5,917	1	-
Less: Earned Revenue	414	235	40	453	-	-
Net Costs	1,878	9,609	4,262	5,464	1	-
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Research, Education, and Economics:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Departmental Management:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	2,292	9,844	4,302	5,917	1	98,793
Less: Total Earned Revenue	414	235	40	453	-	57
Net Cost of Operations	$ 1,878	$ 9,609	$ 4,262	$ 5,464	$ 1	$ 98,736

FY 2018	FSIS	AMS	APHIS	FS	FAS	ARS
Rural Development:						
Gross Costs	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	1,413	-	-	-	-	-
Less: Earned Revenue	244	-	-	-	-	-
Net Costs	1,169	-	-	-	-	-
Marketing and Regulatory Programs:						
Gross Costs	-	1,272	1,546	-	-	-
Less: Earned Revenue	-	296	939	-	-	-
Net Costs	-	976	607	-	-	-
Natural Resources and Environment:						
Gross Costs	-	-	-	8,105	-	-
Less: Earned Revenue	-	-	-	868	-	-
Net Costs	-	-	-	7,237	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Farm Production and Conservation:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	510	-
Less: Earned Revenue	-	-	-	-	118	-
Net Costs	-	-	-	-	392	-
Research, Education, and Economics:						
Gross Costs	-	-	-	-	-	1,415
Less: Earned Revenue	-	-	-	-	-	189
Net Costs	-	-	-	-	-	1,226
Departmental Management:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	1,413	1,272	1,546	8,105	510	1,415
Less: Total Earned Revenue	244	296	939	868	118	189
Net Cost of Operations	$ 1,169	$ 976	$ 607	$ 7,237	$ 392	$ 1,226

FY 2018	NIFA	ERS	NASS	RD	DM	TOTAL
Rural Development:						
Gross Costs	$ -	$ -	$ -	$ 7,106	$ -	$ 7,106
Less: Earned Revenue	-	-	-	3,842	-	3,842
Net Costs	-	-	-	3,264	-	3,264
Food Safety:						
Gross Costs	-	-	-	-	-	1,413
Less: Earned Revenue	-	-	-	-	-	244
Net Costs	-	-	-	-	-	1,169
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	2,818
Less: Earned Revenue	-	-	-	-	-	1,235
Net Costs	-	-	-	-	-	1,583
Natural Resources and Environment:						
Gross Costs	-	-	-	-	-	8,105
Less: Earned Revenue	-	-	-	-	-	868
Net Costs	-	-	-	-	-	7,237
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	98,793
Less: Earned Revenue	-	-	-	-	-	57
Net Costs	-	-	-	-	-	98,736
Farm Production and Conservation:						
Gross Costs	-	-	-	-	-	22,356
Less: Earned Revenue	-	-	-	-	-	1,142
Net Costs	-	-	-	-	-	21,214
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	-	510
Less: Earned Revenue	-	-	-	-	-	118
Net Costs	-	-	-	-	-	392
Research, Education, and Economics:						
Gross Costs	1,390	97	223	-	-	3,125
Less: Earned Revenue	43	5	24	-	-	261
Net Costs	1,347	92	199	-	-	2,864
Departmental Management:						
Gross Costs	-	-	-	-	1,417	1,417
Less: Earned Revenue	-	-	-	-	1,060	1,060
Net Costs	-	-	-	-	357	357
Total Gross Costs	1,390	97	223	7,106	1,417	145,643
Less: Total Earned Revenue	43	5	24	3,842	1,060	8,827
Net Cost of Operations	$ 1,347	$ 92	$ 199	$ 3,264	$ 357	$ 136,816

FY 2018	Intradepartmental Eliminations	GRAND TOTAL
Rural Development:		
Gross Costs	$ (119)	$ 6,987
Less: Earned Revenue	(11)	3,831
Net Costs	(108)	3,156
Food Safety:		
Gross Costs	(71)	1,342
Less: Earned Revenue	(2)	242
Net Costs	(69)	1,100
Marketing and Regulatory Programs:		
Gross Costs	(158)	2,660
Less: Earned Revenue	(31)	1,204
Net Costs	(127)	1,456
Natural Resources and Environment:		
Gross Costs	(234)	7,871
Less: Earned Revenue	(16)	852
Net Costs	(218)	7,019
Food, Nutrition, and Consumer Services:		
Gross Costs	(760)	98,033
Less: Earned Revenue	-	57
Net Costs	(760)	97,976
Farm Production and Conservation:		
Gross Costs	(1,844)	20,512
Less: Earned Revenue	(62)	1,080
Net Costs	(1,782)	19,432
Trade and Foreign Agricultural Affairs:		
Gross Costs	(40)	470
Less: Earned Revenue	(59)	59
Net Costs	19	411
Research, Education, and Economics:		
Gross Costs	(125)	3,000
Less: Earned Revenue	(115)	146
Net Costs	(10)	2,854
Departmental Management:		
Gross Costs	(84)	1,333
Less: Earned Revenue	(784)	276
Net Costs	700	1,057
Total Gross Costs	(3,435)	142,208
Less: Total Earned Revenue	(1,080)	7,747
Net Cost of Operations	$ (2,355)	$ 134,461

NOTE 20: COST OF STEWARDSHIP PP&E

The acquisition cost of stewardship land in FY 2018 was $266 million.

NOTE 21: TERMS OF BORROWING AUTHORITY USED

The Secretary of Agriculture has the authority to make and issue notes to the Secretary of the Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's nonreimbursed realized losses and debt related to foreign assistance programs. The permanent indefinite borrowing authority includes both interest bearing and non-interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with the Federal Credit Reform Act of 1990, as amended, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the Federal Financing Bank (FFB) in the form of Certificates of Beneficial Ownership (CBOs) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBOs outstanding with FFB are generally secured by unpaid loan principal balances. CBOs outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB CBOs 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 CBOs, without a penalty.

Funds may also be borrowed from private lending agencies and others. USDA reserves a sufficient amount of its borrowing authority to purchase, at any time, all notes and other obligations evidencing loans made by agencies and others. All bonds, notes, debentures, and similar obligations issued by the Department are subject to approval by the Secretary of the Treasury. Reservation of borrowing authority for these purposes has not been required for many years.

NOTE 22: AVAILABLE BORROWING AUTHORITY, END OF PERIOD

Available borrowing authority at September 30, 2018 was $44,123 million.

NOTE 23: APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED: DIRECT VS. REIMBURSABLE OBLIGATIONS

FY 2018

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 44,690	$ 2,001	$ 46,691
Apportionment for Special Activities	119,616	1,410	121,026
Exempt from Apportionment	8,418	9	8,427
Total Obligations Incurred	$ 172,724	$ 3,420	$ 176,144

NOTE 24: UNDELIVERED ORDERS AT THE END OF THE PERIOD

FY 2018

	Federal	Non Federal
Paid	$ 2	$ 513
Unpaid	2,722	58,258
Total	$ 2,724	$ 58,771

NOTE 25: PERMANENT INDEFINITE APPROPRIATIONS

USDA has permanent indefinite appropriations available to fund (1) subsidy costs incurred under credit reform programs, (2) certain costs of the crop insurance program, (3) certain commodity program costs, and (4) certain costs associated with FS programs.

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are

determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums, and research and delivery costs.

The permanent indefinite appropriation for commodity program costs is used to encourage the exportation of agricultural commodities and products, to encourage domestic consumption of agricultural products by diverting them, and to reestablish farmers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

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

NOTE 26: LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

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

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

NOTE 27: EXPLANATION OF DIFFERENCES BETWEEN THE SBR AND THE BUDGET OF THE U.S. GOVERNMENT

A comparison between the FY 2018 SBR and the FY 2018 actual numbers presented in the FY 2020 Budget cannot be performed as the FY 2020 Budget is not yet available. The FY 2020 Budget is expected to be published in February 2019 and will be available from the U.S. Government Publishing Office.

NOTE 28: INCIDENTAL CUSTODIAL COLLECTIONS

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

Revenue Activity:	FY 2018
Sources of Collections:	
Miscellaneous	$ 136
Total Cash Collections	136
Accrual Adjustments	(1)
Total Custodial Revenue	135
Disposition of Collections:	
Transferred to Others:	
Treasury	(119)
(Increase)/Decrease in Amounts Yet to be Transferred	(16)
Net Custodial Activity	$ -

NOTE 29: FIDUCIARY ACTIVITIES

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

Schedule of Fiduciary Activity
For the period Ended September 30, 2018

	Rural Housing Insurance Fund FY 2018
Fiduciary net assets, beginning of year	$ 116
Fiduciary revenues	-
Contributions	445
Investment earnings	-
Gain (Loss) on disposition of investments, net	-
Administrative and other expenses	-
Disbursements to and on behalf of beneficiaries	(437)
Increases/(Decrease) in fiduciary net assets	8
Fiduciary net assets, end of year	$ 124

Fiduciary Net Assets
As of September 30, 2018

	Rural Housing Insurance Fund FY 2018
Fiduciary Assets	
Cash and cash equivalents	$ 124
Investments	-
Other assets	-
Fiduciary Liabilities	-
Less: Liabilities	-
Total Fiduciary Net Assets	$ 124

NOTE 30: BUDGET AND ACCRUAL RECONCILIATION

Budgetary and financial accounting information differ. Budgetary accounting is used for planning and control purposes and relates to both the receipt and use of cash, as well as reporting the federal deficit. Financial accounting is intended to provide a picture of the government's financial operations and financial position so it presents information on an accrual basis. The accrual basis includes information about costs arising from the consumption of assets and the incurrence of liabilities. The reconciliation of net outlays, presented on a budgetary basis, and the net cost, presented on an accrual basis, provides an explanation of the relationship between budgetary and financial accounting information. The reconciliation serves not only to identify costs paid for in the past and those that will be paid in the future, but also to assure integrity between budgetary and financial accounting.

The reconciliation explains the relationship between the net cost of operations and net outlays by presenting (1) components of net cost that are not part of net outlays (e.g. depreciation and amortization expenses of assets previously capitalized, change in asset/liabilities); (2) components of net outlays that are not part of net cost (e.g. acquisition of capital assets); and (3) other temporary timing difference (e.g. prior period adjustments due to correction of errors). The analysis below illustrates this reconciliation by listing the key differences between net cost and net outlays.

Other components of net operating cost not part of the budgetary outlays includes primarily cost capitalization offset, advances and prepayments, contingent liabilities, principal payable to Bureau of the Fiscal Service/Federal Financing Bank, other liabilities with/without related budgetary obligations, and subsidy payable to the financing account.

Other components of the budget outlays that are not part of net operating cost includes primarily net borrowing authority and collections for others.

FY2018

	Intragovernmental	With The Public	Total
Net Cost of Operations	$ 7,497	$ 126,964	$ 134,461
Components of Net Operating Cost Not Part of the Budgetary Outlays:			
Property, plant, and equipment depreciation	-	(344)	(344)
Property, plant, and equipment disposal & reevaluation	-	15	15
Year-end credit reform subsidy re-estimates	(1,307)	-	(1,307)
Other	1	95	96
Increase/(decrease) in assets:			
Accounts receivable	57	671	728
Loans receivable	-	2,115	2,115
Other assets	6	360	366
(Increase)/decrease in liabilities not affecting Budget Outlays:			
Accounts payable	29	(608)	(579)
Salaries and benefits	(1)	5	4
Insurance and guarantee program liabilities	-	(2,285)	(2,285)
Environmental and disposal liabilities	-	-	-
Other liabilities (Unfunded leave, unfunded FECA, actuarial FECA)	(62)	6,823	6,761
Other financing sources:			
Imputed financing	(987)	-	(987)
Total Components of Net Operating Cost Not Part of the Budget Outlays	(2,263)	6,847	4,584
Components of the Budget Outlays That Are Not Part of Net Operating Cost			
Acquisition of capital assets	-	108	108
Acquisition of inventory	-	29	29
Transfers out (in) without reimbursement	6	-	6
Other	(9)	1,239	1,230
Total Components of Budgetary Outlays That Are Not Part of Net Operating Cost	(3)	1,376	1,373
Net Outlays	5,231	135,187	140,418
Related Amounts on the Statement of Budgetary Resources			
Outlays, Net			143,272
Distributed offsetting receipts			(2,854)
Agency Outlays, Net			$ 140,418

NOTE 31: DISCLOSURE ENTITIES AND RELATED PARTIES

The Department exercises significant influence over the policy decisions of the Milk Market Orders Assessment Fund.

The Secretary of Agriculture is authorized by the Agricultural Marketing Agreement Act of 1937, as amended under certain conditions to issue Federal milk marketing orders establishing minimum prices which handlers are required to pay for milk purchased from producers. There are currently 10 Federally-sanctioned milk market orders in operation. Market administrators are appointed by the Secretary and are responsible for carrying out the terms of specific marketing orders. Their operating expenses are financed by assessments on regulated handlers and partly by deductions from producers, which are reported to the Agricultural Marketing Service (AMS). Most of these funds are collected and deposited in checking and savings accounts in local banks and disbursed directly for direct disbursement by the market administrator. A portion of the funds collected may be invested in securities such as certificates of deposit. Expenses of local offices are met from an administrative fund and a marketing service fund, which are prescribed in each order. The administrative fund is derived from prorated handler assessments.
The marketing service fund of the individual order disseminates market information to producers who are not members of a qualified cooperative. It also provides for the verification of the weights, sampling, and testing of milk from these producers. The cost of these services is borne by such producers. The maximum rates for administrative assessment and for marketing services are set forth in each order and adjustments below these rates are made from time to time upon recommendations by the market administrator and upon approval of the AMS to provide reserves at about a six-month operating level. Upon termination of any order, the statute provides for distributing the proceeds from net assets pro rata to contributing handlers or producers.

The AMS reports this account in the President's Budget because milk marketing administration staff are excepted service. Salaries, health insurance, TSP contributions and all other federal benefits are paid by the marketing order funds and as a result there are no costs to the Federal government. As a result, corresponding dollars are reported for presentation purposes only.
In FY 2018, the non-Federal costs of administrating Federal milk marketing orders, including salaries and expenses, travel, and rent for office space was estimated to be $57 million.
The AMS Funds for Strengthening Markets, Income and Supply (Section 32) account is used to fund the Secretary's oversight responsibilities of Marketing Orders.

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS (UNAUDITED)

	FY 2018 Expense
Non-Federal Physical Property:	
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	$ 15
Special Supplemental Nutrition Program	6
National Institute of Foods and Agriculture	
Extension 1890 Facilities Program	20
Total Non-Federal Property	$ 41
Human Capital:	
National Institute of Foods and Agriculture	
Higher Education and Extension Programs	$ 572
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	85
Agricultural Research Service	
National Agricultural Library	26
Risk Management Agency	
Risk Management Education	11
Natural Resources Conservation Service	
National Volunteer Program	8
Total Human Capital	$ 702

	FY 2018 Expense
Research and Development:	
Basic Research:	
Agricultural Research Service	
Human Nutrition	$ 44
Product Quality/Value Added	51
Livestock Production	47
Crop Production	121
Food Safety	56
Livestock Protection	47
Crop Protection	101
Environmental Stewardship	110
National Institute of Foods and Agriculture	
Land-grant University System	846
Forest Service	59
Total Basic Research	$ 1,482
Applied Research:	
Agricultural Research Service	
Human Nutrition	$ 35
Product Quality/Value Added	41
Livestock Production	38
Crop Production	97
Food Safety	45
Livestock Protection	38
Crop Protection	81
Environmental Stewardship	87
National Institute of Foods and Agriculture	
Land-grant University System	314
Forest Service	244
Economic Research Service	
Economic and Social Science	86
National Agricultural Statistics Service	
Statistical	5
Natural Resources Conservation Service	
Plant Materials Centers	12
Soil Survey Research	1
Total Applied Research	$ 1,124
Development:	
Agricultural Research Service	
Human Nutrition	$ 9
Product Quality/Value Added	10
Livestock Production	9
Crop Production	24
Food Safety	11
Livestock Protection	10
Crop Protection	20
Environmental Stewardship	22
National Institute of Foods and Agriculture	
Land-grant University System	532
Forest Service	6
National Agricultural Statistics Service	
Statistical	4
Total Development	$ 657
Total Research and Development	$ 3,263

NON-FEDERAL PHYSICAL PROPERTY

Food and Nutrition Service (FNS)

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

National Institute of Food and Agriculture (NIFA)

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities as well as computers and equipment purchases that permit faculty, students, and communities to benefit fully from the partnership between USDA and the 1890 Land-Grant Universities.

HUMAN CAPITAL

National Institute of Food and Agriculture

The higher education programs include graduate fellowship grants, competitive challenge grants, secondary/2-year postsecondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native serving and a Native Hawaiian serving institutions program, resident instruction grants and distance education grants for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. NIFA also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs.

Food and Nutrition Service

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

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 241,898 work registrants subject to the 3 month SNAP participant limit and 906,410 work registrants not subject to the limit in either job-search, job training, job-workfare, education, or work experience.

Agricultural Research Service (ARS)

The National Agricultural Library (NAL) provides services directly to the staff of USDA and to the public, primarily via its Web site, https://www.nal.usda.gov. As the world's leading agricultural library, NAL has expertise in information and knowledge management, and a wide variety of subject areas related to agriculture and food, including nutrition and food safety, animal welfare, natural resources, invasive species, lifecycle assessment, and long-term agroecosystem research.

Risk Management Agency (RMA)

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

During FY 2018, the RME program worked toward its goals by funding risk management sessions, most of which directly target producers. The number of producers reached through these sessions is approximately 120,000 in FY 2018. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and other agricultural professionals) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $11 million in FY 2018.

Natural Resources Conservation Service (NRCS)

NRCS's investment in human capital is primarily for education and training programs that are intended to increase or maintain national economic productive capacity. Human capital investment also seeks to produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

RESEARCH AND DEVELOPMENT

Agricultural Research Service (ARS)

ARS' mission is to conduct research to develop and transfer solutions to agricultural problems of high national priority and provide information access and dissemination to: ensure high quality, safe food, and other agricultural products; assess the nutritional needs of Americans; sustain a

competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole.

New Products/Product Quality/Value Added

ARS has active research programs directed toward: improving the efficiency and reducing the cost for the conversion of agricultural products into biobased products and biofuels; developing new and improved products for domestic and foreign markets; and providing higher quality, healthy foods that satisfy consumer needs in the United States and abroad.

Livestock Production

ARS' research program is directed toward fostering an abundant, safe, nutritionally wholesome, and competitively priced supply of animal products produced in a viable, competitive, and sustainable animal agriculture sector of the U.S. economy by: safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatic tools; developing a basic understanding of food animal physiology to address priority issues related to animal production, animal well-being, and product quality and healthfulness; and developing information, best management practices, novel and innovative tools, and technologies that improve animal production systems, enhance human health, and ensure domestic food security. The research is heavily focused on the development and application of genomics technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems. Areas of emphasis include increasing the efficiency of nutrient utilization, increasing animal well-being and reducing stress in production systems, increasing reproductive rates and breeding animal longevity, developing and evaluating non-traditional production systems (e.g., organic and natural), and evaluating and conserving animal genetic resources.

Crop Production

ARS' program focuses on developing and improving ways to reduce crop losses while protecting and ensuring a safe and affordable food supply. The program concentrates on production strategies that are environmentally friendly, safe to consumers, and compatible with sustainable and profitable crop production systems. Research activities are directed at safeguarding and utilizing plant genetic resources and their associated genetic, genomic, and bioinformatic databases that facilitate selection of varieties and/or germplasm with significantly improved traits. Research activities attempt to minimize the impacts of crop pests while maintaining healthy crops and safe commodities that can be sold in markets throughout the world.
The agency is conducting research to discover and exploit naturally occurring and engineered genetic mechanisms for plant pest control, develop agronomic germplasm with durable defensive traits, and transfer genetic resources for commercial use. ARS is also providing taxonomic information on invasive species that strengthens prevention techniques, aids in detection/identification of invasive pests, and increases control through management tactics that restore habitats and biological diversity.

Food Safety

ARS' research program is designed to yield science-based knowledge on the safe production, storage, processing, and handling of plant and animal products, and on the detection and control of pathogenic bacteria and fungi, parasites, chemical contaminants, and plant toxins. All of ARS' research activities involve a high degree of cooperation and collaboration with USDA's Research, Education, and Economics agencies, as well as with the Food Safety and Inspection Service (FSIS), Animal and Plant Health Inspection Service (APHIS), the Food and Drug Administration (FDA), the Centers for Disease Control and Prevention (CDC), the Department of Homeland Security (DHS), and the Environmental Protection Agency (EPA). The agency also collaborates in international research programs to address and resolve global food safety issues. Specific research efforts are directed toward developing new technologies that assist ARS stakeholders and customers, including regulatory agencies, industry, and commodity and consumer organizations in detecting, identifying, and controlling foodborne diseases that affect human health.

Livestock Protection

ARS' program is directed at protecting and ensuring the safety of the Nation's agriculture and food supply through improved disease detection, prevention, control, and treatment. Basic and applied research approaches are used to solve animal health problems of high national priority. Emphasis is given to methods and procedures to control animal diseases through the discovery and development of diagnostics, vaccines, biotherapeutics, animal genomics applications, disease management systems, animal disease models, and farm biosecurity measures.
The research program has the following strategic objectives: establish ARS laboratories into a fluid, highly effective research network to maximize use of core competencies and resources; use specialized high containment facilities to study zoonotic and emerging diseases; develop an integrated animal and microbial genomics research program; establish core competencies in bovine, swine, ovine, and avian immunology; launch a biotherapeutic discovery program providing alternatives to animal drugs; build a technology driven vaccine and diagnostic discovery research program; develop core competencies in field epidemiology and predictive biology; establish a best-in-class training center for our Nation's veterinarians and scientists; and develop a model technology transfer program to achieve the full impact of ARS research discoveries. The ARS animal research program includes the following core components: biodefense research, animal genomics and immunology, zoonotic diseases, respiratory diseases, reproductive and neonatal diseases, enteric diseases, parasitic diseases, and transmissible spongiform encephalopathies.

Crop Protection

ARS' Crop Protection research program is directed to protect crops from insect and disease loss through research to understand pest and disease transmission mechanisms, and to identify and apply new technologies that increase our understanding of virulence factors and host defense

mechanisms. The program's research priorities include: identification of genes that convey virulence traits in pathogens and pests; factors that modulate infectivity, gene functions, and mechanisms; genetic profiles that provide specified levels of disease and insect resistance under field conditions; and mechanisms that reduce the spread of pests and infectious diseases. ARS is developing new knowledge and integrated pest management approaches to control pest and disease outbreaks as they occur. Its research will improve the knowledge and understanding of the ecology, physiology, epidemiology, and molecular biology of emerging diseases and pests. This knowledge will be incorporated into pest risk assessments and management strategies to minimize chemical inputs and increase production. Strategies and approaches will be available to producers to control emerging crop diseases and pest outbreaks and to address quarantine issues.

Human Nutrition

Maintenance of health throughout the lifespan along with prevention of obesity and chronic diseases via food-based recommendations are the major emphases of ARS' Human Nutrition Research Program. These health-related goals are based on the knowledge that deficiency diseases are no longer the primary public health concerns in the United States; excessive consumption has become the primary nutrition problem in the American population. This is reflected by increased emphasis on prevention of obesity, from basic science through intervention studies to assessments of large populations. The agency's research program also studies essential nutrients and nonessential, health promoting components in foods. To better define the role of nutrition in pregnancy and growth of children, and for healthier aging, four specific areas of research are emphasized: nutrition monitoring; the scientific basis for dietary recommendations; prevention of obesity and related diseases; and life stage nutrition and metabolism.

Environmental Stewardship

ARS' research program emphasis is in developing technologies and systems that support sustainable production and enhance the Nation's vast renewable natural resource base.
The agency is currently developing the scientific knowledge and technologies needed to meet the challenges and opportunities facing U.S. agriculture in managing water resource quality and quantity under different climatic regimes, production systems, and environmental conditions.

ARS' research also focuses on developing measurement, prediction, and control technologies for emissions of greenhouse gases, particulate matter, ammonia, hydrogen sulfide, and volatile organic compounds affecting air quality and land-surface climate interactions. The agency is a leader in developing measurement and modeling techniques for characterizing gaseous and particulate matter emissions from agriculture. In addition, ARS is evaluating strategies for enhancing the health and productivity of soils, including developing predictive tools to assess the sustainability of alternative land management practices. Finding mechanisms to aid agriculture in adapting to changes in atmospheric composition and climatic variations is also an important component of this program.

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

National Agricultural Library

The library provides services directly to the staff of USDA and to the public, primarily via the NAL Web site. NAL is the premier library for collecting, managing, and disseminating agriculture information. It delivered about 38 million page views to over 5 million customers in FY 2018.

Buildings and Facilities

As the principal intramural scientific research agency of the Department of Agriculture, ARS operates an extensive network of more than 100 federally owned research facilities. These facilities are strategically located throughout the U.S., reflective of the wide geographic diversity and site specificity of agricultural production; distinct climatic and agroecosystem zones; and the numerous research partners, cooperators, and customers/users with which ARS works. These specialized laboratories and facilities are essential for ARS' scientists and support personnel to carry out the agency's mission.

National Institute of Food and Agriculture (NIFA)

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

Forest Service (FS)

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

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

The SPAs are the long-term programs from which Priority Research Areas are funded; the SPAs are summarized here.

Wildland Fire and Fuels

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

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

Invasive Species

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

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

Water, Air, and Soil

R&D enables the sustainable management of these essential resources by providing clear air and safe drinking water, by protecting lives and property from wildfire and smoke, and by adapting to climate variability and change.

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

Wildlife and Fish

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

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

Resource Management and Use

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

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

Outdoor Recreation

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

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

Inventory and Monitoring

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

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

A representative summary of FY 2018 accomplishments include the following:

- 41 new interagency agreements and contracts
- 25 interagency agreements and contracts continued
- 1,794 articles published in journals
- 146 articles published in all other publications
- 2 patents granted
- 3 patent licenses executed

Economic Research Service (ERS)

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 (NASS)

NASS conducts research to improve the statistical methods and related technologies used to produce U.S. agriculture statistics. The research agenda has two primary areas of emphasis: the National Agriculture Statistics Service estimation program and the Census of Agriculture program. For each, the goal is the development of improved estimates at lower cost, with reduced respondent burden, and with valid measures of uncertainty. All facets of the estimation process are considered, from increasing efficiencies in sampling and data collection to enhancing the statistical methodology used to analyze the data. Two high priority items within the research effort are exploring approaches to reducing respondent burden and model-based estimates. The use of previously reported, remotely sensed, and administrative data have the potential to substantially reduce respondent burden, but can also introduce bias. Assessing the best ways to use these data and continue to produce precise statistics is a major effort. Models are used to combine data from disparate sources, from sample surveys to remote sensing, resulting in improved estimates with valid measures of uncertainty. Going forward, users of NASS services and products will be increasingly dependent upon methodological and technological efficiencies.

Natural Resources Conservation Service (NRCS)

NRCS Plant Materials Centers (PMC) are research farms engaging in applied research and development as defined in SFFAS No. 8. Overall efforts of PMCs include the selection of plants and the development of plant technology used by NRCS and conservation partners for the application of vegetation to solve natural resource issues on private and public lands.

The NRCS Soil Science Division (SSD) conducts soil survey research and provides leadership for the National Cooperative Soil Survey (NCSS), which is responsible for the soils inventory of the United States and interpreting this information to "help people help the land" through natural resource conservation.

Required Supplementary Information

DEFERRED MAINTENANCE AND REPAIRS (UNAUDITED)

The Forest Service is steward to nearly 193 million acres of national forests and grasslands within the NFS. On these NFS lands, the agency manages major assets that are categorized as general PP&E, including nearly 40,000 administrative, recreation, and research buildings and approximately 27,000 recreational sites, such as campgrounds, picnic areas, trailheads, and interpretive sites.

Across the NFS, the agency also manages over 370,000 miles of roads, of which 65,000 miles are for passenger vehicles; over 159,000 miles of trails for motorized and non-motorized use; nearly 13,400 road and trail bridges; and over 1,700 Forest Service-owned and Special Use Permitted dam structures.

ARS owns/manages approximately 15 million gross square feet of facility space in 3,000 buildings on 379,000 acres of land. APHIS operates approximately 28 facilities, which includes 378 buildings, in the United States and 14 facilities/buildings internationally. The NRCS portfolio of owned assets encompasses 29 sites, including 13 parcels of owned land, 224 buildings, and about 221 other structures.

Deferred Maintenance & Repairs (DM&R) estimates include capitalized PP&E, non capitalized heritage assets, and non capitalized or fully depreciated PP&E.

No DM&R is reported for stewardship land because land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose. Stewardship land easements are excluded from DM&R since ownership is retained by the landowner.

Defining and Implementing Maintenance and Repairs Policies in Practice

Policies for ranking and prioritizing DM&R activities for most assets, except bridges, are based on condition surveys performed on a 5-year revolving schedule. Bridge class assessments occur on a 2-year revolving schedule. To-date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's DM&R for NFS passenger car roads is determined annually from random sample surveys providing a moderate level of confidence in the accuracy of the data reported. DM&R is not reported for roads that are not part of the passenger-car system.

ARS, APHIS, and NRCS use similar condition surveys to estimate DM&R on all major classes of its PP&E and heritage assets.

Ranking and Prioritizing Maintenance and Repairs Activities

Maintenance and repair activities are prioritized based on condition surveys and ranked based on PP&E and heritage assets that pose serious threats to public health or safety, a natural resource, or the ability of the agency to implement its mission.

Factors Considered in Setting Acceptable Condition

The standards for acceptable operating condition for various classes of PP&E and heritage assets are as follows:

Conditions of roads and bridges within the NFS road system are measured by various standards:

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

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

Buildings in the NFS shall comply with the International Family of Building and Related Codes, the National Fire Protection Association Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys and safety inspections. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004.

Recreation facilities in the NFS are located within recreation sites that range from highly developed sites to general forest areas such as campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. Recreation sites are managed in accordance with Federal laws and regulations (Code of Federal Regulations [CFR] 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed

recreation sites in the NFS were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

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

ARS, APHIS, and NRCS define acceptable condition in accordance with standards comparable to those used in private industry for buildings and other structures.

Deferred Maintenance and Repair Costs

Asset Category	FY 2018 Ending Balance	FY 2018 Beginning Balance
General PP&E	$ 5,648	$ 5,342
Heritage Assets	180	149
Total	$ 5,828	$ 5,491

STATEMENT OF BUDGETARY RESOURCES (UNAUDITED)

FY 2018	FSA		CCC		NRCS	RMA	FPAC Business Center	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:											
Unobligated balance from prior year budget authority, net	544	218	3,276	75	4,925	584	-	39,173	92	255	743
Appropriations (discretionary and mandatory)	4,605	-	1,815	-	5,202	6,553	1	104,479	1,070	1,536	1,331
Borrowing authority (discretionary and mandatory)	-	3,198	9,888	340	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	370	1,813	46	87	65	3,760	-	59	208	180	198
Total budgetary resources	5,519	5,229	15,025	502	10,192	10,897	1	143,711	1,370	1,971	2,272
Status of Budgetary Resources:											
New obligations and upward adjustments (total) (Note 23)	2,740	2,879	14,384	345	4,999	10,315	1	99,734	1,295	1,464	1,520
Unobligated balance, end of year:											
Apportioned, unexpired accounts	2,626	1,976	341	74	2,550	578	-	8,012	58	166	640
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	1	-
Unapportioned, unexpired accounts	78	374	299	83	(7)	-	-	6,179	-	320	4
Unexpired unobligated balance, end of year	2,704	2,350	640	157	2,543	578	-	14,191	58	487	644
Expired unobligated balance, end of year	75	-	1	-	2,650	4	-	29,786	17	20	108
Unobligated balance, end of year (total)	2,779	2,350	641	157	5,193	582	-	43,977	75	507	752
Total budgetary resources	5,519	5,229	15,025	502	10,192	10,897	1	143,711	1,370	1,971	2,272
Budget Authority and Outlays, Net											
Outlays, net (discretionary and mandatory)	2,117	679	12,442	(90)	3,991	6,525	1	97,234	1,069	1,107	1,219
Distributed offsetting receipts (-)	-	(178)	(1)	(30)	(5)	-	-	(6)	(14)	(169)	(10)
Agency outlays, net (discretionary and mandatory)	$ 2,117	$ 501	$ 12,441	$ (120)	$ 3,986	$ 6,525	$ 1	$ 97,228	$ 1,055	$ 938	$ 1,209

FY 2018	FS	FAS	ARS	NIFA	ERS	NASS	RD		DM	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:											
Unobligated balance from prior year budget authority, net	1,540	187	297	610	4	6	7,853	3,177	366	60,455	3,470
Appropriations (discretionary and mandatory)	7,290	406	1,386	1,573	87	192	5,957	-	431	143,914	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	13,670	-	9,888	17,208
Spending authority from offsetting collections (discretionary and mandatory)	811	256	160	35	2	24	2,595	3,667	1,069	9,838	5,567
Total budgetary resources	9,641	849	1,843	2,218	93	222	16,405	20,514	1,866	224,095	26,245
Status of Budgetary Resources:											
New obligations and upward adjustments (total) (Note 23)	8,476	525	1,413	1,619	91	222	7,111	15,535	1,476	157,385	18,759
Unobligated balance, end of year:											
Apportioned, unexpired accounts	1,108	163	413	666	-	-	3,210	4,497	338	20,869	6,547
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	1	-
Unapportioned, unexpired accounts	52	9	1	(86)	-	-	5,985	482	11	12,845	939
Unexpired unobligated balance, end of year	1,160	172	414	580	-	-	9,195	4,979	349	33,715	7,486
Expired unobligated balance, end of year	5	152	16	19	2	-	99	-	41	32,995	-
Unobligated balance, end of year (total)	1,165	324	430	599	2	-	9,294	4,979	390	66,710	7,486
Total budgetary resources	9,641	849	1,843	2,218	93	222	16,405	20,514	1,866	224,095	26,245
Budget Authority and Outlays, Net											
Outlays, net (discretionary and mandatory)	7,234	369	1,148	1,344	87	190	3,140	3,116	350	139,567	3,705
Distributed offsetting receipts (-)	(736)	(3)	(25)	30	-	4	(4)	(1,684)	(23)	(962)	(1,892)
Agency outlays, net (discretionary and mandatory)	$ 6,498	$ 366	$ 1,123	$ 1,374	$ 87	$ 194	$ 3,136	$ 1,432	$ 327	$ 138,605	$ 1,813

RISK ASSUMED INFORMATION (UNAUDITED)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $7,849 million as of September 30, 2018.

Section III:
Other Information

Response to Management Challenges

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) to report annually on the most serious management challenges USDA and its agencies face. To identify these Departmental challenges, OIG provides an annual assessment of the previous year's challenges to determine if they are still critical challenges; examines recently issued audit reports to identify critical issues that remain topical and where corrective action has not been satisfactorily implemented; identifies repeated inquiries or hotline trends in risk areas; assesses ongoing audit and investigative work to identify new issues; and analyzes new programs and activities that pose significant challenges due to size and complexity.

Based on OIG's review of the challenges cited in fiscal year (FY) 2017, it concluded that these challenge areas continue to be critical for the Department. No challenges have been removed or added to this year's report. Each challenge includes a discussion of the Department's progress in addressing it as well as what remains to be done, if applicable.

The following narratives summarize:

- OIG-recognized management challenges;
- USDA's FY 2018 agency accomplishments; and
- FY 2019 planned actions to address these management challenges.

CHALLENGE 1:
MANAGEMENT NEEDS TO IMPROVE OVERSIGHT AND ACCOUNTABILITY FOR ITS PROGRAMS

USDA, much like other agencies and departments throughout the Government, faces challenges in overseeing its many programs. USDA employs nearly 100,000 employees in 16 agencies and 19 staff offices; in total, these employees operate approximately 300 programs responsible for delivering about $143 billion in public services annually. Overseeing these programs to ensure

that every dollar spent accomplishes its intended results for United States (U.S.) agriculture and the American public poses significant challenges for USDA program managers.

USDA managers are responsible for establishing an effective internal control system, ensuring a culture of compliance with those controls, and holding employees accountable for implementing those controls. Managers use internal controls to ensure programs achieve intended results efficiently and effectively, and they provide for program integrity and proper stewardship of USDA's resources.

OIG DETERMINED THE FOLLOWING:

- Agricultural Marketing Service (AMS) needs to strengthen its controls over the approval and oversight of international trade arrangements and agreements for the import of organic products into the United States;
- AMS' process for determining equivalency of organic standards of foreign countries when compared to U.S. standards lacks transparency;
- AMS' National Organic Program officials maintain documentation of the process to resolve differences between U.S. and foreign organic standards, but they did not have a methodology in place to disclose the results of that process to stakeholders;
- Food and Nutrition Service (FNS) needs to improve its monitoring and oversight of the Summer Food Service Program (SFSP). FNS' primary monitoring control for ensuring SFSP integrity lacked the necessary documentation to confirm whether it was completed correctly and contained valid conclusions; and
- Office of Homeland Security and Emergency Coordination (OHSEC) had not adequately overseen and coordinated USDA's efforts to prevent, detect, and respond to agroterrorism.

CORRECTIVE ACTIONS COMPLETED AND PLANNED:

Agricultural Marketing Service

The National Organic Program has updated its description of the equivalency procedure on the AMS Web site. The description states, "If USDA determines that the foreign government's organic system is equivalent, the two governments exchange official letters and the terms of equivalency arrangement, including any product exception if the systems are not equivalent in specific areas. Once this process is complete, AMS will publicly disclose on its Web site the terms of the determination and the final resolution of differences between the U.S. and foreign government's system." In March 2019, AMS will publish a proposed rule that will include a side-by-side analysis of the foreign government's organic system to the U.S. system, and other organic enforcement-related items.

Food and Nutrition Service

In FY 2018, FNS convened a committee to address the key corrective actions needed to improve monitoring and oversight of the SFSP. FNS began and will continue its efforts to implement and/or disseminate the following:

- A centralized Management Evaluation (ME) documentation and work paper management protocol for agency use during all SFSP ME reviews;
- Instructions detailing requirements of the aforementioned protocol and a requirement that ME reviewers document affirmative findings within the ME Tool workbook; and
- Training materials for FNS staff to learn and institutionalize improved ME documentation protocols.

Office of Homeland Security and Emergency Coordination

OHSEC developed, implemented, and provided oversight to agencies based on the Agroterrorism Prevention, Detection, and Response Standard Operating Procedures. These procedures standardized and consolidated annual data calls; instituted the tracking of agency responses to the data calls; and prescribed a methodology to obtain information from agencies regarding the purpose, frequency, and outcomes of exercises related to agroterrorism. A data call was completed in FY 2018 to support the Sector Annual Report and the Homeland Security Presidential Directive (HSPD)-9 Report. To date, no USDA agencies have reported any agroterrorism-related exercises, however, OHSEC will solicit updates again in the first quarter of FY 2019. Additionally, OHSEC is in the process of revising Departmental Regulation (DR) 1800-001 *"Incident Preparedness, Response, and Recovery"* and Departmental Manual (DM)1800-001 *"Incident Preparedness, Response, and Recovery"* to codify the process of how OHSEC will oversee and coordinate USDA's agroterrorism prevention, detection, and response activities. In FY 2020, OHSEC will work with the U.S. Department of Homeland Security (DHS); the U.S. Food and Drug Administration; other federal agencies, State, local, Tribal and territorial partners; academia and private-sector stakeholders to update the Food and Agriculture Sector Specific Plan.

CHALLENGE 2:
INFORMATION TECHNOLOGY SECURITY NEEDS CONTINUOUS IMPROVEMENT

As technology advances, so do the threats to information technology (IT) security. While USDA has taken actions to improve its IT security, the Department continues to display weaknesses in planning, managing, and overseeing its cybersecurity initiatives. This, in turn, affects USDA's compliance with standards for safeguarding IT systems, as directed in the Federal Information Security Modernization Act of 2014 (FISMA). USDA senior management needs to ensure that agencies and offices understand that their individual IT security posture directly affects the degree to which USDA complies with FISMA and other security guidance. For USDA to attain a sustainable and secure IT posture, all 35 of its agencies and offices must consistently implement Departmental policy based on a standard methodology. When every agency and office complies with USDA's policies, USDA as a whole will be compliant with FISMA and, more importantly, have a sustainable security posture.

USDA must efficiently manage vast amounts of data to accomplish its mission of providing benefits and services to the American public. Critical information stored in USDA IT systems includes agriculture statistics that drive domestic and global markets or data from inspection systems that ensure food safety. USDA employees must be able to access, use, and communicate this information reliably and in a timely manner. Members of the public apply for and access many USDA programs, benefits, and other services through online or mobile portals, which can require the transfer of personal information. USDA has a responsibility to safeguard this information by protecting the security, confidentiality, and integrity of its IT infrastructure.

OIG DETERMINED THE FOLLOWING:

The Department faces great challenges in complying with the 2014 FISMA:

- The Office of the Chief Information Officer (OCIO) has not implemented corrective actions that the Department committed to in response to prior OIG recommendations. Of the 67 recommendations made by OIG in FYs 2009 through 2016, OCIO has made progress in implementing corrective action; 27 recommendations are outstanding, and 26 are overdue and require OCIO to issue critical policy and corrective action; and
- OCIO policies and programs designed to address FISMA requirements have not been completed or fully implemented, and USDA has not fully developed an organizational perspective that includes a comprehensive governance structure and organization-wide risk management strategy.

CORRECTIVE ACTIONS COMPLETED OR PLANNED:

Office of the Chief Information Officer

OCIO continues to work closely with DHS on the installation, configuration, and testing of Phase 1 of the Operational Readiness Review of Continuous Diagnostics and Mitigation (CDM) components throughout the USDA Enterprise. OCIO will continue to work closely with DHS on the planning and design for Phase 2 of CDM implementation at USDA.

In FY 2018, OCIO developed a plan to document corrective actions on all open audit recommendations using the Agile approach. OCIO assigned a team of subject matter experts to document corrective actions and request final action from the Department. OCIO anticipates closing 50 percent of the open audit recommendations by the end of FY 2018, and closing the remainder by the end of FY 2019.

OCIO continues to coordinate IT Security Risk Management activities with the component agencies. OCIO and the agencies have prioritized efforts to correct deficiencies of specific IT security control elements and meet bi-weekly with agencies to review compliance progress. OCIO anticipates completing corrective actions in FY 2019.

CHALLENGE 3:
USDA NEEDS TO STRENGTHEN PROGRAM PERFORMANCE AND PERFORMANCE MEASURES

Designing, developing, and implementing programs that reliably achieve their intended results has been a recurring challenge for the Department. OIG found that agencies do not have adequate reviews or controls in place to supply the metrics necessary to evaluate program performance. In some programs, the strategy for measuring performance is missing altogether. As a result, some agencies are using inaccurate or unreliable data in program performance reports.

USDA manages approximately 300 programs that provide a variety of services and financial assistance to the American public. This diverse portfolio of programs means that, for the Department to serve as a diligent steward of Federal funds, USDA must have well-designed programs with clear goals and performance measures.

The Government Performance and Results Modernization Act of 2010 set requirements for regular and recurring program performance assessment. In keeping with the law, an agency should have controls in place that allow it to regularly review a program's performance, and then compile reports that allow it to measure that performance. These reports allow the Department to fairly evaluate its programs' successes and failures.

OIG DETERMINED THE FOLLOWING:

- Foreign Agricultural Service (FAS) had not updated its Country Strategy Statements (CSS) to align with the goals and objectives contained in the Strategic Plan;
- FAS needs to incorporate clear, outcome-based performance measures into the 2013 CSS that align with the FAS and USDA strategic goals; and
- FAS needs to coordinate with the Department to update the performance measures related to trade policy and trade promotion in the Performance and Accountability Report and the Annual Performance Plan. This will allow FAS to better capture overall agency effectiveness and achievements and include goals related to the U.S. market share.

CORRECTIVE ACTIONS COMPLETED OR PLANNED:

Foreign Agricultural Service

FAS is working with the USDA's Office of Budget and Program Analysis to update the performance measures related to trade policy and trade promotion that are included in the USDA Agency Financial Report and included in the Annual Performance Report and Plan. Guidance for the annual review of CSS will be issued in 2019. This guidance will align to the 2019 FAS Strategic Plan and will properly align performance indicators.

CHALLENGE 4:
USDA NEEDS TO STRENGTHEN CONTROLS OVER IMPROPER PAYMENTS AND FINANCIAL MANAGEMENT

USDA continues to be noncompliant with Federal requirements for improper payments. Also, USDA needs to address internal control deficiencies to resolve ongoing problems with financial management and reporting.

The Department's annual financial reports provide the public, Congress, and the President with information about the nearly $143 billion spent on public services every year. These reports account for USDA's costs and revenues, assets and liabilities, and other information, such as improper payments. OIG reviews the Department's financial reports annually, as required by law, to verify accuracy and compliance with Federal rules regarding high-dollar overpayments and improper payments. Improper payments occur when funds go to the wrong or ineligible recipient, the proper recipient receives an incorrect amount of funds or uses funds in an improper manner, or documentation is not available to support a payment. Not all improper payments involve fraud or waste; payment errors are sometimes inadvertent or based on missing documentation. Regardless of origin, improper payments affect the integrity of Federal programs.

OIG DETERMINED THE FOLLOWING:

USDA did not comply with all requirements set by the Improper Payments Information Act (IPIA) of 2002, as amended, for the seventh consecutive year. USDA reported improper payments information for 10 programs identified as susceptible to significant improper payments and complied with three of the six requirements. However, six of 10 high-risk programs did not comply with one or more requirements as follows: (1) publishing an improper payment estimate as required; (2) meeting annual reduction targets; and/or (3) publishing gross improper payment rates of less than 10 percent.

- FNS should submit to Congress proposed statutory changes to bring the Supplemental Nutrition Assistance Program (SNAP) into compliance; and
- Farm Service Agency (FSA) needs to submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the Office of Management and Budget describing the actions that the agency will take to make the Noninsured Crop Disaster Assistance Program (NAP) compliant.

Another opportunity for progress relates to the need for additional oversight over financial reporting controls. OIG determined that:

- USDA needs to provide additional oversight to ensure that financial reporting controls over unliquidated obligations are strengthened and maintained;
- Commodity Credit Corporation (CCC) should design and implement processes, procedures, and controls to ensure data used in its accounting estimates are complete and accurate; and
- The Natural Resources Conservation Service (NRCS) has material weaknesses in internal control in accounting for obligations and expenses.

CORRECTIVE ACTIONS COMPLETED OR PLANNED FOR IPIA:

Food and Nutrition

On June 28, 2017, the USDA Deputy Secretary submitted FNS' strategy for addressing SNAP's noncompliance of the Improper Payments and Recovery Act (IPERA) to Congress.

Farm Service Agency

FSA has met measurable milestones and has enacted multiple corrective actions including:

- Issuance of Notice NAP-188, which required each State to create a NAP review team to analyze selected NAP payments for errors and to correct those errors within 30 days;

- Issuance of Notice NAP-189, which emphasized the responsibility of the County Office to maintain signatures and dates in the approved yield software; and
- Development and implementation of automated payment software to aid in the reduction of administrative and process errors.

CORRECTIVE ACTIONS COMPLETED OR PLANNED FOR FINANCIAL REPORTING:

Office of the Chief Financial Officer

The Office of the Chief Financial Officer (OCFO) provided additional oversight to ensure that controls over financial reporting were strengthened and maintained, including those over Unliquidated Obligations (ULO) and transactions resulting in negative (abnormal) fund balances. The following corrective actions were completed:

- Required agencies and staff offices with ULO deficiencies resulting from the 2017 audit to create corrective action plans to remediate deficiencies;
- Monitored component agencies' progress in completing remediation of existing corrective action plans related to the ULO process;
- Performed spot testing of component agencies' ULO testing results;
- Developed a standard testing plan for abnormal balances;
- Enhanced monitoring of monthly abnormal balance reports; and
- Performed standard testing for abnormal balances.
- Also, OCFO provided oversight to ensure that property is classified properly, including Work-in-Progress (WIP) and lease agreements.

OCFO completed the following corrective actions:

- Reviewed disclosure requirements for leases with agencies at the Coordinating Committee meetings;
- Issued OCFO Bulletin 17-06, *"Leases Financial Statement Disclosure,"* that provided Departmental guidance to USDA agencies to improve the process for collecting and disclosing lease data in the financial statements;
- Compiled lease data for footnote disclosure and updated Lease Note 16 in the FY 2017 Agency Financial Report;
- Issued OCFO Bulletin, *"Reviewing and Tracking Property, Plant, and Equipment Work-in-Progress,"* that provided guidance to USDA agencies for reviewing and tracking any property, plants, and equipment; and
- Reviewed accounting for WIP with FSA and the Forest Service (FS).

Commodity Credit Corporation

CCC finalized its plan for implementation of the estimation methodology for accruals and advances. CCC also implemented and documented a review process to ensure that estimation methodology and look-back analyses are reviewed with the appropriate level of precision to determine the reasonableness of the accrual or advance calculation. The process was redefined to include management's assessment of the validity of the estimates, as well as the accuracy and completeness of the data used to complete the advances and accruals for the grant portfolio. Also, CCC completed enhancements to the calculator that address classification, hybrid grants, cash basis reporting, and multi-funding.

Natural Resources Conservation Service

NRCS implemented a six-digit budget fiscal year that will provide accessible, searchable, and reliable data. The new structure will allow the agency to track agency spending and facilitate the identification of upward and downward adjustments. Currently, NRCS is compensating for the lack of enhancements in the new upward/downward remediation process until the ProTract enhancements are completed.

NRCS implemented the Reconciliation Exception report to ensure completed acquisitions and agreements have been recorded in the FMMI. NRCS will analyze and verify the validity of the results from the Integrated Acquisition System (IAS) and FMMI will implement ServiceNow to ensure all completed acquisitions and agreements are being recorded in the financial system.

To determine if NRCS is achieving objectives and addressing risks related to operational processes, NRCS will develop, document, and implement a process to evaluate the roles of service organizations, assess controls at those service organizations, and identify and assess the complementary end-user controls (CUECs) of those service organizations.

CHALLENGE 5:
USDA NEEDS TO IMPROVE OUTREACH EFFORTS

USDA has emphasized its efforts to improve outreach to new and beginning farmers and ranchers, local and regional food producers, minorities, women, and veterans. As part of those efforts, the Department has stressed the importance of civil rights, highlighting that significant progress needs to be made in working with communities when addressing past civil rights issues. Due to the public's perception of USDA regarding how it has historically treated members of socially disadvantaged groups, the Department is continually challenged to find effective ways to encourage and support all citizens in their agribusiness endeavors, especially those within underrepresented groups.

USDA has emphasized its efforts to improve outreach to socially disadvantaged farmers and ranchers, including new and beginning farmers and ranchers, local and regional food producers, veterans, disabled individuals, women, or minorities as defined by the Federal Civil Rights and Americans with Disabilities legislation. FSA conducts outreach through planned activities that raise awareness of FSA programs. Traditional outreach methods include activities such as the following: (1) publishing articles in newsletters and local newspapers; (2) making announcements through local radio and television stations; and (3) partnering with community-based groups, non-governmental organizations, or other USDA agencies to organize or attend public meetings, fairs, or other farm-related events. FSA's method of program outreach also includes the use of innovative marketing methods that specifically target underrepresented groups in order to: (1) educate the public about FSA programs and services; (2) eliminate participation barriers; and (3) increase program participation.

One of FSA's programs whose equity and effectiveness depends on conscious, targeted outreach is the Microloan Program. FSA's Microloan Program is designed to better serve the unique financing needs of beginning, niche, and small family farm operations, including those owned by socially disadvantaged farmers. Furthermore, the Agricultural Act of 2014 created a permanent authorization for the Microloan Program and made additional changes such as exempting beginning and military veteran producers from term limits and providing these producers with an optional lower interest rate (applicable in years when regular interest rates are higher). The Microloan Program offers flexible access to credit and serves as an attractive loan alternative for smaller farm operations, including non-traditional farm operations that often face limited financing options.

OIG DETERMINED THE FOLLOWING:

The Department has made progress in improving its outreach efforts when OIG or other third parties, such as the Government Accountability Office (GAO), have identified deficiencies.

Since OIG's review of the Microloan Program, the FSA national office not only reports its outreach efforts to the Administrator quarterly, but has also added an outreach component performance measure to all field employees' evaluations, allotted outreach funding to States, and increased funding to States to cover outreach-related travel expenses. Regular reporting of these enhanced outreach efforts will provide transparency and an opportunity for FSA to conduct ongoing performance assessments to identify areas for further improvement.

The Department has addressed all recommendations OIG has currently issued. OIG looks forward to the positive impact of more effective outreach encouraging the participation of underrepresented groups.

CHALLENGE 6:
FOOD SAFETY INSPECTIONS NEED IMPROVED CONTROLS

The Food Safety and Inspection Service (FSIS) took action to improve food safety and the humane handling of animals at the plants FSIS inspects. However, OIG has found that FSIS continues to face challenges gathering reliable data to help ensure safety verification tasks are completed, effective, and consistent. FSIS also continues to face challenges in training, documenting, tracking, overseeing, testing, and verifying that the Nation's commercial supply of meat, poultry, and egg products complies with regulatory requirements.

The Federal Meat Inspection, Poultry Products Inspection, and Egg Products Inspection Acts authorize FSIS to regulate food ingredients used in the production of meat, poultry, and egg products. According to these acts, any meat, poultry, or egg product intended for human consumption must have proper labeling declaring major allergens in any amount, even trace amounts. Therefore, any ingredient used in producing meat, poultry, and egg products and intended for human consumption must have proper labeling to declare the inclusion of any of the eight major ("Big 8") allergens defined by the Federal Food, Drug, and Cosmetic Act. FSIS has implemented a number of actions to alert and protect the American public by ensuring the proper identification and labeling of allergens in meat, poultry, and egg products. One of these actions included the release of a directive to FSIS inspectors, which provided verification instructions to guide inspectors in their duty to ensure that products with allergens are properly labeled. Proper identification and labeling of potential allergens in food products is critical to FSIS' ability to protect vulnerable populations with food allergies and sensitivities.

OIG DETERMINED THE FOLLOWING:

- FSIS has weaknesses in how they oversee the plant inspection process, collect critical information, comply with humane handling requirements, and schedule food safety assessments;
- FSIS did not always follow corrective actions as designed to prevent reported conditions from recurring. FSIS officials either did not effectively monitor or did not hold their staff accountable when these actions did not correct the problems identified;
- FSIS must enhance its methods of verifying labels for undeclared allergens to that of a more robust approach;
- FSIS needs to improve how it monitors and documents food safety tasks specific to allergens; and
- FSIS must develop and document, as part of its annual ongoing equivalence verification audit planning process, how foreign countries are selected for ongoing equivalence verification audits.

CORRECTIVE ACTIONS COMPLETED AND PLANNED:

Food Safety and Inspection Service

FSIS incorporated a graded approach to conduct periodic follow-up reviews on the effectiveness of the corrective actions implemented from the prior audit recommendations in the 2007 and 2008 audits into its management control audit processes.

FSIS has conducted a comprehensive review of directives and notices associated with allergens to ensure that allergen verification is a Priority 3[13] Task in all appropriate directives and notices. The agency finalized updates to FSIS Directive 7230.1, *"Ongoing Verification of Product Formulation and Labeling Targeting the Eight Most Common ("Big 8") Food Allergens,"* which is the policy document associated with allergens. FSIS is also finalizing the Big 8 Formulation Verification Task questionnaire that will accompany the directive.

FSIS reviewed the "Big 8" formulation verification task instructions in the Public Health Information System (PHIS) to ensure consistency with the instructions in FSIS Directive 7230.1, *"Ongoing Verification of Product Formulation and Labeling Targeting the Eight Most Common ("Big 8") Food Allergens."* FSIS updated the PHIS "Inspector Task Guidance" instructions to ensure consistency with FSIS Directive 7230.1 instructions.

On July 26, 2018, FSIS re-issued Directive 9780.1, *"Verifying the Ongoing Equivalence of Foreign Food Safety Inspection Systems"* that provided updated instructions to FSIS personnel with clarifying procedures for annual planning and the selection process for annual ongoing equivalence verification audits. Specifically, the instructions in the directive outlined procedures for annual planning and the selection process that must be completed and outlined by FSIS' International Audit Branch in collaboration with the FSIS International Equivalence Staff for annual ongoing equivalence verification audits. These FSIS Directive 9780.1 instructions will be completed by July 31 of each calendar year in order to have an approved Audit Schedule of Foreign Countries Decision Memorandum for the next fiscal year.

---

[13] FSIS ranks tasks by priority from 1 to 6, with 1 as the highest priority and 6 the lowest. Based on the recent increase in recalls related to undeclared allergens, FSIS has identified the allergen formulation verification task as a priority 3.

CHALLENGE 7:
FNS NEEDS TO STRENGTHEN SNAP MANAGEMENT CONTROLS

Although FNS has endeavored to improve management controls for SNAP, weaknesses continue to exist in controls over benefit distribution and quality control (QC) processes. The potential exists for billions of dollars of taxpayer-funded assistance not to be delivered or used as intended.

As the largest benefit program within USDA and one of the largest in the Federal Government, SNAP presents a unique challenge for the program's managers. In FY 2017, SNAP provided monthly food assistance for over 42 million low-income individuals and disbursed almost $64 billion in benefits.

Given SNAP's size and significance, fraud, waste, and abuse are critical concerns. OIG's audit focused on improving the efficiency of program administration and maintaining the integrity of Federal funds. Further, USDA loses hundreds of millions of dollars every year to fraud and crime associated with SNAP and other FNS food assistance programs.

OIG DETERMINED THE FOLLOWING:

- States have weakened the QC process by using third-party consultants and error review committees to mitigate QC-identified errors instead of reporting them;
- FNS' current two-tier process is vulnerable to State abuses, does not meet SNAP regulatory requirements, and does not have sufficient FNS oversight;
- Some authorized SNAP retailers listed owners whose Social Security Numbers belonged to either people who were deceased or underage;
- FNS has not designed controls that would allow the data to reveal problems between the two information systems FNS uses to administer SNAP;
- FNS needs to finalize procedures to identify and reconcile discrepancies between the two information systems; and
- FNS needs to issue a clarification memorandum reiterating the importance of FNS and State agency compliance with FNS Instruction 113-1, *"Civil Rights Compliance and Enforcement—Nutrition Programs and Activities."*

CORRECTIVE ACTIONS COMPLETED AND PLANNED:

Food and Nutrition Service

FNS is awaiting completion of the study titled, *"Feasibility of Revising the SNAP Quality Control Review Process."* The results of the study will determine what actions FNS will need to implement a one-tier QC system.

FNS completed their review of 1,819 owners on the Death Master File to verify the identity of the owners, and took the necessary action to correct data that was incorrect, and removed any owners who were no longer living.

FNS is currently researching and determining the procedures necessary to design controls to identify deceased and underage owners and correct or update this information as needed.

FNS will be updating FNS Instruction 113-1 and will be issuing a memorandum reiterating the importance of FNS employees, and State agencies' compliance with the Instruction that enforces the prohibition against discrimination in all FNS nutrition programs.

The OIG *USDA Management Challenges Report* issued August 31, 2018, may be viewed in its entirety at the following Web site: https://www.usda.gov/oig/webdocs/MgmtChallenges2018.pdf

Summary of Financial Statement Audit and Management Assurances

SUMMARY OF EXISTING MATERIAL WEAKNESSES

The U.S. Department of Agriculture's (USDA) material weaknesses and financial system non-conformance, as related to management's assurance for the Federal Managers' Financial Integrity Act (FMFIA) and the certification for the Federal Financial Management Improvement Act (FFMIA), are listed in *Exhibit 23* and *Exhibit 24*.

EXHIBIT 23: Summary of Financial Statement Audit
Audit Opinion: Unmodified 2018 Consolidated Financial Statement Audit
Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Improvement Needed in Financial Management	1				1
Improvement Needed in Information Technology Security and Controls	1				1
TOTAL MATERIAL WEAKNESSES	2				2

EXHIBIT 24: SUMMARY OF MANAGEMENT ASSURANCES
Effectiveness of Internal Control Over Reporting (FMFIA § 2)
Statement of Assurance: Modified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology	1					1
Financial Management	1					1
TOTAL MATERIAL WEAKNESSES	2					2

Effectiveness of Internal Control Over Operations (FMFIA § 2)
Statement of Assurance: Unmodified

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
TOTAL MATERIAL WEAKNESSES	0					0

Conformance with Federal Financial Management System Requirements (FMFIA § 4)
Statement of Assurance: Systems do not conform to financial management system requirements

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	1					1
TOTAL NON-CONFORMANCES	1					1

Compliance with Section 803 (A) of the Federal Financial Management Improvement Act (FFMIA)

Item	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. U.S. Standard General Ledger at Transaction Level	Lack of compliance noted	Lack of compliance noted

Payment Integrity

The U.S. Department of Agriculture (USDA)—through its diverse portfolio of approximately 300 programs, products, and services—touches the daily lives of almost every American. These diverse USDA programs provide for the following; the fighting of forest fires, feeding school children, preserving our Nation's natural resources, improving water quality, enhancing private working lands' health, and providing agricultural producers with disaster recovery assistance. Collectively, USDA efforts promote a healthy American agricultural industry, providing food, feed, fiber, and timber to meet the expanding needs of America and the world at large.

As a result, USDA's inherent responsibility to properly steward our taxpayer resources is a top financial management priority. USDA managers work diligently to ensure that the right payment is made to the right individual or entity at the right time and for the approved purposes. USDA financial managers test transactions to determine which programs are susceptible to payment errors or making "improper payments."

During fiscal year (FY) 2018, USDA had nine programs that have been identified as susceptible to significant improper payments with outlays of approximately $97.68 billion. These programs are statistically sampled every year to ensure that the corrective actions are effective at reducing improper payments while still allowing program participants to get the access they need.

USDA initiated Enterprise Risk Management (ERM), which provides a strategically aligned portfolio view of organizational challenges and insight on how to most effectively prioritize resource allocations, ensuring successful mission delivery. In the context of improper payments, the ERM framework can be used to assist in the management of payment integrity risk. Leadership manages the payment integrity risk of an agency to allow it to achieve its strategic, operations, reporting, or compliance objectives. Following are a few examples of how payment integrity risk cuts across an agency's strategic, operations, reporting and compliance objectives:

- Strategic—Achieving payment integrity in core programs and mission;
- Operations—Ensuring payments to eligible recipients and managing fraud risk;
- Reporting—Managing data integrity risk related to the Agency Financial Report and www.paymentaccuracy.gov reporting;
- Compliance—Improper Payments Legislation, the Office of Management and Budget (OMB) Guidance, and Privacy Laws.

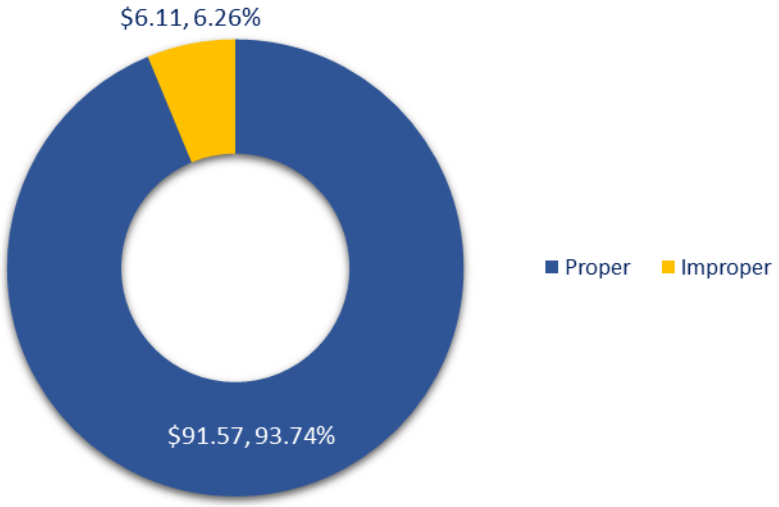
Collectively, USDA efforts resulted in statistically validating the Farm Service Agency's (FSA) Loan Deficiency Payments (LDP) program, which improved its payment integrity levels above reporting thresholds and is no longer considered susceptible to significant improper payments by the Office of Inspector General (OIG) and the Office of Management and Budget (OMB). As a result, FSA's LDP program has been removed from the OMB list of programs susceptible to significant improper payments during FY 2018.

WHAT ARE IMPROPER PAYMENTS?

OMB Circular A-123, Appendix C defines an improper payment as:

> *"Any payment that should not have been made or that was made in an incorrect amount (including overpayments and underpayments) under statutory, contractual, administrative, or other legally applicable requirements; and*
>
> Includes any payment to an ineligible recipient, any payment for an ineligible *good or service, any duplicate payment, any payment for a good or service not received (except for such payments where authorized by law), and any payment that does not account for credit for applicable discounts."*

EXHIBIT 25: USDA Payment Outlook (in billions)



The pie chart provides a snapshot of USDA's improper payments that are reported in this year's Agency Financial Report (AFR). As the chart demonstrates, most of USDA's outlays are made properly per the OMB definition above and the Improper Payments Information Act (IPIA), as amended.

ARE IMPROPER PAYMENTS REQUIRED TO BE REPORTED?

Yes. The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) do the following: requires executive agencies to identify programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress.

A program susceptible to significant improper payments is also referred to as a high-risk program within USDA's AFR. A high-risk program has both a 1.5-percent improper payment rate and at least $10 million in improper payments or exceeds $100 million dollars in improper payments. Readers can obtain more detailed information on improper payments and information published in past AFRs at PaymentAccuracy.gov.

RISK ASSESSMENT SECTION

In FY 2017, USDA's Office of the Chief Financial Officer (OCFO) began conducting a "Risk Assessment Methodology Pilot" to leverage existing Office of Management and Budget (OMB) Circular A-123, Appendix A, assessment methods to meet the OMB Circular A-123, Appendix C, risk assessment deliverable. If successfully implemented, this initiative would reduce USDA employees' burden of utilizing two different risk assessment methods to evaluate USDA's programs and activities and increase objectivity of the risk assessment method.

In FY 2018, the following five programs participated in the Risk Assessment Methodology Pilot:

1. Animal and Plant Health Inspection Service (APHIS) Salaries and Expenses
2. APHIS Indemnity Program
3. APHIS Buildings and Facilities
4. APHIS Trust Funds
5. APHIS Cooperative Agreements

OCFO made the decision not to onboard other U.S. Department of Agriculture (USDA) agencies to the OMB Circular A-123 pilot due to possible changes to the risk assessment methodology in the revised OMB Circular A-123, Appendix C, which was published in June 2018. USDA will analyze the revised OMB Circular A-123, Appendix C, along with the results and lessons learned from the Risk Assessment Methodology Pilot, to determine if this strategy is potentially feasible for other USDA low-risk programs and activities.

OCFO guidance states "programs that are at possible risk of being declared susceptible to making significant improper payments may be required to perform full statistical sampling that meets the requirements for high-risk programs." In FY 2018, OCFO required the Farm Service Agency's (FSA) Agriculture Risk Coverage and Price Loss Coverage (ARC/PLC) to perform a full statistical sample. The results concluded that the program was above the threshold of a program susceptible to significant improper payments, with an improper payment amount of $214.46 million and an error rate of 2.73 percent. In FY 2019, FSA's ARC/PLC will be required to complete all the requirements of a program susceptible to significant improper payments using FY 2018 data.

OCFO issued guidance for the OMB Circular A-123, Appendix C, risk assessment process and performed extensive reviews on the risk assessments of USDA's programs and activities. The following evaluation criteria are included as part of USDA's risk assessment process:

1. Whether the program or activity reviewed is new to the agency;
2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
3. The volume of payments made annually;
4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
5. Recent major changes in program funding, authorities, practices, or procedures;
6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate; and
7. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency's Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification.

While USDA is cited in the Catalog of Federal Domestic Assistance (CFDA) as having approximately 300 programs; similar programs were grouped together to help identify and report improper payments. This resulted in a USDA program inventory list of 144 programs for IPERA reporting purposes. Nine of these programs are considered significant risk of improper payments, and 135 programs are considered low risk of improper payments. Risk assessments for low-risk programs are completed on a 3-year rotation cycle. During FY 2018, the following 34 programs completed risk assessments and were determined to be low risk:

EXHIBIT 26: Programs that Conducted Risk Assessments in FY 2018

No.	Program Name
1	Agricultural Marketing Service (AMS) Commodity Purchase Programs
2	AMS Salaries and Expenses
3	AMS Grants Programs
4	Commodity Credit Corporation (CCC) Administrative Contracts
5	CCC Emergency Assistance for Livestock, Honeybees, and Farm Raised Fish
6	CCC Marketing Programs
7	CCC Tobacco Transition Payment Program
8	CCC Tree Assistance Program
9	Farm and Foreign Agricultural Service (FFAS) Salaries and Expenses
10	Farm Service Agency (FSA) Agricultural Credit Insurance Fund Program Account
11	Food and Nutrition Service (FNS) Food Distribution Program on Indian Reservations
12	Food Safety and Inspection Service (FSIS) Salaries and Expenses
13	FSIS Cooperative State Food and Safety Inspections
14	Forest Service (FS) Forest and Rangeland Research
15	FS Permanent Appropriations
16	FS State and Private Forestry
17	FS Stewardship Contracting Product Sales
18	FS Working Capital Fund
19	Natural Resources Conservation Service (NRCS) Watershed Programs
20	National Institute of Food and Agriculture (NIFA) Extension Activities
21	NIFA Integrated Activities
22	NIFA Research and Education Activities
23	Office of Inspector General (OIG) Salaries and Expenses
24	Rural Business Service (RBS) Grant Programs
25	RBS Guaranteed Loan Programs
26	Rural Housing Service (RHS) Community Program Grants
27	RHS Direct Community Facility Loans
28	RHS Direct Single Family Housing

No.	Program Name
29	RHS Guaranteed Single Family Housing Loans
30	RHS Multi-Family Housing Preservation and Revitalization Demo Program: 514/516 Loans/Grants & 515 Loans
31	Rural Utilities Service (RUS) Congressional Earmarked Funds
32	RUS Grants- Other- Electric- Telecom- Water and Environmental Programs (WEP)
33	RUS Revolving Loan Fund Program
34	RUS Water and Waste Guaranteed Loans

USDA has nine programs susceptible to significant improper payments (also referred to as high-risk programs within USDA's Agency Financial Report):

EXHIBIT 27: Programs Determined to be Susceptible to Making Significant Improper Payment

Agency Name	Program Name
Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)
	National School Lunch Program (NSLP)
	School Breakfast Program (SBP)
	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)
	Child and Adult Care Food Program (CACFP)
Farm Service Agency/Commodity Credit Corporation (FSA/CCC)	Livestock Forage Disaster Program (LFP)
	Noninsured Crop Disaster Assistance Program (NAP)
Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Program (FSRIP)
Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC)

SAMPLING AND ESTIMATION SECTION

When programs are susceptible to significant improper payments, USDA is required to conduct an annual sample that complies with OMB Circular A-123, Appendix C. This is accomplished by conducting a statistically valid sample or an OMB-approved alternative methodology.

The following is a list of USDA's high-risk programs and a brief description of the sampling processes used as a standard statistically valid sample or justification for utilizing an OMB-approved alternative methodology:

1. FNS SNAP

a. FNS requires states to pull a monthly random sample from the population of households receiving SNAP benefits for that given month. Most States draw the samples systematically (i.e. using a constant sampling interval); however, some States employ simple random or stratified sampling techniques. The sample universe represents payments made in the prior fiscal year.

b. Change in sampling process: None.

2. FNS NSLP

a. Access, Participation, Eligibility, and Certification Study-II (APEC-II) established estimates of erroneous payments due to certification error and non-certification error for school year 2012–2013. FNS generates an annual update for the improper payment measurements of both components using statistical techniques based on the findings of this study. The estimates generated by the model represent payments made in school year 2016–2017.

b. Change in sampling process: Non-certification error was previously made up of two components (meal claiming and counting error). FNS removed meal claiming from the non-certification error. Meal claiming error does not result in the payment of federal funds for services not delivered, nor does it result in the payment of funds for services delivered to ineligible recipients. Meal claiming is a standard of service error; eliminating it does not have any monetary impact. Meal claiming is typically triggered by a child's failure to select a required fruit or vegetable.

c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

3. FNS SBP

a. APEC-II established estimates of erroneous payments due to certification error and non-certification error for school year 2012–2013. FNS generates an annual update for the improper payment measurements of both components using statistical techniques

based on the findings of this study. The estimates generated by the model represent payments made in school year 2016–2017.

b. Change in sampling process: Non-certification error was previously made up of two components (meal claiming and counting error). FNS removed meal claiming from the non-certification error. Meal claiming error does not result in the payment of federal funds for services not delivered, nor does it result in the payment of funds for services delivered to ineligible recipients. Meal claiming is a standard of service error; eliminating it does not have any monetary impact. Meal claiming is typically triggered by a child's failure to select a required fruit or vegetable.

c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

4. FNS WIC

a. Estimates of improper payments in WIC focus on two components: certification error and vendor error. FNS makes use of periodic studies to assess the level of error in program payments and then "ages" the data to produce updated estimates for each reporting year. The National Survey of WIC Participants-II Study, published in April 2012, established estimates of erroneous payments due to certification error. The 2013 WIC Vendor Management Study established the most recent national estimates of erroneous payments due to vendor error. FNS generates an annual update for the improper payment measurements of both components using statistical techniques based on the findings of these bookend studies. The sampling universe represents payments made in October 2016 through September 2017.

b. Change in sampling process: None.

c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

5. FNS CACFP

a. In lieu of producing a program-wide improper payment measure, FNS has identified the Family Day Care Home (FDCH) component of this program as potentially high risk. FNS periodically measures the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier 1 and Tier 2). FNS is developing a model using statistical techniques based on the findings of these studies. A three-stage sample design was used. The first stage was developing a sample of States, from which a sample of sponsors was selected at the second stage, and a sample of FDCHs was selected in the final stage. The latest CACFP study used sample payments made in August 2014 through July 2015. The improper payment measures presented do not include improper payments associated with the Adult Day Care component or Child Care Centers.

b. Change in sampling process: None.

c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

6. FSA/CCC LFP

a. FSA determined a sample from the payments made in the prior fiscal year using a 95-percent confidence interval of plus or minus 3 percentage points.

b. Change in sampling process: FSA adapted a more rigorous sampling methodology. Previously, FSA had a 90-percent confidence interval of plus or minus 2.5 percentage points.

7. FSA/CCC NAP

a. FSA determined a sample from the payments made in the prior fiscal year using a 95-percent confidence interval of plus or minus 3 percentage points.

b. Change in sampling process: FSA adapted a more rigorous sampling methodology. Previously, FSA had a 90-percent confidence interval of plus or minus 2.5 percentage points.

8. NRCS FSRIP

a. NRCS determined a sample from the payments made in the prior fiscal year using a 95-percent confidence interval of plus or minus 3 percentage points.

b. Change in sampling process: NRCS has expanded the universe of statistically sampled payments to include Technical Assistance payments related to contracts executed in Internal Audit Services (IAS), contracts executed in Protracts, and Cooperative Agreements not related to easements. The inclusion of these payments broadens the population of NRCS Farm Bill assistance-related activities, enabling additional testing that demonstrates NRCS' commitment to reducing improper payments. NRCS adapted a more rigorous sampling methodology. Previously, NRCS had a 90-percent confidence interval of plus or minus 2.5 percentage points.

9. RMA FCIC

a. RMA's sample resulted in a confidence interval of 95-percent plus or minus 2.5 percentage points. The sampling period is for the reinsurance year (RY) 2016, which is based on the yearly reinsurance agreements in effect with Approved Insurance Providers (AIPs) July 2015 to June 2016.

b. Change in sampling process: None.

PAYMENT INTEGRITY OUTLOOK SECTION

Below are USDA's high-risk programs, sampling and estimation results. See the annotated notes for programs that are flatlining their future year improper payment reduction target. Please refer to the *Sampling and Estimation Section* for additional information on the sampling timeframe of each program susceptible to significant improper payments.

EXHIBIT 28: Payment Integrity Outlook Table ($ in millions)

Program	Current Year (CY) Outlays $	CY Properly Paid		CY Improperly Paid				Current Year +1 Estimated		
		Total %	Total $	Total %	Total $	Over Payment $	Under Payment $	Outlays $	IP %	IP $
Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP) [Note #1]	$63,592.72	93.70%	$59,584.95	6.30%	$4,007.77	$3,301.13	$706.64	$63,592.72	6.30%	$4,007.36
FNS National School Lunch Program (NSLP)	$12,249.74	90.57%	$11,094.34	9.43%	$1,155.40	$799.44	$355.96	$12,494.74	9.14%	$1,142.23
FNS School Breakfast Program (SBP)	$4,251.89	88.96%	$3,782.58	11.04%	$469.31	$298.66	$170.65	$4,379.45	10.77%	$471.68

Program	Current Year (CY) Outlays $	CY Properly Paid		CY Improperly Paid				Current Year +1 Estimated		
		Total %	Total $	Total %	Total $	Over Payment $	Under Payment $	Outlays $	IP %	IP $
FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	$3,604.98	94.61%	$3,410.75	5.39%	$194.23	$108.01	$86.22	$3,604.80	3.88%	$139.87
FNS Child and Adult Care Food Program (CACFP) [Note #2]	$720.97	99.46%	$717.08	0.54%	$3.89	$2.93	$0.96	$716.79	0.54%	$3.87
Farm Service Agency (FSA) Livestock Forage Disaster Program (LFP)	$353.35	88.08%	$311.24	11.92%	$42.11	$41.65	$0.46	$394.00	9.90%	$39.00
FSA Noninsured Crop Disaster Assistance Program (NAP)	$162.98	83.65%	$136.34	16.35%	$26.64	$26.05	$0.59	$150.00	9.90%	$14.85
Natural Resources Conservation Service (NRCS) Farm Security and Rural Investment Act Programs (FSRIP)	$2,570.96	99.17%	$2,549.69	0.83%	$21.27	$21.27	$0.00	$3,439.00	0.82%	$28.30

Program	Current Year (CY) Outlays $	CY Properly Paid		CY Improperly Paid				Current Year +1 Estimated		
		Total %	Total $	Total %	Total $	Over Payment $	Under Payment $	Outlays $	IP %	IP $
Risk Management Agency (RMA)Federal Crop Insurance Corporation (FCIC) Program Fund	$10,170.27	98.19%	$9,986.11	1.81%	$184.16	$153.79	$30.37	$7,883.00	1.80%	$141.89
USDA Total	$97,677.86	93.75%	$91,573.08	6.25%	$6,104.78	$4,752.93	$1,351.85	$96,654.50	6.20%	$5,989.05

Note #1: SNAP currently lacks a sufficient baseline to accurately project future reduction target rates. SNAP assigned error rates to 9 of 53 SNAP State agencies due to various reasons. Additionally, current legislative proposals are being considered that would significantly affect the improper payment rate in future years. The uncertainty created by these variables does not allow accurate future reduction target rate projections at this time, hence the need to flatline the CY+1 reduction target.

Note #2: CACFP's most recent sample-based estimate of 0.54 percent has a 90-percent confidence interval that ranges from 0.17 percent to 0.92 percent. FNS is working toward the development of a model to estimate CACFP Family Day Care Home tiering error rate in the years between sample-based studies. However, when the agency finalizes its model-based methodology, it will not be capable of measuring error any more precisely than the estimates generated by the agency's sample-based studies. Once the agency conducts the next iteration in that series of studies, it will be able to set a new reduction target and measure progress toward a target that falls within the existing 0.17 percent–0.92 percent range. In short, until the next study, the CACFP tiering error rate is best described as less than 1 percent, hence the need to flatline the CY+1 reduction target.

The table below displays supplemental information, providing a breakdown of specific USDA programs to the component reporting level.

EXHIBIT 29: Program Component Reporting Table ($ in millions)

Program	Current Year (CY) Outlays $	Current Year Improperly Paid			
		Total %	Total $	Overpayment $	Underpayment $
FNS NSLP Total Program	$12,249.74	9.43%	$1,155.40	$799.44	$355.96
FNS NSLP Certification Error	$12,249.74	8.59%	$1,051.78	$750.11	$301.67
FNS NSLP Counting Error	$12,249.74	0.85%	$103.62	$49.33	$54.29
FNS SBP Total Program	$4,251.89	11.04%	$469.31	$298.66	$170.65
FNS SBP Certification Error	$4,251.89	9.87%	$419.50	$287.27	$132.23
FNS SBP Counting Error	$4,251.89	1.17%	$49.81	$11.39	$38.42
FNS WIC Total Program	$3,604.98	5.39%	$194.23	$108.01	$86.22
FNS WIC Certification Error	$3,604.98	2.55%	$91.79	$91.79	$0.00
FNS WIC Vendor Error	$3,604.98	2.84%	$102.44	$16.22	$86.22

The following table provides information on the estimated amount of improper payments made directly by the Government and the amount of improper payments made by recipients of Federal money.

EXHIBIT 30: Improper Payment Additional Breakdown Table ($ in millions)

Program	Federal Government	Recipients of Federal Money
FNS SNAP	$0.00	$4,007.77
FNS NSLP	$0.00	$1,155.40
FNS SBP	$0.00	$469.31
FNS WIC	$0.00	$194.23
FNS CACFP	$0.00	$3.89
FSA LFP	$42.11	$0.00
FSA NAP	$26.64	$0.00
NRCS FSRIP	$21.27	$0.00
RMA FCIC	$0.00	$184.16
Total	$90.02	$6,014.76

DISCUSSION OF HIGH-PRIORITY PROGRAMS SECTION

The criteria for determining when a program is high priority are found in Office of Management and Budget (OMB) Circular A-123, Appendix C. High-priority programs are programs that report more than the $2 billion threshold in improper payments. USDA currently has three programs designated as high priority, and the following narrative addresses the additional reporting requirements that come with that designation.

1. FNS SNAP

- USDA reports three additional measures for the Supplemental Nutrition Assistance Program (SNAP) on https://paymentaccuracy.gov/program/supplemental-nutrition-assistance-program/.
  - The first is the measure that breaks out State-reported error rates by type and source of error: Agency, Client, or Other. The information will help the agency and States to identify and prevent root causes of error.
  - The second is the measure that shows the national aggregate error rate for the program. It incorporates each State's individual error rate into one aggregate, providing an early indicator of national trends.
  - The third is the measure providing the number of States with error rates better or worse than the previous year.
- The following narrative describes how SNAP's corrective actions were specifically tailored to better reflect the unique processes, procedures, and risks involved in the program. This program's actual corrective actions to prevent future improper payments can be found in the *Improper Payment Corrective Actions Section*.
  - Food and Nutrition Service (FNS) activities are guided by effective best practices developed over the years with State agencies and data analytics identifying the root causes of payment errors. FNS assesses sanctions for consecutive years of poor performance and requires States to implement corrective action plans to create incentives for greater payment accuracy. FNS works with State partners, through technical assistance and by offering competitive grants, to help States implement process improvements in their eligibility processes. FNS also provides technical assistance regarding new system development, greater use of technology, and data matching, which are also proven methods to positively impact payment accuracy. FNS also has regulatory prerequisites requiring States to collect overpayments and to address underpayments to help ensure, as partners, that we take our fiscal responsibility seriously in administering this critical nutrition assistance program.

- The following narrative describes the actions FNS has taken or plans to take to recover improper payment:
  - The National payment error rate is determined by calculating the weighted average of all the individual State error rates. A State's payment error rate is the combination of the overpayment error rate and the underpayment error rate resulting in a SNAP payment error rate. Overpayments are benefits issued to households that they are not entitled to receive. Underpayments occur when households are entitled to more benefits than they receive. However, starting in fiscal year (FY) 2015, FNS conducted reviews of the integrity of the State processes for measuring the payment error rate. In most States, the reviews found practices that, intentionally or unintentionally, biased the results of the quality control (QC) system. Due to this bias, FNS was unable to determine an official national payment error rate for FY 2016 (October 2015–September 2016).

2. FNS NSLP

- USDA reports two supplemental measures for the National School Lunch Program (NSLP) on https://paymentaccuracy.gov/program/national-school-lunch-program/. These are below:
  - The first is the percent of students directly certified for free school meals as a percentage of all students certified for free meals. The figure is updated annually based on information reported to FNS by State each October. This figure summarizes State and school district success in transitioning from traditional applications that exhibit relatively high error rates, to direct certification, with much lower error rates.
  - The second is the number of State agencies that receive State Technology Grants from USDA. This figure is an indirect measure of State agency investments in technology improvements and automation that reduces the risk of human error, particularly in recordkeeping, counting, and claiming meals for Federal reimbursement. This figure is also reported on an annual cycle that coincides with the award of State agency grants by USDA.
- The following narrative describes how NSLP's corrective actions were specifically tailored to better reflect the unique processes, procedures, and risks involved in the program. This program's actual corrective actions to prevent future improper payments can be found in the *Improper Payment Corrective Actions Section*.
  - The FNS activities have been guided by FNS research findings. The 2015 Access, Participation, Eligibility and Certification (APEC)-II study, in particular, provides the agency with actionable information on program error at four critical points: (1) when households complete applications for school meal benefits, (2) when school districts certify those applications, (3) when cafeteria staff determines

whether the meals served are reimbursable, and (4) when meal counts are aggregated and submitted for reimbursement. Utilizing these research findings, FNS has tailored its efforts to specifically address the issues cited.

- The following narrative describes the actions FNS has taken or plans to take to recover improper payment:
  - Current statutory authority allows FNS to recover improper payments from State agencies when identified through reviews, audits or other operational oversight activities. Improper payments identified in this manner are recovered from States through direct billing and offset of future program payments earned. Further, our statutory authority does not support collection of improper payments identified based on a statistical sample or estimation procedure, as used to develop the national estimates of improper payments reported here.

3. FNS SBP

- USDA reports two supplemental measures for the School Breakfast Program (SBP) on https://paymentaccuracy.gov/program/national-school-breakfast-program/. These are below:
  - The first is the percentage of students directly certified for free school meals as a percentage of all students certified for free meals. The figure is updated annually based on information reported to FNS by individual States each October. This figure summarizes State and school district success in transitioning from traditional applications that exhibit relatively high error rates, to direct certification, with much lower error rates.
  - The second is the number of State agencies that receive State Technology Grants from USDA. This figure is an indirect measure of State agency investments in technology improvements and automation that reduces the risk of human error, particularly in recordkeeping, counting, and claiming meals for Federal reimbursement. This figure is also reported on an annual cycle that coincides with the award of State agency grants by USDA.
- The following narrative describes how SBP's corrective actions were specifically tailored to better reflect the unique processes, procedures, and risks involved in the program. This program's actual corrective actions to prevent future improper payments can be found in the *Improper Payment Corrective Actions Section*.
  - The FNS activities have been guided by FNS research findings. The 2015 APEC II study, in particular, provides the agency with actionable information on program error at four critical points: (1) when households complete applications for school meal benefits, (2) when school districts certify those applications, (3) when cafeteria staff determines whether the meals served are reimbursable, and (4) when meal

counts are aggregated and submitted for reimbursement. Utilizing these research findings, FNS has tailored its efforts to specifically address the issues cited.

- The following narrative describes the actions FNS has taken or plans to take to recover improper payment:
  - Current statutory authority allows FNS to recover improper payments from State agencies when identified through reviews, audits, or other operational oversight activities. Improper payments identified in this manner are recovered from States through direct billing and offset of future program payments earned. Further, our statutory authority does not support collection of improper payments identified based on a statistical sample or estimation procedure, as used to develop the national estimates of improper payments reported here.

IMPROPER PAYMENT ROOT CAUSE CATEGORIES SECTION

EXHIBIT 31: Improper Payments Root Causes Table ($ in millions)

Reason for Improper Payment		FNS SNAP		FNS NSLP [Note #1]		FNS SBP [Note #1]	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue				$430.85	$257.31	$151.09	$113.89
Inability to Authenticate Eligibility	Inability to Access Data						
	Data Needed Does Not Exist						
Failure to Verify	Death Data						
	Income Data						
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility						
Administrative or Process Error Made By	Federal Agency						
	State and Local Agency	$1,527.33	$608.13	$368.59	$98.65	$147.57	$56.76
	Other Party						
Medical Necessity							
Insufficient Documentation to Determine							
Other Reason [*Note #1*]		$1,773.80	$98.51				
TOTAL		$3,301.13	$706.64	$799.44	$355.96	$298.66	$170.65

Reason for Improper Payment		FNS WIC		FNS CACFP		FSA LFP	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue							
Inability to Authenticate Eligibility	Inability to Access Data						
	Data Needed Does Not Exist					$11.87	$0.03
Failure to Verify	Death Data						
	Income Data					$0.38	
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility						
Administrative or Process Error Made By	Federal Agency					$14.47	$0.43
	State and Local Agency	$108.01	$86.22	$2.93	$0.96		
	Other Party						
Medical Necessity							
Insufficient Documentation to Determine						$14.93	
Other Reason							
TOTAL		$108.01	$86.22	$2.93	$0.96	$41.65	$0.46

Reason for Improper Payment		FSA NAP		NRCS FSRIP		RMA FCIC	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue							
Inability to Authenticate Eligibility	Inability to Access Data						
	Data Needed Does Not Exist	$0.68				$108.22	$15.66
Failure to Verify	Death Data						
	Income Data	$0.21					
	Excluded Party Data						
	Prisoner Data						
	Other Eligibility			$12.12			
Administrative or Process Error Made By	Federal Agency	$15.20	$0.59	$9.15			
	State and Local Agency						
	Other Party					$45.57	$14.71
Medical Necessity							
Insufficient Documentation to Determine		$9.96					
Other Reason							
TOTAL		$26.05	$0.59	$21.27	$0.00	$153.79	$30.37

Note #1: The Other Reason Root Cause Category is made up of payments caused by the client; however, these errors are not administrative or process errors.

IMPROPER PAYMENT CORRECTIVE ACTIONS SECTION

In the spring of 2018, USDA agencies analyzed transactions from fiscal year (FY) 2017 and the results are published in the FY 2018 Agency Financial Report (AFR). Please keep this in mind if narratives cite FY 2017 transactions in this report. Since USDA reports improper payments one year in arrears, corrective actions taken to reduce improper payments in FY 2018 have not been reflected in the improper payment amount of this report. USDA continues to enact specific corrective actions to resolve root causes of improper payments and strategically strengthen program integrity while ensuring access to program and activities.

All programs and activities determined to have improper payments exceeding the susceptible to significant improper payment thresholds (See Part I.B.1) must put in place a corrective action plan to prevent and reduce the improper payment amount. The tables below describe the actions taken and planned for each high-risk program that is above the reporting threshold (error rate equal or above 1.5 percent and improper payment amount of $10 million or more).

Office of Management and Budget (OMB) Circular A-136, dated July 30, 2018, states the following: “Agencies should also describe the results of actions taken to address the root causes and the planned or actual completion date of the actions taken to address each root cause.” Some of the corrective actions offer an indication of the impact it will have on addressing a root cause; however, in most cases, a series of corrective actions have cumulative impacts in improving payment accuracy.

EXHIBIT 32: Program Corrective Actions Table ($ in millions)

PROGRAM: FNS SNAP		
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$2,135.46 (millions)
Estimated Completion Date	➔	September 2019

Supplemental Nutrition Assistance Program (SNAP) Corrective Actions:

- Legislation requires that States with a high error rate for 2 or more subsequent years pay a financial liability to SNAP. States have the option to invest 50 percent of this financial liability back into the SNAP program and hold the remaining 50 percent in abeyance, which must be paid if the State's error rate does not improve in the upcoming year. The 50 percent invested back into the program is called new investment. States must target their new investment money toward correcting the issues that caused the State's error rate. Each State conducts a root cause analysis to determine the causes for their errors as part of the new investment plan. New investments are completely State funded and not eligible for Federal matching. In the past, States have used their new investment funds to undertake a document scanning project to ensure that client documents are more easily accessible, providing training to help eligibility workers better understand and follow SNAP rules, and a rewrite of the State's policy manual so it is easier for workers to read, access, and understand.
- Business Process Reengineering (BPR) is the analysis and redesign of a process or workflow to achieve greater efficiency. When States apply BPR to their SNAP certification process, the resulting savings in staff time create an opportunity to channel savings into activities that improve customer service, application processing timeliness, payment accuracy, and negative errors. FNS is currently facilitating BPR in three States.
- The Process and Technology Improvement Grants (PTIGs) provide grantees with funding to improve the quality and efficiency of operations and processes in SNAP offices. Grantees often combine BPR initiatives with modernization efforts to improve the accuracy and efficiency of the certification process so that eligible SNAP participants receive the correct amount of benefits they are entitled to, thus reducing the amount of improper payments. Each year, FNS awards a total of five million dollars in PTIG grants to States.

PROGRAM: FNS SNAP		
Root Cause (See *Exhibit 31*)	➔	Other Reason (Client-Caused)
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$1,872.31 (millions)
Estimated Completion Date	➔	September 2019

SNAP Corrective Actions:

SNAP's corrective actions are the same across type of payment error. To avoid repetition of the same corrective actions, please read SNAP's corrective actions located in the Administrative or Process Errors Made by: State or Local Agency root cause, found above.

Program: FNS NSLP		
Root Cause (See *Exhibit 31*)	➔	Program Design or Structural Issue
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$688.16 (millions)
Estimated Completion Date	➔	November 2019
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$467.24 (millions)
Estimated Completion Date	➔	November 2019

National School Lunch Program (NSLP) Corrective Actions:

- FNS evaluated its definition of improper payment error(s) for this program and determined previously identified 'meal claiming' error (those errors typically triggered by a child's failure to select a required fruit or vegetable) did not affect the eligibility status of the recipient, nor whether the right recipient received the right benefit. FNS conferred with OMB on the change in error definition for FY 2018.
- Modified process for assessing fiscal action across a School Food Authority (SFA) for certification error identified during a State Agency Administrative Review (AR).
- Updated AR guidance for School Year (SY) 2018–2019; the guidance provides clarifications on resource management and more accurately assesses fiscal action.

- Conducted AR webinars for State agencies in Spring and Summer of 2018; continue to assess technical assistance needs and provide any needed guidance and training.
- Conducted webinars on how to complete the new FNS-640 (Administrative Review Data Report) for State agencies and State systems vendors; SFAs began reporting data on the new form in May 2018. The new form provides higher quality data to support research into school meal program error.
- Conducted the fifth year of a demonstration project in selected school districts and States to test the potential for direct certification for free school meals using Medicaid data.
- Awarded direct certification grants to three States to fund projects associated with improving their direct certification rates.
- Provided technical assistance aimed at improving direct certification of children using the Food Distribution Program on Indian Reservations (FDPIR) participant data.
- Continued management of a contracted research portfolio to measure and study the underlying causes of improper payments in FNS programs and to test solutions designed to reduce error.
- Development of a new process to improve the quality of data collected on the FNS-742, the Verification Collection Report. This is a collaboration with the General Services Administration's 18F, an office tasked with improving the business of government through technology-based solutions.
- Development of a voluntary, self-administered testing protocol to assist software vendors in evaluating the functionality of their web-based applications for school meals.
- Collaboration with seven other Federal agencies and a nonprofit organization to develop and judge a public challenge competition aimed at identifying new ideas to validate applicant eligibility for means-tested assistance programs.
- Promotion of USDA's integrity focused web-based model school meal application through policy memo and presentation at national conferences and trainings.
- Continue to work with State and local agencies to ensure that eligible school districts have the information needed to make informed local decisions about Community Eligibility Provision (CEP) participation. CEP eliminates the use of household income applications; it relies instead on direct certification which has a lower certification error rate.
- Offer States Administrative Review and Training (ART) grants to implement training and technology solutions to reduce and prevent administrative errors in local educational agencies (LEAs) that are at high risk for such errors.
- Continue to lead and coordinate meetings of the Child Nutrition State Systems Workgroup made up of State agencies and FNS regional and national office representatives. The purpose of this workgroup is to identify priorities for State and local automation to improve accountability, monitoring, training, and data quality.
- Conduct the fourth national technology training for State agencies and technology vendors, "Child Nutrition (CN) Access & Accountability through Technology" in 2018. The training is focused on developing State agency skills and knowledge in technology-related areas that can improve program integrity.

- Annually award Child Nutrition Technology Innovation competitive grants to States to implement innovative technology solutions to improve accountability, data accuracy, performance measurement, and the capacity to identify and target error-prone areas in Child Nutrition Programs at the State and LEA or sponsor levels.
- Annually approve State Agency direct certification Continuous Improvement Plans to improve the effectiveness of their direct certification processes.

Program: FNS SBP		
Root Cause (See *Exhibit 31*)	➔	Program Design or Structural Issue
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$264.98 (millions)
Estimated Completion Date	➔	November 2019

Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$204.33 (millions)
Estimated Completion Date	➔	November 2019

SBP Corrective Action:

SBP's corrective actions are the same across type of payment error. To avoid repetition of the same corrective actions, please read NSLP's corrective actions located in the Program Design or Structural Issue root cause, found above.

Program: FNS WIC		
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$194.23 (millions)
Estimated Completion Date	➔	January 2019

Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Corrective Actions:

- In FY 2017, FNS began a 2-year management evaluation (ME) focus on funding and participation. The most recent target area was chosen because access to WIC benefits and services is dependent on appropriate management of program funds and caseload. FNS analyzes program integrity MEs to determine trends and to inform policy, guidance, and technical assistance.
- In September 2017, FNS released a comprehensive WIC Vendor Management and Food Delivery Handbook, which includes topical guidance designed to help State agencies effectively develop, assess, and implement key vendor management and cost containment system components. FNS currently is working on the first update to the Handbook, which will include two additional chapters: Vendor Cost Containment and Monitoring and Audits. Additionally, FNS will release several tip sheets designed for WIC State agencies, including: administrative review of WIC vendors, high-risk vendor identification, EBT vendor agreement provisions, and above 50-percent vendor cost neutrality assessments.
- In early FY 2019, FNS plans to provide resources, including trainings, worksheets, and toolkits to WIC State agencies on cost neutrality assessments for above 50-percent vendors, the development of vendor peer group systems, and the development of high-risk vendor indicators.

Program: FNS CACFP		
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$3.89 (millions)
Estimated Completion Date	➔	November 2019

Child and Adult Care Food Program (CACFP) Corrective Actions:

- Released a redesigned CACFP Meal Benefit Income Eligibility Application based on FNS NSLP paper prototype application.
- Engaged in the identification of key factors and barriers to day care home provider participation in CACFP, including barriers and challenges to program operations, tiering, and claims.
- Annually award Child Nutrition Technology Innovation competitive grants to States to implement innovative technology solutions to improve accountability, data accuracy, performance measurement, and the capacity to identify and target error-prone areas in Child Nutrition Programs at the State and LEA or sponsor levels.
- Conduct routine management evaluations of State agencies, to ensure State agency compliance with program regulations.
- Finalize contracted study of improper program payments in CACFP child care centers, which will allow FNS to report a more complete set of improper payment figures for CACFP in satisfaction of Improper Payments Elimination and Recovery Act of 2010 (IPERA) requirements.

Program: FSA LFP		
Root Cause (See *Exhibit 31*)	➔	Inability to Authenticate Eligibility: Data Needed Does Not Exist
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$11.90 (millions)
Estimated Completion Date	➔	November 2018

Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: Federal Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$14.90 (millions)
Estimated Completion Date	➔	November 2018

Livestock Forage Disaster Program (LFP) Corrective Actions:

- Agency is implementing an LFP software enhancement that automatically reads and imports eligible acreage data from the Farm Service Agency (FSA)-578 Report of Acreage into the Commodity Credit Corporation (CCC)-853 LFP Application. Training was provided to State offices to implement software enhancements and to review the Improper Payments Information Act of 2002 (IPIA) results, with the requirement that State offices provide equivalent training to field offices.
- Issued a notice to field offices to review IPIA results, and reinforce and outline program policies and procedures for what is acceptable evidence for documenting each LFP applicant's grazing land ownership and/or leasing, ensuring that it is on file before the application is approved.

Program: FSA LFP		
Root Cause (See *Exhibit 31*)	➔	Insufficient Documentation to Determine
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$14.93 (millions)
Estimated Completion Date	➔	November 2018

LFP Corrective Actions:

- Notice issued to field offices to reinforce program policies and procedures, outlining what is acceptable evidence for documenting eligible forage, livestock, and acreage.
- Notice to field offices addressed what is acceptable documentation for determining producer eligibility including ensuring farm operating plans, acreage reports, adjusted gross income certifications, and highly erodible land conservation and wetland conservation certifications are completed prior to application approval and payment.
- Training provided to State offices to implement software enhancements and to review IPIA results, with the requirement that State offices provide equivalent training to field offices.

Program: FSA LFP		
Root Cause (See *Exhibit 31*)	➔	Failure to Verify: Income Data
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$0.38 (millions)
Estimated Completion Date	➔	November 2018

LFP Corrective Actions:

- Notice issued to field offices to reinforce program policies and procedures, outlining what is acceptable documentation for determining producer eligibility including ensuring farm operating plans, acreage reports, adjusted gross income certifications, and highly erodible land conservation and wetland conservation certifications are completed prior to application approval and payment.
- Training provided to State offices to implement software enhancements and to review IPIA results, with the requirement that State offices provide equivalent training to field offices.

Program: FSA NAP		
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: Federal Agency
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$15.79 (millions)
Actual Completion Date	➔	September 2018

Noninsured Crop Disaster Assistance Program (NAP) Corrective Actions:

Implemented NAP software to automate the computation of unit acres/pay group when calculating NAP payments. This action took place in June 2017.

Proposed training for new Program Specialists in the State Offices and Program Technicians in the County Offices who are responsible for NAP. This Train the Trainer Training was proposed for State and selected County Office employees from across the county, to then be presented locally. In addition, specific training is targeted for Alabama. This action took place in September 2018.

Program: FSA NAP		
Root Cause (See *Exhibit 31*)	➔	Insufficient Documentation to Determine
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$9.96 (millions)
Estimated Completion Date	➔	November 2018

NAP Corrective Actions:

Training needs have been identified. The ongoing Office of Inspector General (OIG) investigation will provide valuable information to correct records and proceed with overpayment collections. The Production, Emergencies, and Compliance Division (PECD) encouraged training to occur prior to September 28, 2018. The Train the Trainer Training was proposed for State and selected County Office employees from across the county, to then be presented locally. In addition, specific training is targeted for Alabama.

Program: FSA NAP		
Root Cause (See *Exhibit 31*)	➔	Failure to Verify: Income Data
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$0.21 (millions)
Actual Completion Date	➔	June 2017

Root Cause (See *Exhibit 31*)	➔	Inability to Authenticate Eligibility: Data Needed Does Not Exist
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$0.68 (millions)
Actual Completion Date	➔	June 2017

NAP Corrective Actions:

Automated NAP software became available for the 2017 crop year. This software validates that all eligibility records have been updated and that payments are authorized to be issued. The payment process has been integrated into the automation process.

Program: RMA FCIC		
Root Cause (See *Exhibit 31*)	➔	Administrative or Process Errors Made by: Other Party
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$60.28 (millions)
Estimated Completion Date	➔	June 2019

Federal Crop Insurance Corporation (FCIC) Corrective Actions:

Each year, the Risk Management Agency (RMA) provides a broad overview to the private sector Approved Insurance Providers (AIPs) of the types of errors identified during the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) review process.
To address the diverse types of administrative or process errors (e.g., acreage reporting, actual production history [APH], application, claim), RMA will provide a more detailed analysis to the AIPs to help them better identify and control the specific types of problems, such as a signature type, which are contributing to the errors.

Program: RMA FCIC		
Root Cause (See *Exhibit 31*)	➔	Inability to Authenticate Eligibility: Data Needed Does Not Exist
Amount Associated with the Root Cause (See *Exhibit 31*)	➔	$123.88 (millions)
Estimated Completion Date	➔	September 2019

FCIC Corrective Actions:

Almost half of the Inability to Authenticate errors were related to Audit of Production History, which includes the acceptability of production records and the accuracy of production certification. To clarify consequences of production certification audits, RMA made changes in the 2018 Crop Insurance Handbook outlining exceptions to assigned yield procedures.
In addition, for the 2019 Crop Insurance Handbook, RMA will be editing the production evidence language to improve clarity and minimize burdensome reporting requirements for acceptable records. Action will be completed by December 2018.

Acreage reporting issues were the other primary cause of Inability to Authenticate errors.
A Regional Compliance Office, in collaboration with RMA's Business Analytics Division and geographic information system (GIS) specialists, will be conducting a program review to help identify land that is chronically unavailable for planting and/or ineligible for inclusion on an acreage report. Action will be completed by September 2019.

INTERNAL CONTROL OVER PAYMENT INTEGRITY SECTION

USDA programs have implemented internal controls to prevent improper payments. USDA programs are:

- Enhancing communication of updated policies and guidance to the field offices;
- Encouraging managers to build an atmosphere in which reducing improper payments is a top priority;
- Establishing accountability through performance standards;
- Examining root causes of error;
- Developing appropriate corrective actions; and
- Engaging critical stakeholders through communication and educational efforts.

ACCOUNTABILITY SECTION

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

Food and Nutrition Service (FNS)

For items 1–3 which follow, the agency goals and priorities are incorporated into each manager's performance plan. Standards for meeting reduction targets and establishing and maintaining sufficient internal controls have been incorporated into each manager's plan, beginning in 2005.

1. FNS has established corporate priorities to improve stewardship of Federal funds and to improve program management. Within these priorities are specific goals applicable to programs at high risk for erroneous payments. The goal for the Supplemental Nutrition Assistance Program (SNAP), National School Lunch Program (NSLP), School Breakfast Program (SBP), Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and Child and Adult Care Food Program (CACFP) is to continue management improvements.

2. In NSLP and SBP, USDA has a strategic objective to improve nutrition assistance program management that is managed by FNS, including a measure to improve the accuracy of school administrative processes that certify children for school meals. As part of its actions to advance this objective, FNS sets annual priority goals and initiatives, including specific goals applicable to programs at high risk for erroneous payments.

3. FNS has a corporate priority to maintain a high standard of integrity in SNAP. This priority includes specific goals to support achievement of error-reduction goals, to use multiple strategies to support payment accuracy, even as program participation increases.

Farm Service Agency (FSA)

The following steps were completed by September 2017 and are ongoing:

1. FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the State Executive Director's Performance Plan, Element 5, titled "Program Management."

2. National Office and State Office (STO) managers are held accountable for ensuring that program policies and procedures are provided to the STO and County Office (COF) employees accurately and on a timely basis. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the National level. In accordance with agency performance management requirements in FSA Handbook 5-PM and FSA Notice PM-2993, all FSA employees have performance elements that are aligned with applicable strategic goals and objectives from FSA's FY 2016–FY 2018 Strategic Plan. Goal #4, Objectives 4.1 and 4.2, specifically address accountability and internal controls. In addition, all field office employees who work with farm program payments have an improper payments performance standard as detailed in FSA Notice PM-2993.

3. COF employees, including the County Executive Director, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated through their performance plans on program delivery, as well as their compliance with regulations, policies, and procedures.

4. The Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.

5. FSA's 2016-2018 Strategic Plan, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and compliance with the IPIA, incorporates the priority of reducing improper payments into its strategic planning documents.

Risk Management Agency (RMA)

1. RMA senior accountable officials' annual performance plans are tied to Goal #4 of the RMA Strategic Plan—"Safeguarding the integrity of the Federal crop insurance program." The Strategic Plan goal was to reduce the improper payment rate from

5.23 percent in 2013 to 4.9 percent by 2018. RMA exceeded its strategic targets, and the actual improper payment rate was 1.81 percent in FY 2018.

2. RMA incorporated standards in the FY 2018 annual performance plans to ensure that compliance personnel conduct IPERIA reviews to measure the Federal crop insurance program (FCIP) improper payment error rate and perform data mining reviews to identify, reduce, and collect improper payments. RMA Regional Compliance Offices (RCOs) conducted IPERIA reviews between April 2017–March 2018 using statistical sampling and data mining reports.

AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

FNS

1. CACFP does not have an infrastructure or methods for producing yearly estimates of improper payment rates and dollar values. FNS has developed a measurement methodology for one component of the program and is in the process of determining the feasibility of measuring error in a second component. CACFP payments and claim information are transferred among FNS, State agencies, program sponsors, and program sites; each transaction represents a risk for improper payment. Because requirements vary significantly for each different type of program sponsor and site, a full and rigorous assessment of the rate of improper payments is extremely complex.

   Currently, FNS has two CACFP studies looking at alternative methodologies for developing a reliable measurement for the meal claims component. The two studies are expected to be completed by December 2018 and April 2019.

2. The NSLP does not have an administrative infrastructure for producing yearly estimates of improper payment rates and dollar values. FNS uses its periodic Access, Participation, Eligibility, and Certification (APEC) study to provide a baseline error rate estimate and an aging methodology to update this estimate annually using program administrative data and macroeconomic indicators. FNS has worked with OMB to provide an annual estimate using an approved methodology to estimate payment errors. The continuance of the APEC study will enable FNS to estimate and measure changes in erroneous payments over time and would help inform FNS, Congress, the States, and advocacy partners regarding the development of additional guidance, training, and policy options.

3. The FNS FY 2018 Budget requested an increase in funding for the following program integrity line items to establish and maintain effective internal controls to reduce improper payments as follows:

a. Child Nutrition (CN) Training and Technical Assistance—an increase of $565,000 was requested ($13,137,000 enacted for FY 2017). Effective and continual training and technical assistance are necessary to help States properly administer the CN program to ensure that States are equipped to identify and prevent fraud and abuse. This is especially critical because of the changes made to these vital programs by the Healthy, Hunger-Free Kids Act of 2010, which reauthorized these programs and instituted new requirements for State agencies. This request reflects an increase in Federal activity associated with this project, including implementation of the new requirements.

b. CN Payment Accuracy—an increase of $454,000 was requested ($10.562 million enacted for FY 2017). Robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of erroneous payments. This request supports FNS' efforts to reduce erroneous payments through training, technical assistance, and oversight.

FNS' FY 2018 Budget reflects the same level of funding as in previous years to continue effective internal control measures to promote program integrity for the Coordinated Review Effort.

Administrative Reviews—$10 million was provided for training and technical assistance for State agencies responsible for reviewing local school food authorities that participate in the school meal programs. Local administrative reviews help ensure that school children are offered meals that meet regulatory standards and that the financial claims associated with those meals are appropriate.

FSA

FSA has the internal controls, human capital, information systems, and other infrastructure needed to reduce improper payments.

RMA

One of RMA's primary tools for assessing approved insurance providers' (AIPs) compliance with all crop insurance program requirements is the AIP Performance Review (APR). During fiscal year 2018, RMA completed APRs of six AIPs to evaluate their internal controls in order to identify and address program vulnerabilities.

Discretionary Funding—Salaries and Expenses (S&E)—Discretionary funds for the Federal crop insurance programs cover most of the Federal salaries and related expenses to manage the program. The 2018 Budget includes about $74 million in discretionary appropriations for these costs. In addition, the Federal Crop Insurance Act authorizes the transfer of up to $9 million each fiscal year from mandatory funding to the RMA S&E account for program compliance and integrity reviews.

BARRIERS SECTION

FNS

FNS is committed to ensuring that eligible individuals and families have access to the nutrition assistance they need while it works to reduce the risk of improper payments. Some program provisions designed to ensure access pose the greatest risk to program integrity. While the risks vary by program, some general characterizations can be made:

Program administration is highly decentralized and involves a myriad of governmental and non-governmental organizations. For example, there are approximately 68,000 child and adult care centers, 700 Family Day Care Home (FDCH) sponsoring organizations, and approximately 103,000 FDCH providers through which CACFP benefits are distributed. Similarly, the NSLP and the SBP rely on nearly 98,800 schools and institutions to serve meals to 30 million children consistent with program rules. Many of these organizations simply do not have the capacity to develop robust accountability processes, which puts a special burden on Federal and State oversight and technical assistance systems.

The entire cost of program benefits and a significant portion of administrative expenses incurred by State agencies are funded by Federal appropriations. Federal funding strengthens the nutrition safety net with national eligibility standards and rules to ensure program access, but it also means that USDA relies on States and localities to ensure the proper management of billions of dollars in Federal funds.

Any approach to reducing school meals improper payments must:

1. Improve accuracy without compromising access for low-income families. A process that keeps eligible children from participating would undermine the program;

2. Not increase the burden on schools and other partner institutions. Many schools consider the program burdensome now. Adding burden could discourage schools from participating, decreasing access for some low-income children;

3. Be cost effective. Improving accuracy is potentially resource intensive, and policymakers must not create a process that increases net program costs; and

4. Answer the needs of other users of program data, which often use certification data to distribute millions of dollars in other kinds of benefits to schools (e.g. Title I, State, and local education funding). As these needs contribute to the problem, a solution may also require new commitments from those users.

SNAP benefits are processed and administered by State agencies, with FNS oversight. The Food and Nutrition Act of 2008, as amended, provides for incentives in the form of financial bonuses and disincentives in the form of financial penalties to encourage States to accurately issue SNAP

benefits and maintain low improper payment rates. FNS provides oversight and technical assistance to States in measuring and reporting improper payments. Since FNS does not provide benefits directly to recipients, the Program must work through its State administering agencies to measure, monitor, and address improper payments. In recent years, SNAP FNS has made efforts to strengthen program integrity regarding improper payment measurement. It has instituted new procedures to strengthen monitoring and has conducted reviews of all State agency error rate measurements to identify areas for improvement and to require corrective action for States where data collection issues were identified.

FSA

FSA rarely encounters statutory or regulatory barriers in the pursuit of overpayments. If an overpayment is established, from no fault of the customer, and if the overpayment is not discovered within 90 days of the payment issued, the producer can be removed from liability based on the Finality Rule, which is described as follows: The U.S. Department of Agriculture Reorganization Act of 1994, Section 281, provides that "Each decision of a State, County, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] no action may be taken to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous."

Prior to the 2008 Farm Bill, all receivables over 10 years old were written off if the receivable was not secured by collateral, a judgment, or pending litigation. With the 2008 Farm Bill, the elimination of the 10-year statute of limitation enhanced the pursuit of overpayments. The Farm Service Agency pursues all overpayments until they are determined to be uncollectible because of death of the customer, bankruptcy discharging the debt, or inability to pay (no assets).

All payments for a customer with open receivables will be automatically offset and applied against any open receivables the customer may have in FSA's receivable system.

FSA's pursuit of delinquent debt, including overpayments, is in accordance with the Debt Collection Improvement Act. Delinquent receivables are referred to the U.S. Department of the Treasury and the Treasury Offset Program (TOP) to ensure that Federal payments are offset. Due process is provided to the customer for each overpayment (initial notification, first, and second demand letter). After due process has been given to the producer, annual reminder letters are mailed to the producer with outstanding receivables. FSA uses LexisNexis to assist with locating producers and finding more current information on debtors.

RMA

RMA is not subject to any critical statutory or regulatory barriers to reducing improper payments.

RECAPTURE OF IMPROPER PAYMENTS REPORTING

USDA is required to conduct payment recapture auditing on all programs with over $1 million in annual expenditures or provide justification that a payment recapture audit program would not be cost effective, per OMB Circular A-123 Appendix C. USDA utilized FY 2017 actual outlay information to determine which programs meet the $1 million payment recapture auditing requirement. The following results highlight the payment recapture activities completed in FY 2018:

1. USDA recaptured approximately $0.25 million from its Supplier Credit Recovery Audit contractor (0.04 percent of USDA's total identified overpayments), $204.81 million from USDA programs' internal payment recapture audits (34.00 percent of USDA's total identified overpayments), and $371.59 million outside of payment recapture audits (60.92 percent of USDA's total identified overpayments). Results are shown in the *Exhibit 34: Overpayments Recaptured through Payment Recapture Audits*.

2. USDA distributed $201.60 million in recovered funds in accordance with IPERA as shown in *Exhibit 36*: *Disposition of Funds Recaptured*.

3. Fifty eight programs participated in the Supplier Credit Recovery Audit, and 42 programs developed internal payment recapture plans, which were approved by OCFO. These internal plans identify and recover improper payments. Activities include data mining-initiated reviews, limited-scope reviews, special investigations, eligibility verification, agency-wide audits, etc. As outlined in OMB Circular A-123 Appendix C Part III Section C. 5 and 6, 40 programs submitted a cost-effective waiver to OMB. A list of programs categorized by recovery auditing activity is provided in the table below:

EXHIBIT 33: List of Programs Categorized by Recovery Auditing Activity Table

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
1	Agricultural Marketing Service (AMS) Commodity Purchase Programs	✓			
2	AMS Grants Programs	✓			
3	AMS Salaries and Expenses	✓			
4	Animal and Plant Health Inspection Service (APHIS) Buildings and Facilities	✓			
5	APHIS Cooperative Agreements		✓		
6	APHIS Indemnity Program	✓			
7	APHIS Salaries and Expenses	✓			
8	APHIS Trust Funds	✓			
9	Agricultural Research Service (ARS) Buildings and Facilities	✓			
10	Commodity Credit Corporation (CCC) Administrative Contracts		✓		
11	CCC Agricultural Wool Apparel Manufacturers Trust Funds		✓		
12	CCC Agriculture Risk Coverage and Price Loss Coverage		✓		
13	CCC Biomass Crop Assistance Program		✓		

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
14	CCC Conservation Reserve Program		✓		
15	CCC Cotton Transition Assistance Program		✓		
16	CCC Dairy Domestic Donations				✓
17	CCC Dairy Indemnity		✓		
18	CCC Emergency Assistance for Livestock, Honeybees, and Farm Raised Fish Program		✓		
19	CCC Emergency Forestry Conservation Reserve		✓		
20	CCC Export 416 Ocean Transportation	✓			✓
21	CCC Export Guarantee Program Level		✓		✓
22	CCC Farm Storage Facility Loan		✓		
23	CCC Feedstock Flexibility Program				✓
24	CCC Food for Progress Program [Note #1]	✓	✓		
25	CCC Hazardous Waste Activities		✓		
26	CCC Hurricane Sandy—Emergency Forest Restoration Program		✓		
27	CCC Livestock Forage Disaster Program		✓		
28	CCC Livestock Indemnity Program		✓		

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
29	CCC Loan Deficiency Payments		✓		
30	CCC Margin Protection Program for Dairy Producers		✓		
31	CCC Marketing Assistance Loan Program		✓		
32	CCC Marketing Programs		✓		
33	CCC Noninsured Crop Disaster Assistance Program		✓		
34	CCC Pima Agriculture Cotton Trust Fund		✓		
35	CCC Supplemental Revenue Assistance Payments Program		✓		✓
36	CCC Tobacco Transition Payment Program		✓		✓
37	CCC Trade Adjustment Assistance Program				✓
38	CCC Tree Assistance Program		✓		
39	CCC Upland Cotton Economic Adjustment Assistance Program		✓		
40	Office of Civil Rights (CR) Salaries and Expenses	✓			

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
41	Departmental Management (DM) Agriculture Buildings and Facilities	✓			
42	DM Biobased Markets Program	✓			
43	DM Hazardous Materials Management	✓			
44	Foreign Agricultural Service (FAS) McGovern-Dole Food for Education Grants	✓			
45	Farm and Foreign Agricultural Services (FFAS) Salaries and Expenses	✓			
46	Food and Nutrition Service (FNS) America Samoa			✓	
47	FNS Child and Adult Care Food Program	✓			
48	FNS Commonwealth of the Northern Mariana Islands			✓	
49	FNS Commodity Supplemental Food Program	✓			
50	FNS The Emergency Food Assistance Program	✓			
51	FNS Farmers Market Nutrition Program			✓	

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
52	FNS Food Distribution Program on Indian Reservations	✓			
53	FNS National School Lunch Program	✓			
54	FNS Nutrition Assistance—Puerto Rico			✓	
55	FNS Salaries and Benefits	✓			
56	FNS School Breakfast Program			✓	
57	FNS Senior Farmers Market Nutrition Program			✓	
58	FNS Special Milk Program			✓	
59	FNS Special Supplemental Nutrition Program for Women, Infants and Children			✓	
60	FNS Summer Food Service Program	✓			
61	FNS Supplemental Nutrition Assistance Program			✓	
62	Food Safety and Inspection Service (FSIS) Cooperative State Food Safety and Inspection			✓	
63	FSIS Salaries and Expenses	✓			
64	Farm Service Agency (FSA) Agricultural Credit Insurance Fund —Program Account		✓		

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
65	FSA Emergency Conservation Program		✓		
66	FSA Emergency Forest Restoration Program		✓		
67	FSA Grassroots Source Water Protection Program		✓		
68	FSA Hurricane Sandy —Emergency Conservation Program				✓
69	FSA Public Law 480	✓			
70	FSA Reforestation Pilot Program				✓
71	FSA Reimbursement Transportation Cost Payment Program		✓		
72	FSA State Mediation Grants		✓		
73	Forest Service (FS) Capital Improvement and Maintenance	✓			
74	FS Forest and Rangeland Research	✓			
75	FS Permanent Appropriations	✓			
76	FS Trust Funds	✓			
77	FS Hurricane Sandy—Capital Improvement and Maintenance				✓
78	FS Hurricane Sandy—Emergency Forest Restoration Program	✓			✓

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
79	FS Land Acquisition	✓			
80	FS Management of National Forest Lands for Subsistence Uses	✓			
81	FS National Forest System	✓			
82	FS Range Betterment Fund	✓			
83	FS State and Private Forestry	✓			
84	FS Stewardship Contracting Product Sales	✓			
85	FS Wildland Fire Management	✓			
86	FS Wildland Fire Management —Suppression	✓			
87	FS Working Capital Fund	✓			
88	National Institute of Food and Agriculture (NIFA) Community Foods Project		✓		
89	NIFA Extension Activities		✓		
90	NIFA Integrated Activities		✓		
91	NIFA Research and Education Activities		✓		
92	Natural Resources Conservation Service (NRCS) Conservation Technical Assistance (non-Farm Bill)	✓			

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
93	NRCS Farm Security and Rural Investment Act Program (FSRIP)	✓			
94	NRCS Plant Materials Centers	✓			
95	NRCS Snow Survey and Water Supply Forecasting	✓			
96	NRCS Soil Surveys	✓			
97	NRCS Watershed Programs	✓			
98	Office of Advocacy and Outreach for Socially Disadvantaged Farmers	✓			
99	Office of Budget and Program Analysis Salaries and Expenses	✓			
100	Office of the Chief Economist Salaries and Expenses	✓			
101	Office of the Chief Financial Officer Salaries and Expenses	✓			
102	Office of the Chief Information Officer Salaries and Expenses	✓			
103	Office of the General Counsel (OGC) Salaries and Expenses	✓			
104	Office of Hearings and Appeals Salaries and Expenses	✓			

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
105	Office of Inspector General (OIG) Salaries and Expenses	✓			
106	Office of the Secretary Salaries and Expenses	✓			
107	Rural Business-Cooperative Service (RBS) Grant Programs			✓	
108	RBS Guaranteed Loan Programs			✓	
109	RBS Payment Programs			✓	
110	RBS Relending Programs			✓	
111	Rural Development (RD) Salaries and Expenses	✓			
112	Rural Housing Service (RHS) Community Program Grants			✓	
113	RHS Direct Community Facility Loans			✓	
114	RHS Direct Single Family Housing		✓		
115	RHS Farm Labor Housing Loans (Section 514) Farm Labor Housing Grants (Section 516)			✓	
116	RHS Guaranteed Community Facility Loans			✓	
117	RHS Guaranteed Single Family Housing Loans		✓		

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
118	RHS Guaranteed Multi-Family Housing (MFH) Loans (Section 538 Loans)			✓	
119	RHS Housing Loans and Grants—Other			✓	
120	RHS MFH Preservation & Revitalization Demo Program: 514/516 Loans/Grants & 515 Loans			✓	
121	RHS Rental Assistance Program		✓		
122	RHS Rural Community Development Initiative Grants			✓	
123	RHS Rural Rental Housing Loans (Section 515 Direct Rural Rental Housing Loans)			✓	
124	RHS Voucher Program (Section 542) [Note #1]	✓	✓		
125	Rural Utilities Service (RUS) Broadband Telecom Loans—Treasury Rate			✓	
126	RUS Community Connect Grants			✓	
127	RUS Congressional Earmarked Funds			✓	
128	RUS Electric Loan Programs [Catalog of Federal Domestic Assistance (CFDA) 10.850]—Direct Treasury Rate			✓	✓

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
129	RUS Electric Loan Programs (CFDA 10.850)—Federal Financing Bank (FFB) Guaranteed			✓	
130	RUS Rural Energy Savings Program				✓
131	RUS Grants—Other Electric —Telecom. WEP			✓	
132	RUS Public Television Digital Transition Grants			✓	
133	RUS Revolving Loan Fund Program			✓	
134	RUS Rural Telecommunications Hardship Loans —Direct Telecom. Loans			✓	
135	RUS Rural Telecommunications Loans —FFB Telecom. Loans			✓	
136	RUS Rural Telecommunications Loans —Treasury Telecom. Loans			✓	
137	RUS Rural Utilities Electric Program —Direct 5 percent			✓	
138	RUS Rural Utilities Electric Program —Municipal Rate			✓	✓
139	RUS Water and Waste Disposal Systems for Rural Communities —Grant			✓	

No.	Program Name	Supplier Credit Recovery Audit	Internal Payment Recapture Audit	Programs with Approved Waivers-Based Cost Effectiveness [Note #3]	Programs with less than $1 million in FY 2017 Expenditures [Note #7]
140	RUS Water and Waste Disposal Systems for Rural Communities —Loans [Note #2]	✓		✓	
141	RUS Water and Waste Disposal Systems Loans and Grants Section 306C			✓	
142	RUS Water and Waste Guaranteed Loans			✓	
143	Research, Education, and Economics (REE) Salaries and Expenses	✓			
144	Risk Management Agency Federal Crop Insurance Corporation		✓		

Overpayment Recaptures with and without Recapture Audit Programs

USDA had mechanisms in place to collect overpayments, even prior to the establishment of official payment recapture audits. For the FY 2018 AFR Recapture reporting period [Note #4], USDA recovered $371.59 million out of the identified $381.01 million through methods outside of Recapture Audit Programs (See *Exhibit 35: Overpayment Recaptured Outside of Recapture Audit* for additional breakout). The table below provides detailed information regarding the recoveries collected through official payment recapture audits.

EXHIBIT 34: Overpayments Recaptured through Payment Recapture Audits Table ($ in millions) *[Note #4]*

Program or Activity	Amount Identified	Amount Recaptured	CY Recapture Rate	CY +1 Recapture Rate Target
Supplier Credit Recovery Audit Program [Note #5]	$0.25	$0.25	100.00%	100.00%
APHIS Internal Program	$0.10	$0.00	0.00%	50.00%
FSA/CCC Internal Program	$195.86	$186.64	95.29%	96.00%
NIFA Internal Program	$15.98	$6.80	42.55%	43.00%
RD Internal Programs	$5.31	$4.62	87.01%	88.00%
RMA—Federal Crop Insurance Corporation [Note #6]	$11.40	$6.75	59.21%	100.00%
TOTAL	$228.90	$205.06		

EXHIBIT 35: Overpayment Recaptured Outside of Recapture Audit Programs ($ in millions) [Note #4]

Program or Activity	Amount Identified	Amount Recaptured	Recapture Rate
AMS	$0.00	$0.00	N/A
APHIS	$0.06	$0.06	100.00%
DA	$0.00	$0.00	N/A
FAS	$0.09	$0.09	100.00%
FNS	$353.19	$353.19	100.00%
FS	$2.98	$2.54	85.23%
FSA	$4.94	$5.93	120.04%[14]
FSIS	$0.00	$0.00	N/A
GIPSA	$0.00	$0.00	N/A
NAD/OAO	$0.00	$0.00	N/A
NRCS	$3.51	$1.11	31.62%
OCFO/OBPA/OCIO	$0.00	$0.00	N/A
OGC	$0.00	$0.00	N/A
OIG	$0.00	$0.00	N/A
OSEC/OCE	$0.00	$0.00	N/A
RBS	$0.02	$0.00	0.00%
REE	$16.21	$8.66	53.42%
RHS	$0.01	$0.02	200.00%
RMA	$0.00	$0.00	N/A
RUS	$0.00	$0.00	N/A
OCR	$0.00	$0.00	N/A
Total	$381.01	$371.59	97.53%

[14] The amount recaptured can be higher than the amount identified within a specific time period given the nature of collections. Collection of overpayments occur after the identification of the overpayment which can lapse into other reporting periods and there may be instances that require multiple collections (such as a payment plan for individuals who have a lower income) in order to return the overpayment in full.

USDA recaptured $205.06 million dollars of which $187.89 million or 91.63% was returned to the Treasury, $13.71 million or 6.68% was returned to agencies for the original program purpose, and $3.46 million or 1.69% was used for Other purposes, as described in *Exhibit 36* below.

EXHIBIT 36: Disposition of Funds Recaptured Through Payment Recapture Audit Programs Table ($ in millions)

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	To OIG	Returned to Treasury	Other	Justification for "Other" Amounts
Supplier Credit Recovery Audit Program [Note #5]	$0.25	Contracts	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.25	Funds in "Other" Column have not been distributed.
APHIS Internal Program	$0.00	Grants	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	N/A
FSA/CCC Internal Program	$186.64	Loans Other	$0.00	$0.00	$0.00	$0.66	$0.00	$185.98	$0.00	N/A
NIFA Internal Program	$6.80	Grants	$0.00	$0.00	$0.00	$6.30	$0.00	$0.50	$0.00	N/A
RD Internal Program	$4.62	Loans Grants	$0.00	$0.00	$0.00	$0.00	$0.00	$1.41	$3.21	Funds in "Other" Column have not been distributed.
RMA—Federal Crop Insurance Corporation	$6.75	Other	$0.00	$0.00	$0.00	$6.75	$0.00	$0.00	$0.00	N/A
Total	$205.06	N/A	$0.00	$0.00	$0.00	$13.71	$0.00	$187.89	$3.46	See justifications above.

EXHIBIT 37: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits Table ($ in millions)

Program or Activity	Type of Payment	Amount Outstanding (0–6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount Determined to not be Collectable	Justification for Amounts Determined not to be Collectable
Supplier Credit Recovery Audit Program	N/A	$0.00	$0.00	$0.00	0.00	N/A
APHIS Internal Program	N/A	$0.00	$0.00	$0.00	$0.00	N/A
FSA/CCC Internal Program	Loans/ Other	$7.77	$2.72	$0.25	$0.06	Write-offs due to finality rule, relief granted, deceased debtor, and small balances
NIFA Internal Program	N/A	$0.40	$0.10	$1.30	$0.00	N/A
RD Internal Program	Loans Grants	$1.32	$1.06	$5.13	$0.00	N/A
RMA—Federal Crop Insurance Corporation	Other	$0.06	$0.41	$1.30	$0.00	N/A
TOTAL [Note #6]	N/A	$9.55	$4.29	$7.98	$0.06	See justification above.

Note #1: The Food for Progress Program and RD Voucher Program (Section 542) are participating in both the Supplier Credit Recovery Audit Program and in their respective agencies' Internal Program.

Note #2: The RUS Water and Waste Disposal Systems for Rural Communities—Loans is participating in the Supplier Credit Recovery Audit Program and are covered under RD's waiver (waiver mentioned in Note #3).

Note #3: OMB was notified of FNS' determination in October 2016. FNS determined they would be unable to conduct an official payment recapture audit on its programs because States make payments to FNS program recipients. RD's and FSIS' justifications were provided in the FY 2016 AFR.

Note #4: The FY 2018 AFR Recapture Reporting Period consists of 4th Qtr. FY 2017, 1st Qtr. FY 2018, 2nd Qtr. FY 2018, and 3rd Qtr. FY 2018.

Note #5: The Supplier Credit Recovery Audit's reporting timeframe is September 29, 2017, through July 11, 2018.

Note #6: USDA has a total of $21.82 million dollars in amounts outstanding (i.e., 9.53 percent of the total overpayments identified through payment recapture audits). USDA has a total of $0.06 million dollars in amounts determined to not be collectable (i.e. 0.03 percent of the total overpayments identified through payment recapture audits).

Note #7: These programs or activities had less than $1 million in FY 2017 expenditures. Outlay levels can vary year to year, which is why some of these programs are currently conducting recovery auditing despite being under the $1 million IPERA threshold.

AGENCY REDUCTION OF IMPROPER PAYMENTS WITH THE DO NOT PAY INITIATIVE SECTION

Personal Identity Verification (PIV) Conversion

The U.S. Department of Agriculture (USDA) continued to expand its use of the Do Not Pay (DNP) Portal in fiscal year (FY) 2018 in the development and use of Personal Identity Verification (PIV) card/LincPass conversion access for USDA DNP portal users. USDA DNP Portal users expressed that the major difficulty in using the DNP Portal was the multi-tiered Public Key Infrastructure (PKI) token logon to the DNP Portal. USDA presented the issue to the U.S. Department of the Treasury (Treasury) and soon after was engaged in a PIV/LincPass pilot project.

USDA Office of the Chief Financial Officer (OCFO) collaborated with the Treasury, Bureau of the Fiscal Service, and the DNP Business Center to provide a simplified logon. USDA's Office of the Chief Financial Officer (OCFO) managed the internal implementation of the pilot to include the demonstration, testing, and documentation of the process for conversion from the multi-tiered PKI token logon to PIV card/LincPass access. USDA's OCFO selected USDA's Rural Development (RD) agency to test, pilot, and track implementation of user access from the multi-tiered PKI Token logon to PIV card/LincPass access.

USDA's OCFO selected RD because it had many users (more than 1,800), which covered a wide area across the United States and the U.S. protectorates, to capture lessons learned and to document the best practices to be applied throughout the agency. USDA recognized the need to reduce the number of users by identifying those whose current duties did not require access to the DNP Portal. USDA conferred with RD and their Local Security Administrators (LSAs) to verify conversion of creditable users and created a roll-out plan for more than 1,500 users, while concurrently deactivating RD users who no longer needed access to the DNP Portal. Overall, USDA converted more than 1,500 users to the PIV card/LincPass access in less than 45 days.

In addition, USDA created internal conversion guidance for PIV card/LincPass access to include a frequently asked questions sheet that assists users with information technology error notification answers. USDA is currently tracking and updating a packet of lessons learned, which it will share with Treasury, with the hope that it can be used government-wide. USDA has been successful in increasing portal user activity in the DNP portal. After the conversion, a deliberative metric assessment was conducted on RD user activity using statistical data provided by DNP. Although there has been a decrease in users from the previous fiscal year, users have responded positively to the change in access point-based on the table below.

EXHIBIT 38: DNP Portal Usage for RD from June 2017 to June 2018

	June 2017	June 2018	Increase
Total DNP Portal Logins	3,867	6,987	80.68%
Total DNP Portal Searches	7,149	13,296	85.98%

USDA's OCFO is currently creating a roll-out plan for all USDA-enrolled agencies to convert from PKI token to PIV card/LincPass access to verify accurate use of Federal funds and reduce improper payments.

As part of the 2018 Annual Government-wide Financial Management Conference, which is hosted by the U.S. Department of the Treasury, USDA PIV card transition was presented as a best practice and lessons learned.

USDA and DNP Databases

USDA has incorporated the DNP databases in the following ways:

1. The death records maintained by the Commissioner of Social Security are checked extensively for Farm Service Agency (FSA) FY 2018 new enrollees, Guaranteed Loans, and Direct Loans Divisions on a post-payment basis. Several additional programs use this database in pre-award activities in the DNP portal. All USDA payments made through Treasury are checked against this database on a post-payment basis.

2. The General Services Administration's System for Award Management (SAM) database is checked at pre-award for most contracts, grants, cooperative agreements, and insurance programs. All USDA payments made through Treasury are checked against this database on a post-payment basis.

3. The Credit Alert System or Credit Alert Interactive Voice Response System (CAIVRS) of the U.S. Department of Housing and Urban Development is used by USDA loan programs at time of award. RD signed a memorandum of understanding with Treasury and updated its system of records notice (SORN). RD began transmitting its CAIVRS data to Treasury in June 2017.

4. RD is using the Debt Check Database of the Treasury (Debt Check) for most pre-award verifications.

5. USDA is using the List of Excluded Individuals/Entities (LEIE) of the Office of Inspector General of the U.S. Department of Health and Human Services for pre-award for some loans, grants, and contracts.

6. USDA is not currently using the Prisoner Update Processing System of the Social Security Administration (PUPS) but is evaluating programs that have the legal authority to use and benefit from this database. State officials in the food and nutrition programs are required to use prisoner data when making awards.

USDA's use of these databases is through the DNP portal and directly from the database providers. However, RD utilizes the DNP portal for single searches on pre-award checks, pre-approval, and pre-disbursement checks.

USDA and DNP ADJUDICATION

USDA is utilizing DNP adjudication during the payment integration function, which allows USDA agencies to detect a payment to a deceased individual. USDA verification eligibility activities for deceased individuals are now adjudicated within the DNP Portal. Matches for deceased individuals were made in the DNP Portal. After some due diligence, USDA determined that the payments were legitimate because they needed to be made to the estate rather than to the deceased individual. USDA's OCFO is in the process of joining the FSA's guaranteed loans and direct loans for post-payment review in FY 2018. DNP payment integration review and adjudication within the Portal has enabled USDA to identify and correct issues with long-term contracts and awards. Improved internal controls are now in place to update payment records with USDA's long-term business partners as ownership changes.

USDA DELIVERABLES

USDA has completed a SORN for USDA's RD to transmit CAIVRS data to Treasury's DNP Portal. USDA is working to complete a similar SORN process for USDA's FSA to transmit CAIVRS data to Treasury's DNP Portal.

The USDA National Finance Center has amended the SORN OCFO-10. They are continuing the process to complete the Computer Matching Agreement (CMA) for continuous monitoring for the Financial Management Modernization Initiative or accounting system to communicate with Treasury's DNP Portal. USDA is working with the DNP Business Center in its efforts to engage the state of Tennessee in accordance with the Federal Improper Payments Coordination Act.

Fraud Reduction Report

OVERVIEW

As required by Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, the U.S. Department of Agriculture (USDA) is in the process of implementing a Departmental-Level Enterprise Risk Management (ERM) program that effectively identifies risks; assesses, analyzes, and prioritizes those risks; and formulates and documents the risks. To date, a number of USDA agencies have implemented ERM. The implementation of ERM has helped agencies to better identify risk and vulnerabilities and take appropriate action to reduce and prevent fraud. As the Department continues to implement the requirement of OMB Circular A-123, the Department will use agency best practices to identify and minimize risks and vulnerabilities to prevent fraud. Outlined below are specific actions the Department is taking to integrate fraud risk prevention and monitoring into the management of internal controls.

RISK ASSESSMENT:

The A-123 Appendix A, Assessment of Internal Control over Financial Reporting, annual risk assessment incorporates specific internal and external fraud risk questions in the "Inherent Risk Considerations" section. The questions allow the respondent to rate the risk of the agency's process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency's responses, and is tallied along with other risk responses, to determine the level and frequency of testing.

Additionally, as a requirement of the Statement on Auditing Standards (SAS) No. 122, Clarification and Recodification, specifically Audit (AU) Section 240, Consideration of Fraud in a Financial Statement Audit, the Office of the Chief Financial Officer (OCFO) disseminates and consolidates responses to a fraud questionnaire among USDA's financial community.

TECHNOLOGY:

The A-123 Appendix A annual assessment includes 15 automated, continuously monitored, financial controls. The controls are configured in the USDA financial system to detect potential fraud/misuse. Configuration changes are immediately reported as exceptions to responsible control owners and first-line supervisors, and the Internal Controls Division has the ability to run real-time system reports to further monitor exceptions. An oversight workflow is established where the OCFO's Internal Audit and Compliance Group is responsible for assigning remediation tasks to correct any exception issues. Reports are available to be communicated to the USDA agencies at any time.

ENTITY LEVEL CONTROLS:

USDA agencies and staff offices are required to complete an annual Entity Level Control (ELC) assessment. The ELC assessment was recently updated to comply with the most current Government Accountability Office (GAO)—Standards for Internal Control in the Federal Government ("Green Book"). The assessment includes GAO Principle 8, which assesses fraud risk. Attributes include: (1) types of fraud, (2) fraud risk factors, and (3) responses to fraud risks. Objectives include: (1) identifying fraud risks based on fraud risk factors, (2) assessing identified fraud risks for significance, and (3) properly responding to identified fraud risks.

ACCESS CONTROLS:

The USDA consolidated financial systems' access controls are managed through the Governance Risk and Compliance (GRC) Access Control module. Access controls are configured to prevent conflicting accounting roles unless there is an immediate need that is fully documented, mitigated, and supported by compensating controls. There is a standard process for the review and approval of mitigating controls to ensure that control strategies are properly documented and carried out by the requesting agency.

SEGREGATION OF DUTY:

USDA's consolidated financial system is configured in such a way that conflicting roles are prohibited, which ensures proper segregation of duty (SOD). Those who initiate a transaction in the financial system are not allowed to also approve that same transaction. There are also financially significant, agency-specific SOD controls that are documented and tested annually during the A-123, Appendix A assessment. The strict prohibition of conflicting roles reduces the risk of fraud.

ADDITIONAL FRAUD RISK INTEGRATION EFFORTS:

During fiscal year (FY) 2018, the OCFO participated in the OMB Fraud Working Group, whose mission is "to improve the sharing and development of best practices and data analytics techniques for detecting, preventing, and responding to fraud, including improper payments." Several Federal agencies shared implementation practices and pilots, including the U.S. Department of the Treasury (Treasury) and the Veterans Administration (VA) which built a government-wide playbook "to assist agencies in identifying, prioritizing, and responding to fraud, waste, and abuse." Treasury issued the draft playbook in early August for review and comment, with input from USDA. OCFO also independently met with Treasury and the VA to benchmark against their fraud risk assessment and fraud risk profile, and to better understand how to integrate the existing external financial reporting assessment into an evolving fraud risk management structure.

In addition, OCFO met with the USDA Office of Inspector General to understand the existing confirmed fraud cases (including those related to improper payments), and the reporting and adjudication process. That information, coupled with USDA cases recently reported in the Fraud Digest, allowed for OCFO to submit the most significant program and financial fraud types for consideration to include in the consolidated Federal Fraud Taxonomy, updated and managed by OMB.

In compliance with A-123, OCFO also included a fraud assertion in the FY 2018 Assurance Statement Template. The USDA component agencies' and staff office's progress on the establishment of strategies, procedures, and other steps to curb fraud were then gauged and consolidated in the Agency Financial Report. All component agencies and staff offices reported that financial and administrative controls were established to identify and assess fraud risks, and control activities were designed and implemented to prevent, detect, and respond to fraud, including improper payments.

Component agencies and staff offices also assessed the fraud risk principle in the Standards for Internal Control for Federal Government and OMB Circular A-123, with respect to leading practices for managing fraud risk; assessed risks and vulnerabilities to fraud, including payroll, beneficiary payments, grants, large contracts, and purchase and travel cards, as applicable; and established strategies, procedures, and other steps to curb fraud as part of internal control activities operating during the normal course of business.

**The agency transactional control objectives to reduce fraud risk (a subset of the full A-123, Appendix A control library) are included in the tables following this section.*

SPECIFIC USDA COMPONENT AGENCIES REPORTED THE FOLLOWING DEVELOPMENTS RELATED TO THE MANAGEMENT OF FRAUD RISK:

Farm Service Agency (FSA) established internal controls over agency programs and operations by issuing program and administrative guidance to help curb fraud.

FSA has controls over segregation of duties to prevent fraud when disbursing funds. Examples include policies that prevent the same person from certifying and signing payments. When delegating employees to disburse payments, employees acknowledge that payments that they certify and/or sign must be issued in accordance with the Commodity Credit Corporation (CCC) bylaws. Annual reviews are conducted to determine whether delegations should be revoked.

FSA also requires expenditure corrections to be reviewed by someone other than the individual responsible for issuing the original payment.

A whistleblower hotline is also administered by FSA where employees and producers can report actual and suspected program violations by employees and producers. Complaints are investigated to determine validity.

FSA developed an in-depth risk assessment process based on ERM principles to identify risks, including fraud risks, associated with FSA programs.

FSA piloted this "deep dive" process on the Livestock Forage Disaster Program (LFP). The assessment included a survey completed by employees that implemented LFP in the prior 3 years. The survey included questions specifically related to identifying fraud risk leveraging GAO's Fraud Risk Management Framework. Findings were summarized and shared with the LFP program management for review and action.

The Food and Nutrition Service (FNS) implemented the Supplemental Nutrition Assistance Program (SNAP) Fraud Framework that combines innovations in the use of analytics with concepts and practices from industry in order to more effectively detect potential fraud and improve administration and oversight. It offers individual states the flexibility to choose techniques that best fit their needs, recognizing that fraud is not a static concept and that one size does not fit all. Components of the framework include: (1) Organizational Management, (2) Performance Measurement, (3) Recipient Integrity Education, (4) Fraud Detection, (5) Investigations and Dispositions, (6) Analytics and Data Management, and (7) Learning and Development.

The Risk Management Agency's (RMA) Federal Crop Insurance Program is a self-certification program where participants certify as to the correctness of information (acres, share, production, etc.) as a basis for program participation. This information may be subject to further review and verification to determine its accuracy. For this type of program, the primary root causes of errors and improper payments are due to the individual program participants, (producers, Approved Insurance Providers (AIPs), agents, and/or loss adjusters) failure to correctly interpret, provide, and/or process information in accordance with policy and/or procedure requirements for determining eligibility and program payment amounts.

The AIPs and agents are to review the System for Award Management (SAM) and other suspension and debarment systems before providing policies and payments.

The strategies for identifying and controlling fraud include reviews such as:

- Data Mining-Initiated Reviews—RMA has an agreement with the Center for Agribusiness Excellence (CAE) to conduct data mining. Results of CAE's data mining are used to detect potential cases of fraud, waste, or abuse by: (1) developing scenarios of potential program abuse by farmers, insurance agencies, and loss adjusters; and (2) querying the database containing crop insurance data and information on weather,

soil, and land surveys to generate reports and lists of participants with anomalous claim payments. For example, RMA develops an annual list of producers (i.e., a spot-check list) whose operations warrant an on-site inspection because their claims exhibit patterns consistent with the potential for fraud and abuse.

- Program Reviews—RMA conducts Program Reviews to evaluate the overall performance of a specific program. Program Reviews may be broad or limited in scope, and either nationwide or regional. Program Reviews may involve both crop-specific programs and insurance concepts such as Crop Revenue Coverage or Prevented Planting.
- Special Investigations—RMA's Special Investigations Branch investigates alleged fraud, waste, and abuse and identifies reasons the abuse occurred. Special Investigations Branch (SIB) reviews high-profile, highly complex cases involving multiple subjects spread over wide geographic areas.
- Special Reviews—RMA conducts Special Reviews in response to allegations of noncompliance with Federal crop insurance laws, policies, agreements/contracts, or approved procedures. RMA receives complaints or requests for Special Reviews from various sources including Office of Inspector General hotlines, general public complaints, congressional inquiries, the Farm Service Agency or other USDA offices, AIP officials, etc.
- Standard Reinsurance Agreements (SRAs) Required Reviews—SRAs establish the terms and conditions under which AIPs that sell and service policies have to operate. Under the 2016 SRA, AIPs are to conduct reviews, including inspections of policies for which anomalies or large claims have been identified through data mining, and report the results to RMA.

RMA is aware of the self-certification aspect of the program and the potential vulnerabilities it presents, but is confident the coordination with AIPs and policyholders will limit the risk associated with this regulatory barrier. In addition, the Acreage Crop Reporting Streamlining Initiative (ACRSI) replaces duplicative crop reporting of common acreage information by producers. Three USDA agencies (Natural Resources Conservation Service [NRCS], FSA, and RMA) have established a memorandum of understanding to create a common data set of acreage reporting documentation used to verify participant's self-certification information.

Rural Development's (RD) ERM framework includes a Risk Taxonomy, which provides a consistent structure for identifying and classifying risks into logical groups. The Risk Taxonomy includes a "Fraud & Criminal Activity" sub-category. RD has provided training to all levels of personnel across the organization on ERM concepts, which included a focus on the Risk Taxonomy and how staff can use it.

THE USDA DEPARTMENTAL STAFF OFFICES REPORTED THE FOLLOWING PROGRESS:

Office of the Chief Financial Officer (OCFO)

Grants—System edits have been built and identified in the ezFedGrants module in the Financial Management Modernization Initiative (FMMI) for more than half of the required objectives in the A-123, Appendix A, Grants Cycle. Potential risks in eligibility, segregation of duties, completeness, accuracy, and validity are mitigated through automated preventive controls. The controls minimize the risk of grants being awarded to ineligible recipients; users being able to perform incompatible duties; and incomplete, inaccurate, invalid, untimely award information, obligations, and payments.

USDA agencies and staff offices that have deployed to ezFedGrants are National Institute of Food and Agriculture (NIFA), Animal and Plant Health Inspection Service (APHIS), Office of Advocacy and Outreach (OAO), NRCS, Agricultural Marketing Service (AMS) and Foreign Agricultural Service (FAS). OCFO is currently piloting the EzFedGrants module with Forest Service (FS) and RMA.

Payroll—At the USDA National Finance Center (NFC), logical access controls are implemented and separation of duties are enforced as a preventive measure to lessen the likelihood of fraud. Role-based access is used (employees are assigned roles) to ensure that conflicting access is not assigned to employees. Access for payroll-related activities is segregated to ensure that no one employee has all the access to create a fictitious (ghost) employee and obtain a salary for this ghost employee.

Based on the roles that are established for NFC's systems, it is very difficult to create a fictitious employee and get that employee paid (unless there is collusion, which cannot be prevented). To create a fictitious employee and get that employee paid, you would need the access to:

- create a position or assign an individual to a position that already exists;
- enter all the personnel actions in the Human Resources (HR) system for the employee accession and establish the employee on the database; and
- establish the employee in the Time and Attendance (T&A) system, enter the time and attendance record for the employee in the T&A system, and approve/certify the time and attendance record for the employee in the system.

The HR and T&A access listed above are segregated via role-based access so that no one employee can create a fictitious employee and disburse payment. In addition, there is separation of duties between the person who enters a payroll action and the person who approves that

action. Where separation of duties is not feasible, compensating controls are in place as a detective measure to identify potential fraud. Payroll Operations Branch personnel have the access to enter manual payment requests for agencies they service and also approve the payment requests if the payment is made to a non-NFC employee or is less than $5,000 gross. All payments to NFC personnel or payments over $5,000 gross require special approval.

Alternatively, a manual payment may be processed in the NFC Special Payroll Processing System (SPPS). All manual payments processed by NFC personnel are logged for an independent review by a separate section in the Payroll Operations Branch. This independent group reviews all manual payments processed for NFC personnel as well as a sample of manual payments processed for other agencies.

NFC's HR, T&A, and payroll systems are designed with hundreds of edits that would help prevent errors up front. For example, a T&A payment cannot be made for a Social Security Number (SSN) that is not in NFC's database, and there are edits to ensure that the employees are paid according to their established pay plan and pay rate. Changes to pay plans and pay rates could only be made through the established configuration management process.

As a service organization providing payroll services, NFC's function is to process payroll based on the data entered into and processed by NFC's systems. It is the customer's responsibility to ensure that inputs are complete, accurate, and authorized, and it is the customer's responsibility to review payroll outputs to ensure that what NFC processed is complete and accurate. For agencies that use FMMI, the payroll accounting data is available in FMMI. For agencies that do not use FMMI, NFC makes the payroll accounting data file available to them via a mainframe scheduled job. In addition, NFC provides various reporting tools for extracting the payroll data for review. Payroll information is available in NFC's Insight system, as well as the Reporting Center.

Travel Cards—The OCFO Fiscal Policy Division (FPD) restricts travel charge card use by blocking 922 Merchant Category Codes (MCCs); this prevents cardholders from successfully completing transactions with these vendors.

Additionally, the OCFO FPD uses the Visa IntelliLink Compliance Management tool to identify and detect possible travel charge card misuse. This is a web-based modular application designed to provide sophisticated information services including analytics and investigative reporting, misuse detection, program compliance, regulatory compliance, spend management, and support for strategic sourcing. Our travel charge card vendor, U.S. Bank, provides access to this tool.

OCFO FPD uses this application to identify possible charge card misuse, flag cases for review, route cases to the responsible agency/staff offices, record agency comments, and provide a final classification for each case. Using Visa IntelliLink, the FPD developed seven business rules to

identify instances of potential misuse of the travel charge card; these rules, as listed below, are run on a monthly basis:

- Blocked MCCs 2—Identifies attempted transactions with merchants whose MCC is blocked/restricted for the travel charge card program (blocked MCCs are a method to prevent fraudulent activities);
- Cash Test—Provides a listing of accounts with large ATM transactions;
- Cash Withdrawal with no associated Travel—Provides ATM and cash transactions that do not have associated travel (air, hotel, car rental, and rail) reservations within 3 business days before official travel begins or are after the last day of official travel;
- Restaurant/Bar multiple charges over $100 in a 7-day period—Provides transactions with MCCs for restaurants and bars, where the billing amount was over $100 and occurred more than once in a 7-day period;
- Spender—Provides normal travel transactions that are unusually high in their amount;
- Unauthorized Travel System—Searches for non-ConcurGov or Travel Management Center (TMC) travel system use; and
- Predictor Test—Transactions with a high score (from 90 to 95) indicates the predictive level of potential transaction misuse. The 'Predictor Score' is a proprietary algorithm developed by Visa to detect misuse.

Once the tests are run, questionable transactions are checked, and cases of potential misuse are sent to the associated Agency/Staff Office data mining Point of Contact (POC) for a response.

Departmental Administration Office of Contracting and Procurement (DA-OCP)

Contracts—Contracting personnel review contract files to ensure that justification of limited competition or limited-source justification is present in accordance with Federal Acquisition Regulation (FAR) 6.302, FAR 8.405-6, and agency procedures.

Also, automated controls are configured in the procurement Integrated Acquisition System (IAS) to reduce risks and vulnerabilities that could lead to fraud.

IAS limits the ability to select a vendor from the list of vendors received from the financial system. Contracting Officers are required to look at the Excluded Parties List System (EPLS) (accessible through the System for Award Management [SAM] and the Federal Award Performance and Integrity Information System [FAPIIS]) exclusions reports before awarding a vendor. These measures prevent vendors on the active "Do Not Pay" list from receiving awards.

As a segregation of duty measure, IAS access and roles are defined in the IAS user roles and responsibilities segregation of duty matrix documentation that outlines which users' roles cannot be held by the same person. These measures prevent employees from accessing the system as vendors and prevents employers from acting on all aspects of a contracting transaction.

Purchase Cards—The Departmental Administration Office of Contracting and Procurement (DA-OCP) has established financial and administrative controls to identify and assess fraud risks and has designed and implemented control activities to prevent, detect, and respond to fraud, including improper payments.

The Charge Card Service Center (CCSC), Agency Program Coordinators (APCs), Local Agency Program Coordinators (LAPCs), Approving Officials (AOs), and the Office of Inspector General (OIG) monitor purchase card transactions through Access Online. Cardholders are required to comply with any requests for information/investigations from the LAPC, APC, CCSC, or Agency acquisition review offices, AOs, and other duly authorized organizations/individuals regarding questionable purchases.

Management and oversight of the Purchase Card Program is the responsibility of the AO, LAPC, and APC. AOs monitor purchasing activity of cardholders within their agency. As part of oversight, Coordinators are to respond to user alerts within 30 days after notifications. Alerts are messages to Coordinators regarding questionable transactions and transactions selected by statistical sampling for review and other events by the CCSC.

EXHIBIT 39: Agency Transactional Control Objectives to Reduce Fraud Risk:

**Subset of full A-123, Appendix A, Control Library*

Process	Objective	Risk
Accounts Receivable	Invoices are complete, accurate, and appropriately represent the fees due/services provided.	Invoices generated are not complete and accurate, and do not appropriately represent the fees due/services provided.
Awards Contracts	Contracts are awarded to eligible vendors (includes Do Not Pay verification).	Contracts are awarded to inactive vendors or vendor record not found in the financial system (includes Do Not Pay verification).
Charge Card Issuance	Employees assigned as Approving Officials for purchase card transactions are authorized.	Employees assigned as Approving Officials for purchase card transactions are not authorized.
Collections	Cash receipts are protected before they are deposited.	Cash receipts are not protected before they are deposited, which may result in fraudulent activity.
Credit Extension	Direct loan obligations recorded in the general ledger are valid, pertain to the purpose of the appropriation, and are supported by documentation.	Direct loan obligations recorded in the general ledger are not valid, do not pertain to the purpose of the appropriation, and are not supported by documentation.
Daily Escrow Processing	Loss Claims are paid to valid insurance companies in compliance with collateral arrangements included in reinsurance agreement.	Loss Claims may be paid without appropriate risk coverage for agency.
Disbursements	Disbursements are valid and supported by sufficient and relevant documentation.	Disbursements are not valid and supported by sufficient and relevant documentation.
Grant Awards and Modifications	Grants are awarded to eligible recipients (includes Do Not Pay verification).	Grants are awarded to ineligible recipients (includes Do Not Pay verification).
Loss Claims	Loss Claims are for valid policy reinsurance year.	Unauthorized or incomplete Loss Claims may be paid.
Monitoring—Charge Card Cycle	Duties are adequately segregated.	Users are able to perform incompatible duties.
Monitoring—Fleet Card	Fleet card transactions adhere to Federal laws and regulations within the terms of the fleet card agreement.	Fleet card transactions do not adhere to Federal laws and regulations within the terms of the fleet card agreement.

Process	Objective	Risk
Monitoring—Purchase Card	Purchase card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Purchase card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.
Monitoring—Travel Card	Travel card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Travel card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.
Payments—Farm Support	Recorded obligations and payments for the Commodity Credit Corporation (CCC) farm support programs are valid (made to only eligible farms/producers) and are approved/authorized by management.	Recorded obligations and payments for CCC farm support programs are not valid (made to ineligible farms/producers) and/or are not approved/authorized by management.
Payroll Processing	Amounts recorded in the general ledger for payroll are accurate, valid, and properly supported by sufficient and relevant documentation.	Amounts recorded in the general ledger for payroll are not accurate, valid, and properly supported by sufficient and relevant documentation.
Relocation Allowance	Claims for relocation expenses are timely reviewed for completeness and accuracy in accordance with agency directives and Federal Travel Regulation (FTR) requirements.	Claims for relocation expenses are not timely reviewed for completeness and accuracy in accordance with agency directives and FTR requirements.

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

BACKGROUND

The Inspector General Act Amendments of 1988 (Public Law [P.L.] 100–504), require that each agency head submit semi-annual reports to Congress on the actions taken in response to the Office of Inspector General (OIG) audit, evaluation, and inspection reports. Consistent with the Reports Consolidation Act of 2000 (P.L. 106–531), the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer (OCFO) consolidates and annualizes the required semi-annual Inspector General Act Amendments' reporting elements for inclusion in the annual Agency Financial Report (AFR).

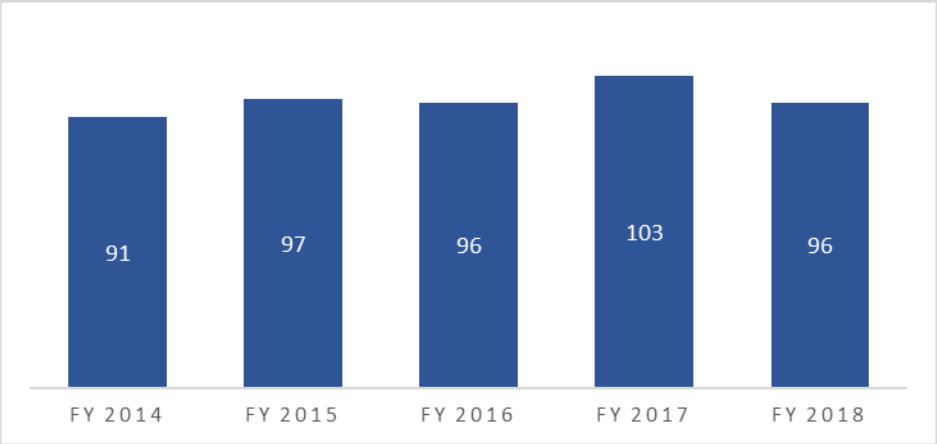
OIG audits USDA's programs, systems, and operations. It then recommends improvements to management based on its findings. USDA management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan is then submitted to OIG for concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, a management decision is concluded for that recommendation.

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

FISCAL YEAR RESULTS

USDA agencies closed 44 audits during fiscal year (FY) 2018. As of September 21, 2018, OIG and USDA agencies reached management decisions on 37 audits. As shown in the following exhibit, the Department's inventory of open audits decreased in FY 2018 by 6.8 percent from 103 to 96.

EXHIBIT 40: Open Audit Inventory



Note: The final FY 2017 ending balance was revised from 86 to 103 to include: (1) fifteen audits transmitted by OIG after the close of the reporting period, and (2) two additional audits that reached management decision in the previous fiscal year. These adjustments are also reflected in the beginning balances for audits with disallowed costs (DC) and/or Funds to Be Put to Better Use (FTBU) shown in *Exhibit 42* and *Exhibit 43*.

AUDIT FOLLOW-UP PROCESS

The Inspector General Act Amendments of 1988 require an annual report to Congress providing the status of resolved audits that remain open. Resolved audits are those for which management decision has been reached for all recommendations. Reports on resolved audits must include the elements listed in the following bullet points (see *Exhibit 41* for definitions):

- 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 reached;
- The disposition of audits with final action;
- Resolved audits that remain open 1 year or more past the management decision date require additional reporting elements. These elements include: date issued, revised estimated completion date, original dollar value of DC or FTBU, and an explanation as to why final action has not been taken.

EXHIBIT 41: Audit Follow-Up Definitions

Term	Definition
Disallowed Cost (DC)	An incurred cost questioned by the Office of Inspector General (OIG) that management has agreed should not be chargeable to the Government.
Final Action	Actions that management has taken to address the audit findings and recommendations.
Funds to Be Put to Better Use (FTBU)	An OIG recommendation that funds could be used more efficiently if management completes the recommendation, including: ▪ Reductions in outlays or other savings; ▪ Deobligation of funds from programs or operations, or the withdrawal of subsidy costs on loans, guarantees, or bonds; and ▪ Implementation of recommended improvements for grants or contracts, or unnecessary expenditures noted in pre-award reviews of contracts or grant agreements.
Management Decision	Agreement between management and OIG on corrective action needed to address audit findings and recommendations.

BEGINNING AND ENDING INVENTORY FOR AUDITS WITH DISALLOWED COSTS AND FUNDS TO BE PUT TO BETTER USE

Of the 44 audits that achieved final action during the fiscal year, seven contained DC. The number of DC audits remaining in the inventory at the end of the fiscal year is 29, with a monetary value of $46,000,197 (see *Exhibit 42*).

EXHIBIT 42: Inventory of Audits with Disallowed Costs (DC)

Audits with DC	# of Audits	Amount ($)
Beginning of the Period (October 1, 2017)	29	$ 45,420,039
Plus: New Management Decisions	7	$ 1,145,398
Total Audits Pending Collection of DC	36	$ 46,565,437
Less: Adjustments		($ 60,042)
Revised Subtotal		$ 46,505,395
Less: Final Actions (Recoveries)	7	$ 505,198
Audits with DC Requiring Final Action at the End of the Period (September 6, 2018)	29	$ 46,000,197

Exhibit 42 and Exhibit 43: include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For this reason, the number of audits shown as the ending balances in Exhibit 42 and Exhibit 43 does not equal the total resolved audit inventory balance in Exhibit 40. The beginning balance in Exhibit 42 was adjusted to include five audits with DC that were transmitted by OIG after the closing of the reporting period.

For DC audits that achieved final action in FY 2018, OIG and management agreed to collect $487,419. Based on documentation to resolve the issues identified, adjustments were made totaling $77,821.

Final action occurred on two audits that involved FTBU amounts. There are nine FTBU audits remaining in the inventory as of September 21, 2018, with a monetary value of $188,129,917 (see *Exhibit 43*:).

EXHIBIT 43: Inventory of Audits with Funds To Be Put To Better Use (FTBU)

Audits with FTBU	# of Audits	Amount ($)
Beginning of the Period (October 1, 2017) *	9	$193,110,819
Plus: New Management Decisions	2	$4,208,971
Total Audits Pending	11	$197,319,790
Less: Final Actions	2	$ 9,189,873
Audits with FTBU Requiring Final Action at the End of the Period (September 21, 2018)	9	$188,129,917
Disposition of FTBU:		
FTBU Implemented		$9,189,873
FTBU Not Implemented		$0
Total FTBU Amounts for Final Action Audits		$9,189,873

** The beginning inventory in Exhibit 43: was adjusted to include one audit with FTBU that was transmitted by OIG after the closing of the reporting period.*

The number of audits open 1 or more years without final action in FY 2018 (65) remained at the same level as the previous fiscal year. The ending inventory includes 22 audits that reached 1 year past the management decision date during FY 2018. USDA agencies continue to pursue remediation and/or compensating controls to address many of the underlying issues identified in these older audits.

EXHIBIT 44: The Number of Audits Open 1 or More Years Past the Management Decision Date (MDD) Remains the Same as the Previous Fiscal Year.

Audits 1 Year or More Past MDD	# of Audits
Beginning of the period	65
Less: Audits closed	22
Subtotal FY 2018 audits 1 year or more past MDD	43
Plus: Audits that reached 1 year past MDD during FY 2018	22
Ending balance as of September 30, 2018	65

Agencies have completed planned corrective actions, with the exception of associated DC and FTBU, on 11 audits (see *Exhibit 45*), and one audit pending judicial action.

EXHIBIT 45: Distribution of Audits Open 1 Year or More Past the Management Decision Date (MDD)*

Audits Behind Schedule			Audits Under Collection		
No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)
53	$5,733,837	$118,528,436	11	$29,914,812	$65,669,524

**The total audits in Exhibit 45 does not include one audit pending judicial action*

MANAGEMENT'S REPORT ON AUDIT FOLLOW UP

Audits without final action 1 year or more past the Management Decision Date (MDD), and behind schedule (excluding collections) are listed individually in *Exhibit 46*. The audits are categorized by agency and reason why final action has not occurred. More detailed information on audits pending judicial action, and audits under collection, is available from OCFO.

EXHIBIT 46: Audits Open 1 Year or More Past the MDD and Behind Schedule

Agricultural Marketing Service (AMS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
01601-0001-21	09/13/2017	9/30/2018	National Organic Program—International Trade Arrangements and Agreements	$0	$0	Pending OCFO review for closure
AMS Subtotal (1)				**$0**	**$0**	

Animal and Plant Health Inspection Service (APHIS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
33601-0001-31	5/30/2017	9/30/2019	APHIS: Animal Welfare Act—Marine Mammals (Cetaceans)	$0	$0	Pending Administrative Action
33601-0001-41	12/09/2014	9/30/2019	Oversight of Research Facilities	$0	$420,299	Issuance of Policy Guidance and/or Legislation

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
50601-0001-32	09/22/2015	9/30/2019	Controls Over APHIS' Introduction of Genetically Engineered Organisms	$0	$0	Pending Administrative Action
50601-0004-31	03/30/2016	9/30/2019	USDA's Response to Antibiotic Resistance	$0	$0	Pending Administrative Action
50601-0008-TE	01/28/2005	9/30/2019	Controls over APHIS' Issuance of Genetically Engineered Organisms Release Permits	$0	$0	Issuance of Policy Guidance and/or Legislation
APHIS Subtotal (5)				**$0**	**$420,299**	

Agricultural Research Service (ARS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
50601-0006-TE	03/04/2004	12/31/2018	ARS' Controls Over Plant Variety Protection and Germplasm Storage	$0	$0	Pending Administrative Action
50601-0010-AT	03/8/2004	12/31/2018	ARS' Follow Up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	$0	$0	Issuance of Policy Guidance and/or Legislation
ARS Subtotal (2)				**$0**	**$0**	

Commodity Credit Corporation (CCC)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
06401-0005-11	02/12/2016	9/30/2018	CCC's Financial Statements for FY 2015 and 2014	$0	$0	Issuance of Policy Guidance and/or Legislation
CCC Subtotal (1)				**$0**	**$0**	

Foreign Agricultural Service (FAS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
07601-0001-22	03/31/2014	12/30/2018	Private Voluntary Organization Grant Fund Accountability	$242,676	$8,481	Pending Administrative Action
07601-0002-23	12/05/2016	12/30/2018	FAS' Monitoring of the Administration's Trade Agreement Initiatives	$0	$0	Issuance of Policy Guidance and/or Legislation
50601-0001-22	03/28/2013	12/30/2018	Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals	$0	$0	Issuance of Policy Guidance and/or Legislation
50601-0002-16	02/06/2014	12/30/2018	Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan	$0	$0	Issuance of Policy Guidance and/or Legislation
FAS Subtotal (4)				**$242,676**	**$8,481**	

Food, Nutrition, and Consumer Service (FNCS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
81099-0001-12	08/30/2017	9/30/2018	Audit of Food, Nutrition, and Consumer Services FY 2015 Firm Fixed Price Contract Award Price Reasonableness Determinations	$0	$0	Pending Administrative Action
FNCS Subtotal (1)				**$0**	**$0**	

Food and Nutrition Service (FNS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
27004-0001-22	09/25/2014	11/30/2018	State Agencies' Food Costs for the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children	$0	$0	Pending Administrative Action
27004-0001-31(1)	9/29/2017	10/05/2018	Florida's Controls Over Summer Food Service Program (Interim Report)	$0	$0	Pending Administrative Action
27004-0003-21(1)	9/7/2017	10/05/2018	Summer Food Service Program—Texas Sponsor Cost—Interim Report	$110,670	$0	Pending Administrative Action
27004-0004-21(1)	9/28/2017	10/05/2018	Texas Controls Over Summer Food Service Program (Interim Report)	$0	$0	Pending Administrative Action

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
27099-0049-TE	09/04/2007	9/30/2018	Disaster Food Stamp Program for Hurricanes Katrina and Rita in Louisiana, Mississippi, and Texas	$0	$0	Issuance of Policy Guidance and/or Legislation
27601-0001-31	07/31/2013	3/31/2019	Controls for Authorizing Supplemental Nutrition Assistance Program (SNAP) Retailers	$0	$6,700,000	Issuance of Policy Guidance and/or Legislation
27601-0002-41	09/23/2015	8/30/2019	FNS Quality Control Process for SNAP Error Rate	$0	$0	Pending Administrative Action
27601-0003-10	09/27/2016	10/31/2018	New Mexico SNAP Determination of Eligibility	$9,784	$0	Pending Administrative Action
27601-0003-22	9/29/2016	10/15/2018	SNAP Administrative Costs	$3,575,424	$111,399,656	Pending Administrative Action
27601-0004-10	10/25/2016	10/31/2018	Michigan's Compliance with SNAP Certification of Eligible Households Requirements	$12,517	$0	Pending Administrative Action
27601-0008-10	06/14/2017	11/15/2018	Georgia SNAP Requirements for Participating State Agencies	$1,427	$0	Pending Administrative Action
27601-0010-10	08/09/2017	9/30/2018	SNAP Compliance with Requirements for Participating State Agencies	$969	$0	Pending Administrative Action

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
27601-0011-10	09/14/2017	9/30/2018	State of South Carolina's Compliance with 7 CFR, Part 272 —SNAP Requirements for Participating State Agencies	$26,209	$0	Pending Administrative Action
27601-0012-10	09/28/2017	9/30/2018	Washington's Compliance with SNAP Requirements for Participating State Agencies (7 CFR, Part 272)	$0	$0	Pending Administrative Action
27901-0002-13	01/09/2017	10/31/2018	Detecting Potential SNAP Trafficking Using Data Analysis	$0	$0	Pending Administrative Action
FNS Subtotal (15)				**$3,737,000**	**$118,099,656**	

Farm Service Agency (FSA)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
03501-0001-12	05/26/2015	11/30/2018	Review of Farm Service Agency's Initiative to Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)	$0	$0	Information Technology (IT) System Implementation and/or Enhancements
03601-0001-22	07/31/2014	12/30/2018	Compliance Activities	$0	$0	Issuance of Policy Guidance and/or Legislation
03601-0002-22	07/31/2014	10/1/2018	Economic Adjustment Assistance to Users of Upland Cotton	$1,518,068	$0	Pending Administrative Action
03601-0003-22	09/23/2015	12/30/2018	Farm Service Agency Microloans	$0	$0	Pending Administrative Action
03702-0001-32	12/10/2014	12/30/2018	Farm Service Agency Livestock Forage Program	$208,374	$0	IT System Implementation and/or Enhancements
50601-0003-22	01/27/2017	12/30/2018	Coordination of USDA Farm Program Compliance—Farm Service Agency, Risk Management Agency, and Natural Resources Conservation Service	$0	$0	Pending Administrative Action
FSA Subtotal (6)				**$1,726,442**	**$0**	

Food Safety and Inspection Service (FSIS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
24601-0005-31	6/12/2017	9/30/2018	Food Safety and Inspection Service's Controls Over Declaring Allergens on Product Labels	$0	$0	Issuance of Policy Guidance and/or Legislation
50099-0002-21	3/27/2017	9/30/2018	Food Safety and Inspection Service's Process for Handling Vehicle Misuse Complaints	$0	$0	Pending Administrative Action
50601-0006-HY	07/15/2009	12/1/2018	Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	$0	$0	IT System Implementation and/or Enhancements
FSIS Subtotal (3)				**$0**	**$0**	

Natural Resources Conservation Service (NRCS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
10601-0002-31	07/30/2014	12/30/2018	NRCS Conservation Easement Compliance	$0	$0	Issuance of Policy Guidance and/or Legislation
NRCS Subtotal (1)				**$0**	**$0**	

Office of the chief financial officer (OCFO)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
50016-0001-23	09/28/2017	02/28/2019	Implementation of Suspension and Debarment Tools in the U.S. Department of Agriculture	$0	$0	Issuance of Policy Guidance and/or Legislation
OCFO Subtotal (1)				**$0**	**$0**	

Office of the Chief Information Officer (OCIO)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
50501-0002-12	11/15/2011	9/30/2019	Fiscal Year 2011 Federal Information Security Management Act	$0	$0	Issuance of Policy Guidance and/or Legislation
50501-0003-12	11/15/2012	9/30/2019	USDA, Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act	$0	$0	Issuance of Policy Guidance and/or Legislation
50501-0004-12	11/26/2013	9/30/2019	USDA, Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act	$0	$0	Issuance of Policy Guidance and/or Legislation
50501-0005-12	09/26/2014	9/30/2019	CIGIE Cloud Computing Initiative —Status of Cloud—Computing Environment Within The USDA	$0	$0	Pending Administrative Action

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
50501-0006-12	11/07/2014	9/30/2018	USDA, Office of The Chief Financial Officer, Fiscal Year 2014 Federal Information Security Management Act	$0	$0	Issuance of Policy Guidance and/or Legislation
50501-0008-12	11/10/2015	9/30/2018	Office of the Chief Information Officer, FY 2015 Federal Information Security Modernization Act	$0	$0	Issuance of Policy Guidance and/or Legislation
50501-0012-12	11/10/2016	9/30/2019	Office of the Chief Information Officer, FY 2016 Federal Information Security Modernization Act	$0	$0	Pending Administrative Action
50501-0012-12(2)	11/09/2016	9/30/2019	Security Protocols and Connections for USDA's Public-Facing Web sites	$0	$0	Pending Rulemaking/Legislation
50501-0015-FM	11/18/2009	9/17/2019	Fiscal Year 2009 Federal Information Security Management Act	$0	$0	Pending Administrative Action
88401-0001-12	08/02/2012	9/30/2019	OCIO's FY's 2010 and 2011 Funding Received for Security Enhancements	$0	$0	Pending Administrative Action
OCIO Subtotal (10)				**$0**	**$0**	

Office of homeland security and Emergency Coordination (OHSEC)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
61701-0001-21	03/27/2017	10/01/2019	Agroterrorism Prevention, Detection, and Response	$0	$0	Issuance of Policy Guidance and/or Legislation
OHSEC Subtotal (1)				**$0**	**$0**	

Rural Development (RD)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC ($)	FTBU ($)	
04601-0018-CH	09/27/2012	9/30/2018	Rural Rental Housing Program Maintenance Costs and Inspection Procedures	$0	$0	Issuance of Policy Guidance and/or Legislation
04901-0001-13	09/24/2015	9/30/2018	Review of Rural Rental Housing's Tenant and Owner Data Using Data Analytics	$27,719	$0	IT System Implementation and/or Enhancements
RD Subtotal (2)				**$27,719**	**$0**	
Total Number Audits (53)			**Total**	**$5,733,837**	**$118,528,436**	

Reduce the Footprint

The U.S. Department of Agriculture successfully implemented the OMB (Office of Management and Budget) policy "Reduce the Footprint" formally known as "Freeze the Footprint" as an initiative to maintain its office and warehouse square footage baselines at the FY 2012 levels, through 2015. Beginning in FY 2016, the policy shifted to an emphasis on disposal of excess real property held by the Federal Government, thus making the overall Federal real estate asset portfolio more efficient. CFO (Chief Financial Officer) Act entities are required to define annual targets to reduce their total square footage of domestic office and warehouse inventories in comparison to the revised FY 2015 "Reduce the Footprint" baseline, as compiled by the General Services Administration (GSA).

EXHIBIT 47: Reduce the Footprint Baseline Comparison

Square Footage (SF) (in millions)

Fiscal Year 2015 Baseline	2017	Change (2015–2017)
32.62	31.90	-2.22%

EXHIBIT 48: Reporting of Operation and Maintenance Costs—Owned and Direct-Leased Facilities

Operations and Maintenance (O&M) Costs ($ in millions)

Fiscal Year 2015 Baseline	2017	Change (2015–2017)
$580.20	$594.40	+$14.2

More information about Federal Real Property can be found in the Federal Real Property Profile Summary Report Library.

USDA issued an Agriculture Property Management Regulation Advisory (AGPMR No. 15-05) providing policy guidance and procedures for the Reduce the Footprint OMB space initiative. Since FY 2012, Departments have been projecting their 5-year office and warehouse requirements. The Department has set forth processes and procedures to manage space needs at or below the FY 2015 baseline, represented in the figures above.

USDA continues to support footprint reductions by identifying opportunities for disposal, consolidation, and increased utilization of real property. The Department issued an updated AGPMR Advisory (No 16-01) "Space Utilization Rate Policy", to clarify the existing 150 square foot per person office utilization rate policy. These continuing actions represent

USDA's commitment to strategically managing and utilizing its space to achieve the highest return for the taxpayer. USDA also monitors compliance with this policy and requests agencies to submit waivers when this utilization rate cannot be met in new space acquisitions. USDA also provides periodic reports to senior management on agency compliance with this policy. USDA has also provided training to agencies to ensure an understanding of how utilization data is captured in the corporate property information system.

Civil Monetary Penalties

USDA maintains regulations regarding civil monetary policies at Title 7 of the Code of Federal Regulations § 3.91. The Department has reviewed and updated the penalties in accordance with the Civil Monetary Penalties Inflation Act of 2015. On December 5, 2017, the Department published the revised listing of penalties in the Federal Register (https://www.federalregister.gov/documents/2017/12/05/2017-26194/inflation-catch-up-adjustment-of-civil-monetary-penalty-amounts). Each year, the Department must update its civil monetary penalties to account for annual inflation. On March 14, 2018, the Department published the revised penalties for 2018 in the Federal Register (https://www.federalregister.gov/documents/2018/03/14/2018-04832/civil-monetary-penalty-inflation-adjustment-for-2018). The table below briefly describes the penalty, under which authority it pertains, and the anticipated current penalty amount.

EXHIBIT 49: Civil Monetary Penalties

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Improper recordkeeping first-time offense; pesticides	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136i-1(d)	03/14/2018	$923
Improper recordkeeping subsequent offense; pesticides	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136i-1(d)	03/14/2018	$1,795
Violation of the unfair conduct rule	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499b(5)	03/14/2018	$5,029
Willful violation of the licensing requirements	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499c(a)	03/14/2018	$1,605 plus $401 per day for as long as the violation continues
Unwillful violation of the licensing requirements	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499c(a)	03/14/2018	$401 for each non-willful offense
Violative transaction	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499h(e)	03/14/2018	$3,209
Violation	Export Apple Act, 7 U.S.C. 586	03/14/2018	$147–$14,665

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Violation	Export Grape and Plum Act, codified at 7 U.S.C. 596	03/14/2018	$281–$28,061
Violation of an order issued by the Secretary	Agricultural Adjustment Act, reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, codified at 7 U.S.C. 608c(14)(B)	03/14/2018	$2,806
Failure to file certain reports	Agricultural Adjustment Act, reenacted by the Agricultural Marketing Agreement Act of 1937, codified at 7 U.S.C. 610(c)	03/14/2018	$281
Violation of a seed program	Federal Seed Act, codified at 7 U.S.C. 1596(b)	03/14/2018	$96–$1,913
Failure to collect any assessment or fee for violation	Cotton Research and Promotion Act, codified at 7.U.S.C. 2112(b)	03/14/2018	$2,806
Failure to pay, collect, or remit any assessment or fee for a violation of a program	Potato Research and Promotion Act, codified at 7 U.S.C. 2621(b)(1)	03/14/2018	$1,257–$12,570
Failure to obey a cease and desist order	Potato Research and Promotion Act, codified at 7 U.S.C. 2621(b)(3)	03/14/2018	$1,257
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Egg Research and Consumer Information Act, codified at 7 U.S.C. 2714(b)(1)	03/14/2018	$1,454–$14,544
Failure to obey a cease and desist order	Egg Research and Consumer Information Act, codified at 7 U.S.C. 2714(b)(3)	03/14/2018	$1,454
Failure to remit any assessment or fee, or for a violation of a program	Beef Research and Information Act, codified at 7 U.S.C. 2908(a)(2)	03/14/2018	$11,346

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Failure to remit any assessment or fee, or for a violation of a program	Wheat and Wheat Foods Research and Nutrition Education, codified at 7 U.S.C. 3410(b)	03/14/2018	$2,806
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Floral Research and Consumer Information Act, codified at 7 U.S.C. 4314(b)(1)	03/14/2018	$1,320–$13,205
Failure to obey a cease and desist order	Floral Research and Consumer Information Act, codified at 7 U.S.C. 4314(b)(3)	03/14/2018	$1,320
Violation of an order	Dairy Promotion Program, codified at 7 U.S.C. 4510(b)	03/14/2018	$2,442
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Honey Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 4610(b)(1)	03/14/2018	$752–$7,250
Failure to obey a cease and desist order	Honey Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 4610(b)(3)	03/14/2018	$752
Violation of a program	Pork Promotion, Research, and Consumer Information Act of 1985, codified at 7 U.S.C. 4815(b)(1)(A)(i)	03/14/2018	$2,269
Failure to obey a cease and desist order	Pork Promotion, Research, and Consumer Information Act of 1985, codified at 7 U.S.C. 4815(b)(3)(A)	03/14/2018	$1,135
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Watermelon Research and Promotion Act, codified at 7 U.S.C. 4910(b)(1)	03/14/2018	$1,135–$11,346

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Failure to obey a cease and desist order	Watermelon Research and Promotion Act, codified at 7 U.S.C. 4910(b)(3)	03/14/2018	$1,135
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Pecan Promotion and Research Act of 1990, codified at 7 U.S.C. 6009(c)(1)	03/14/2018	$1,848–$18,477
Failure to obey a cease and desist order	Pecan Promotion and Research Act of 1990, codified at 7 U.S.C. 6009(e)	03/14/2018	$1,848
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Mushroom Promotion, Research, and Consumer Information Act of 1990, codified at 7 U.S.C. 6107(c)(1)	03/14/2018	$898–$8,977
Failure to obey a cease and desist order	Mushroom Promotion, Research, and Consumer Information Act of 1990, codified at 7 U.S.C. 6107(e)	03/14/2018	$898
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Lime Research, Promotion, and Consumer Information Act of 1990, codified at 7 U.S.C. 6207(c)(1)	03/14/2018	$898–$8977
Failure to obey a cease and desist order	Lime Research, Promotion, and Consumer Information Act of 1990, codified at 7 U.S.C. 6207(e)	03/14/2018	$898
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Soybean Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 6307(c)(1)(A)	03/14/2018	$1,848
Failure to obey a cease and desist order	Soybean Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 6307(e)	03/14/2018	$9,239

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Failure to pay, collect, or remit any assessment or fee, or for an unwillful violation of a program	Fluid Milk Promotion Act of 1990, codified at 7 U.S.C. 6411(c)(1)(A) and 7 U.S.C. 6411(c)(1)(B)	03/14/2018	$898–$8,977
Failure to pay, collect, or remit any assessment or fee, or for a willful violation of a program	Fluid Milk Promotion Act of 1990, codified at 7 U.S.C. 6411(c)(1)(A) and 7 U.S.C. 6411(c)(1)(B)	03/14/2018	$17,952–$179,522
Failure to obey a cease and desist order	Fluid Milk Promotion Act of 1990, codified at 7 U.S.C. 6411(e)	03/14/2018	$9,239
Knowingly labeling or selling a product as organic except in accordance with the Organic Foods Production Act of 1990	Organic Foods Production Act of 1990, codified at 7 U.S.C. 6519(a)	03/14/2018	$17,952
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Fresh Cut Flowers and Fresh Cut Greens Promotion and Information Act of 1993, codified at 7 U.S.C. 6808(c)(1)(A)(i)	03/14/2018	$847–$8,464
Failure to obey a cease and desist order	Fresh Cut Flowers and Fresh Cut Greens Promotion and Information Act of 1993, codified at 7 U.S.C. 6808(e)(1)	03/14/2018	$8,464
Violation of a program	Sheep Promotion, Research, and Information Act of 1994, codified at 7 U.S.C. 7107(c)(1)(A)	03/14/2018	$1,650
Failure to obey a cease and desist order	Sheep Promotion, Research, and Information Act of 1994, codified at 7 U.S.C. 7107(e)	03/14/2018	$824
Violation of an order or regulation	Commodity Promotion, Research, and Information Act of 1996, codified at 7 U.S.C. 7419(c)(1)	03/14/2018	$1,558–$15,582 for each violation

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Failure to obey a cease and desist order	Commodity Promotion, Research, and Information Act of 1996, codified at 7 U.S.C. 7419(e)	03/14/2018	$1,558–$15,582 for each day the violation continues
Violation of an order or regulation	Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(c)(1)(A)(i)	03/14/2018	$1,558 for each violation
Failure to obey a cease and desist order	Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(e)	03/14/2018	$7,791 for each day the violation continues
Violation of an order or regulation	National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(c)(1)	03/14/2018	$780–$7,791
Failure to obey a cease and desist order	National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(e)	03/14/2018	$780 for each day the violation continues
Violation of an order or regulation	Popcorn Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 7487(a)	03/14/2018	$1,558 for each violation
Certain violations	Egg Products Inspection Act, codified at 21 U.S.C. 1041(c)(1)(A)	03/14/2018	$8,977 for each violation
Violation of an order or regulation	Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(c)(1)(A)(i)	03/14/2018	$1,417–$14,177 for each violation
Failure to obey a cease and desist order	Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(e)(1)	03/14/2018	$14,177 for each violation

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Violation of certain provisions	Livestock Mandatory Reporting Act of 1999, codified at 7 U.S.C. 1636b(a)(1)	03/14/2018	$14,665 for each violation
Failure to obey a cease and desist order	Livestock Mandatory Reporting Act of 1999, codified at 7 U.S.C. 1636b(g)(3)	03/14/2018	$14,665 for each violation
Failure to obey an order of the Secretary	Dairy Product Mandatory Reporting Program, codified at 7 U.S.C. 1637b(c)(4)(D)(iii)	03/14/2018	$14,177 for each violation
Willful violation of the program by a retailer or person engaged in the business of supplying a covered commodity to a retailer	Country of Origin Labeling Program, 7 U.S.C. 1638b(b)(2)	03/14/2018	$1,139 for each violation
Violations of the program	Dairy Research Program, codified at 7 U.S.C. 4535 and 4510(b)	03/14/2018	$2,442 for each violation
Violation of the imported seed provisions	Federal Seed Act, codified at 7 U.S.C. 1596(b)	03/14/2018	$96–$1,913
Violation of the Animal Welfare Act	Animal Welfare Act, codified at 7 U.S.C. 2149(b)	03/14/2018	$11,390, and knowing failure to obey a cease and desist order has a civil penalty of $1,708
Any person that causes harm to, or interferes with, an animal used for the purposes of official inspection by the Department	Civil Penalties (Department of Agriculture), 7 U.S.C. 2279e(a)	03/14/2018	$14,177
Penalty for a violation of the Swine Health Protection Act	Swine Health Protection Act, codified at 7 U.S.C. 3805(a)	03/14/2018	$28,061

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Any person that violates the Plant Protection Act (PPA), or that forges, counterfeits, or, without authority from the Secretary, uses, alters, defaces, or destroys any certificate, permit, or other document provided for in the PPA	Plant Protection Act, 7 U.S.C. 7734(b)(1)	03/14/2018	$70,881 in the case of any individual (except that the civil penalty may not exceed $1,417 in the case of an initial violation of the PPA by an individual moving regulated articles not for monetary gain); $354,402 in the case of any other person; $569,468 for violations adjudicated in a single proceeding if not a willful violation; $1,138,937 for violations adjudicated in a single proceeding if a willful violation; or twice the gross gain or gross loss for any violation, forgery, counterfeiting, unauthorized use, defacing, or destruction of a certificate, permit, or other document provided for in the PPA that results in the person deriving pecuniary gain or causing pecuniary loss to another.

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Any person [except as provided in 7 U.S.C. 8309(d)] that violates the Animal Health Protection Act (AHPA); or that forges, counterfeits, or, without authority from the Secretary, uses, alters, defaces, or destroys any certificate, permit, or other document provided under the AHPA	Animal Health Protection Act, 7 U.S.C. 8313(b)(1)	03/14/2018	$68,027 in the case of any individual (except that the civil penalty may not exceed $1,360 in the case of an initial violation of the AHPA by an individual moving regulated articles not for monetary gain); $340,131 in the case of any other person for each violation; $569,468 for all violations adjudicated in a single proceeding if the violations do not include a willful violation; $1,138,937 for all violations adjudicated in a single proceeding if the violations include a willful violation; or twice the gross gain or gross loss for any violation, forgery, counterfeiting, unauthorized use, defacing, or destruction of a certificate, permit, or other document provided under the AHPA that results in the person's deriving pecuniary gain or causing pecuniary loss to another person.
Any person that violates certain regulations under the Agricultural Bioterrorism Protection Act of 2002 regarding transfers of listed agents and toxins or possession and use of listed agents and toxins	Bioterrorism Protection Act of 2002, codified at 15 U.S.C. 8401 (i)(1)	03/14/2018	$340,131 in the case of an individual and $680,262 in the case of any other person.

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Violation of the act	Horse Protection Act, codified at 15 U.S.C. 1825(b)(1)	03/14/2018	$5,612
Failure to obey act disqualification	Horse Protection Act, codified at 15 U.S.C. 1825(c)	03/14/2018	$10,969
Knowingly violating or, if in the business as an importer or exporter, violating, with respect to terrestrial plants, any provision of the Endangered Species Act of 1973, any permit or certificate issued thereunder, or any regulation issued pursuant to section 9(a)(1)(A) through (F), (a)(2)(A) through (D), (c), (d) (other than regulations relating to recordkeeping or filing reports), (f), or (g) of the Endangered Species Act of 1973 (16 U.S.C. 1538(a)(1)(A) through (F), (a)(2)(A) through (D), (c), (d), (f), and (g)), as set forth at 16 U.S.C. 1540(a)	Endangered Species Act of 1973, (16 U.S.C. 1538(a)(1)(A) through (F), (a)(2)(A) through (D), (c), (d), (f), and (g)), as set forth at 16 U.S.C. 1540(a)(1)	03/14/2018	$51,302
Knowingly violating or, if in the business as an importer or exporter, violating, with respect to terrestrial plants, any other regulation under the Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)(1)	03/14/2018	$24,625

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Violation, with respect to terrestrial plants, of the Endangered Species Act of 1973, or any regulation, permit, or certificate issued thereunder, as set forth at 16 U.S.C. 1540(a)	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)(1)	03/14/2018	$1,296
Knowingly and willfully violating 49 U.S.C. 80502 with respect to the transportation of animals by any rail carrier, express carrier, or common carrier (except by air or water); a receiver, trustee, or lessee of one of those carriers; or an owner or master of a vessel	28 Hour Law, 49 U.S.C. 80502(d)	03/14/2018	$165–$824
Violating a provision of or a regulation under the Act, by a retail food store or wholesale food concern	Food and Nutrition Act of 2008 (Act), or a regulation under the Act, codified at 7 U.S.C. 2021(a) and (c)	03/14/2018	$113,894
Trafficking in food coupons	Food and Nutrition Act of 2008 (Act), codified at 7 U.S.C. 2021(b)(3)(B)	03/14/2018	$41,042–$73,906
Sale of firearms, ammunitions, explosives, or controlled substances for coupons	Food and Nutrition Act of 2008 (Act), codified at 7 U.S.C. 2021(b)(3)(c)	03/14/2018	$36,953–$73,906

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Any entity that submits a bid to supply infant formula to carry out the Special Supplemental Nutrition Program for Women, Infants, and Children and discloses the amount of the bid, rebate, or discount practices in advance of the bid opening, or for any entity that makes a statement prior to the opening of bids for the purpose of influencing a bid	Child Nutrition Act of 1966, as amended by Sec. 204 of the Child Nutrition Act of 1992, P.L. 1102-512., 42 U.S.C. 1786(h)(8)(H)(i)	03/14/2018	$173,951,364
Vendor convicted of trafficking in food instruments	Child Nutrition Act of 1966, as amended by Sec. 203 (p)(1) of the William F. Goodling Child Nutrition Reauthorization Act of 1998, P.L. 105-336., 42 U.S.C. 1786(o)(1)(A) and 42 U.S.C. 1786(o)(4)(B)	03/14/2018	$15,041–$60,161
Vendor convicted of selling firearms, ammunition, explosives, or controlled substances in exchange for food instruments	Child Nutrition Act of 1966, as amended by Sec. 203 (p)(1) of the William F. Goodling Child Nutrition Reauthorization Act of 1998, P.L. 105-336., 42 U.S.C. 1786(o)(1)(B) and 42 U.S.C. 1786(o)(4)(B)	03/14/2018	$15,041–$60,161
Certain violations	Egg Products Inspection Act, codified at 21 U.S.C. 1041(c)(1)(A)	03/14/2018	$8,977 for each violation
Willful disregard of the prohibition against the export of unprocessed timber originating from Federal lands	Forest Resources Conservation & Shortage Relief Act of 1990, as amended, 16 U.S.C. 620d(c)(1)(A)	03/14/2018	$923,831

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Violation in disregard of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation & Shortage Relief Act of 1990, as amended, 16 U.S.C. 620d(c)(2)(A)(i)	03/14/2018	$138,575
Person that should have known that an action was a violation of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act, 16 U.S.C. 620d(c)(2)(A)(ii)	03/14/2018	$92,383
Willful violation of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act, codified at 16 U.S.C. 620d(c)(2)(A)(iii)	03/14/2018	$923,831
Violation involving protections of caves	Federal Cave Resources Protection Act of 1988; P.L. 100-691; 102 Stat. 4546, 16 U.S.C. 4307(a)(2)	03/14/2018	$20,191
Packer or swine contractor violation	Packers and Stockyards Act, 1921, as amended, 7 U.S.C. 193(b)	03/14/2018	$28,061
Livestock market agency or dealer failure to register	Packers and Stockyards Act of 1921, 7 U.S.C. 203	03/14/2018	$1,913
Livestock market agency or dealer failure to register	Packers and Stockyards Act of 1921, 7 U.S.C. 203	03/14/2018	$96 each day the violation continues
Operating without filing, or in violation of, a stockyard rate schedule, or of a regulation or order of the Secretary made thereunder	Packers and Stockyards Act of 1921, 7 U.S.C. 207(g)	03/14/2018	$1,913

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Operating without filing, or in violation of, a stockyard rate schedule, or of a regulation or order of the Secretary made thereunder	Packers and Stockyards Act of 1921, 7 U.S.C. 207(g)	03/14/2018	$96 each day the violation continues
A stockyard owner, livestock market agency, and dealer violation	Packers and Stockyards Act of 1921, 7 U.S.C. 213(b)	03/14/2018	$28,061
Stockyard owner, livestock market agency, and dealer compliance order	Packers and Stockyards Act of 1921, 7 U.S.C. 215(a)	03/14/2018	$1,913
Live poultry dealer violations	Packers and Stockyards Act of 1921, 7 U.S.C. 228b-2(b)	03/14/2018	$81,633
Refusal of inspection and weighing services violation	7 U.S.C. 86(c)	03/14/2018	$274,235
Any person who willfully and intentionally provides any false or inaccurate information to the Federal Crop Insurance Corporation, or to an approved insurance provider with respect to any insurance plan or policy that is offered under the authority of the Federal Crop Insurance Act, or who fails to comply with a requirement of the Federal Crop Insurance Corporation	Federal Crop Insurance Act, codified at 7 U.S.C. 1515(h)(3)(A)	03/14/2018	Has a maximum of the greater of: the amount of the pecuniary gain obtained as a result of the false or inaccurate information or the noncompliance; or $11,984
Violation of section 536 of Title V of the Housing Act of 1949	Section 536 of Title V of the Housing Act of 1949, codified at 42 U.S.C. 1490p(e)(2)	03/14/2018	$196,387 in the case of an individual and $1,963,870 in the case of an applicant other than an individual

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Equity skimming	Section 543(a) of Title V of the Housing Act of 1949, codified at 42 U.S.C. 1490s(a)(2)	03/14/2018	$35,440
Violation of regulations or agreements made in accordance with Title V of the Housing Act of 1949 by submitting false information, submitting false certifications, failing to timely submit information, failing to maintain real property in good repair and condition, failing to provide acceptable management for a project, or failing to comply with applicable civil rights statutes and regulations	Section 543(b) of Title V of the Housing Act of 1949, codified at 42 U.S.C. 1490s(b)(3)(A)	03/14/2018	$70,881
Failure to comply with certain provisions	U.S. Warehouse Act, codified at 7 U.S.C. 254	03/14/2018	$35,440
Willful failure or refusal to furnish information, or willful furnishing of false information	Section 156 of the Federal Agricultural Improvement and Reform Act of 1996, codified at 7 U.S.C. 7272(g)(5).	03/14/2018	$15,582 for each violation
Willful failure or refusal to furnish information, or willful furnishing of false data by a processor, refiner, or importer of sugar, syrup, and molasses	Section 156 of the Federal Agriculture Improvement and Reform Act of 1996, codified at 7 U.S.C. 7272(g)(5)	03/14/2018	$15,582 for each violation
Filing a false acreage report that exceeds tolerance	Federal Agriculture Improvement and Reform Act of 1996, Section 156, codified at 7 U.S.C. 7272(g)(5)	03/14/2018	$15,582 for each violation

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Knowingly violating any regulation of the Secretary of the Commodity Credit Corporation pertaining to flexible marketing allotments for sugar	Section 359h(b) of the Agricultural Adjustment Act of 1938, codified at 7 U.S.C. 1359hh(b)	03/14/2018	$11,390 for each violation
Knowingly violating any regulations promulgated by the Secretary pertaining to cotton insect eradication	Section 104(d) of the Agricultural Act of 1949, codified at 7 U.S.C. 1444a(d)	03/14/2018	$14,031
Making, presenting, submitting, or causing to be made, presented, or submitted, a false, fictitious, or fraudulent claim	Program Fraud Civil Remedies Act of 1986, codified at 31 U.S.C. 3802(a)(1)	03/14/2018	$11,182
Making, presenting, submitting, or causing to be made, presented, or submitted, a false, fictitious, or fraudulent written statement	Program Fraud Civil Remedies Act of 1986, codified at 31 U.S.C. 3802(a)(2)	03/14/2018	$11,182
Violation of any of the slaughter horse transportation regulations in 9 CFR part 88	Commercial Transportation of Equine for Slaughter Act, 7 U.S.C. 1901 note	03/14/2018	$5,000

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level ($ Amount)
Knowingly violating section 3(d) or 3(f) of the Lacey Act Amendments of 1981, or for violating any other provision provided that, in the exercise of due care, the violator should have known that the plant was taken, possessed, transported, or sold in violation of any underlying law, treaty, or regulation	Lacey Act Amendments of 1981, 16 U.S.C. 3373(a)(1)	03/14/2018	$25,928 for each violation (but if the plant has a market value of less than $350, and involves only the transportation, acquisition, or receipt of a plant taken or possessed in violation of any law, treaty, or regulation of the United States, any Indian Tribal law, any foreign law, or any law or regulation of any State, the penalty shall not exceed the maximum provided for violation of said law, treaty, or regulation, or $25,928, whichever is less)
Violating section 3(f) of the Lacey Act Amendments of 1981	Lacey Act Amendments of 1981, 16 U.S.C. 3373(a)(2)	03/14/2018	$648

Grant Oversight and New Efficiency (GONE) Act

EXHIBIT 50: Aging and Balances for Grants and Cooperative Agreements Subject to GONE Act Reporting

CATEGORY	2–3 YEARS	>3–5 YEARS	>5 YEARS
Number of Grants/Cooperative Agreements with Zero Dollar Balances	4	21	41
Number of Grants/Cooperative Agreements with Undisbursed Balances	677	411	106
Total Amount of Undisbursed Balances	$ 4,339,705.64	$ 7,764,474.03	$ 3,273,133.88

CHALLENGES

The U.S. Department of Agriculture (USDA) faces several challenges leading to delayed grant agreement award closeout. In some instances, agencies have not received closeout documentation in a timely manner, which may be a result of ongoing disputes with grant recipients about allowable expenditures and/or as a result of legal situations. Several agreements are either in litigation or have the potential for litigation. Pursuant to 2 Code of Federal Regulations (CFR) 200.333 Retention of Records (Title 2 CFR Part 200 "Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards") and Department Regulation (DR) Litigation Retention Policy (DR3090-001), the agreement must be maintained in both hard copy and electronically in its native format while the litigation hold or potential for litigation is in force. The closeout process will occur, and any remaining balances will be de-obligated or dispersed as directed after litigation action is resolved.

There are cases in which awardees must submit a return of funds; USDA is awaiting receipt of these funds. In these cases, the projects will be officially marked as "closed" once funds have been received. USDA has certain awards with State Agencies in Puerto Rico that have not been able to perform reconciliation in their systems due to Hurricane Rita and Irma activity. The closeout process for awards in Puerto Rico has been challenging, and many have not been completed.

In limited situations, an incorrect period of performance (POP) in award systems has allowed awards to remain open after the POP has past. As a result of invalid POPs, the grantee must submit invoices to the agency for review. If the invoices are found to have discrepancies, USDA must reach out to the grantee for the additional information, delaying the closeout process.

With imposed hiring freezes, agencies are facing staff shortages in the Grants and Agreements Service Branches (GASB). Staff priorities have been placed on processing new agreements, which limits the amount of time available for agreement closeout.

CORRECTIVE ACTIONS

USDA remains committed to working to address the requirements of Title 2 CFR Part 200, as well as the Grant Oversight and New Efficiency (GONE) Act, to ensure grants and cooperative agreements are closed out within the time identified in the regulatory guidance. Agencies are working on corrective action plans, which include revising the grant closeout process and fully documenting the procedures and notifications that will be required for all grant agreements.

Agencies continue to work with grantees who drawdown funds after a period of performance. There is ongoing work to appropriately collect funds and close out grants or cooperative agreements as soon as possible.

Although USDA may have a grant community staff shortage, extra time is being devoted to agreement closeout in fiscal year (FY) 2018. Additionally, the teams are working to bring other contractor support to assist with closing expired agreements. Closing out expired agreements is an agency priority.

Abbreviations—Acronyms

A

AAR—Acquisition Approval Request

ACRSI—Acreage Crop Reporting Streamlining Initiative

ACRWS—Automated Cash Reconciliation Worksheet System

ADA—Anti-deficiency Act

AFR—Agency Financial Report

AGA—Association of Government Accountants

AgNIC—Agriculture Network Information Collaborative

AGPMR—Agriculture Property Management Regulation

AIP—Approved Insurance Providers

AMS—Agricultural Marketing Service

AO—Approving Officials

APC—Agency Program Coordinators

APEC—Access, Participation, Eligibility, and Certification

APHIS—Animal and Plant Health Inspection Service

APR—Annual Performance Report

AQI—Agricultural Quarantine Inspection

AR—Administrative Review

ARC/PLC—Agriculture Risk Coverage and Price Loss Coverage

ARC-CO—Agriculture Risk Coverage-County

ARS—Agricultural Research Service

ART— Administrative Review and Training

AU—Audit

B

BAR—Budget and Accrual Reconciliation

BARC—Beltsville Agricultural Research Center

BCAP-Biomass Crop Assistance Program

BPR—Business Process Reengineering

Broker—Treasury Broker

C

CACFP—Child and Adult Care Food Program

CAE—Center for Agribusiness Excellence

CAIVRS—Credit Alert Interactive Voice Response System

CBO—Certificates of Beneficial Ownership

CCC BF—CCC Budget Formulation

CCC—Commodity Credit Corporation

CCSC—Charge Card Service Center

CDC—Centers for Disease and Control Prevention

CDM—Continuous Diagnostics and Mitigation

CEP—Community Eligibility Provision

CFDA—Catalog of Federal Domestic Assistance

CFO—Chief Financial Officer

CFR—Code of Federal Regulations

CN—Child Nutrition

CoC—Cushion of Credit

COF—County Operated Facility

CORE—Core Accounting System

COTS—Commercial Off the Shelf

CPAIS—Corporate Property Automated Information System

CPI—Consumer Price Index

CRP—Conservation Reserve Program

CSS—Country Strategy Statements

CTA—Conservation Technical Assistance

CUECs—complementary end-user controls

CY—Current Year

D

DAIMS—DATA Act Information Model Schema

DA-OCP—The Departmental Administration Office of Contracting and Procurement

DATA—Digital Accountability and Transparency Act of 2014

DC—Disallowed Costs

DCR— Data Change Request

DHS—U.S. Department of Homeland Security

DM&R—Deferred Maintenance & Repairs

DM—Departmental Manual

DNP—Do Not Pay

DR—Departmental Regulation

E

E&T—Employment and Training

EEO—Equal Employment Opportunity

eFMS—Electronic Funds Management System

ELC—Entity Level Control

EPA—Environmental Protection Agency

EPLS—Excluded Parties List System

EQIP—Environmental Quality Incentives Program

ERM—Enterprise Risk Management

ERP—Enterprise Resource Planning

ERS—Economic Research Service

F

FABS—Financial Assistance Broker Submission

FAPIIS—Federal Awardee Performance and Integrity Information System

FAS—Foreign Agricultural Service

FAV—Fruits and Vegetables

FBWT—Fund Balance with Treasury

FCC—Federal Communications Commission

FCIC—Federal Crop Insurance Corporation

FDA—Food and Drug Administration

FDCH—Family Day Care Homes

FDPIR—Food Distribution Program on Indian Reservations

FEB—Federal Executive Board

FECA—Federal Employee Compensation Act

FFAS—Farm and Foreign Agricultural Services

FFATA—Federal Funding Accountability and Transparency Act

FFB—Federal Financing Bank

FFMIA—Federal Financial Management Improvement Act

FFMS—Federal Financial Management System

FFN—Frost Freeze

FISMA—Federal Information Security Management Act

FMFIA—Federal Managers' Financial Integrity Act

FMMI—Financial Management Modernization Initiative

FMS—Financial Management Services

FMT—Financial Management Training

FNCS—Food, Nutrition and Consumer Services

FNS—Food and Nutrition Service

FPAC—Farm Production and Conservation

FPD— Fiscal Policy Division

FPDS—Federal Procurement Data System

FRPP—Federal Real Property Profile

FSA—Farm Service Agency

FSDW—Financial Statement Data Warehouse

FSFL—Farm and Sugar Storage Facilities

FS—Forest Service

FSH—Forest Service Handbook

FSIS—Food Safety and Inspection Service

FSM—Forest Service Manual

FSRIP— Farm Security and Rural Investment Act Programs

FSRS—Federal Funding Accountability and Transparency Act sub award Reporting System

FTBU—Funds To Be Put to Better Use

FY—Fiscal Year

G

GAAP—Generally Accepted Accounting Principles

GAO—Government Accountability Office

GIPSA—Grain Inspection, Packers and Stockyards Administration

GIS—Geographic information system

GL—General Ledger

GONE—Grant Oversight and New Efficiency Act

GPRA—Government Performance and Results Act of 1993

GRC—Governance Risk and Compliance

GSA—General Services Administration

H

HR—Human Resources

HSPD—Homeland Security Presidential Directive

HVAs—High Value Assets

I

IAA— Interagency Agreement

The IAA— Federal Civil Penalties Inflation Adjustment Act of 1990

IAS—Integrated Acquisition System

IDs—identification numbers

IPAC—Intra-Governmental Payment and Collection

IPERA—Improper Payments Elimination and Recovery Act of 2010

IPERIA—Improper Payments Elimination and Recovery Improvement Act of 2012

IPIA—Improper Payments Information Act of 2002

IT—Information Technology

L

L&WCF—Land and Water Conservation Fund

LAPCs—Local Agency Program Coordinators

LDP—Loan Deficiency Payment

LEAs—local educational agencies

LEIE—List of Excluded Individuals/Entities

LFP—Livestock Forage Disaster Program

M

MCC—Merchant Category Codes

MD&A—Management's Discussion and Analysis

MDD—Management Decision Date

ME—Management Evaluation

MFH—Multi-Family Housing

MGT—Modernizing Government Technology

MIDAS—Modernize and Innovate the Delivery of Agricultural Systems

MITS—Management Information Tracking System

MRP—Marketing and Regulatory Programs

N

NAL—National Agricultural Library

NAP—Noninsured Crop Disaster Assistance Program

NASS—National Agricultural Statistics Service

NCSS—National Cooperative Soil Survey

NERAOC—National Extension and Research Administrative Officers Conference

NFC—National Finance Center

NFS—National Forest System

NIFA—National Institute of Food and Agriculture

NRCS—Natural Resources Conservation Service

NRE—Natural Resources and Environment

NRHP—National Register of Historic Places

NSLP—National School Lunch Program

O

OAO—Office of Advocacy and Outreach

OCFO—Office of the Chief Financial Officer

OCIO—Office of the Chief Information Officer

OCP—Office of Contracting and Procurement

OGC— Office of the General Counsel

OHSEC—Office of Homeland Security and Emergency Coordination

OIG—Office of Inspector General

OMB—Office of Management and Budget

OPPE—Office of Partnerships and Public Engagement

OSEC—Office of the Secretary

P

PAR—Performance and Accountability Report

PHA—Priority Heritage Assets

PHIS—Public Health Information System

PIV—Personal Identity Verification

PL—Public Law

PMC—Plant Materials Centers

POA&M—Plans of Actions and Milestones

POC—Point of Contact

PP&E—Property, Plant, and Equipment

PTIGs—Process Technology Improvement Grants

PUPS—Prisoner Update Processing System of the Social Security Administration

Q

QC—Quality Control

R

R&D—Research & Development

RBS—Rural Business and Cooperative Service

RC&D—Resource Conservation and Development

RC&D—Resource Conservation and Development

RCO—Regional Compliance Office

RD—Rural Development

REE—Research, Education, and Economics

RHIF—Rural Housing Insurance Fund

RHS—Rural Housing Service

RITA—Reconciliation of Intra-Governmental Payment and Collection Transactions for Agriculture

RMA—Risk Management Agency

RME—Risk Management Education

RUS—Rural Utilities Service

RVA—Risk and Vulnerability Assessment

RY— Reinsurance year

S

S&E—Salaries and Expenses

SAM—System for Award Management

SAP— Systems, Applications, and Products

SAS— Statement on Auditing Standards

SBP—School Breakfast Program

SBR—Statement of Budgetary Resources

SFA—School Food Authority

SFFAS—Statement of Federal Financial Accounting Standards

SFSP—Summer Food Service Program

SF—Square Footage

SNAP—Supplemental Nutrition Assistance Program

SOD— segregation of duty

SOP—Standard Operating Procedure

SORN—System of records notice

SPAs—Strategic Program Areas

SPPS—Special Payroll Processing System

SPS—Secure Payment System

SSD—Soil Science Division

STO—State Office

T

T&A—Time and Attendance

TAP—Tree Assistance Program

TARGET—Technology Accessible Resources Give Employment Today

TB—Technical Bulletin

TBT—Technical Barriers to Trade

TDD—Telecommunication Device for the Deaf

TFAA—Trade and Agricultural Affairs

TMC—Travel Management Center

TOP—Treasury Offset Program

TPMC—Tucson Plant Materials Center

Treasury— U.S. Department of the Treasury

TSP—Thrift Savings Plan

U

U.S.C.—United States Code

UDO—Undelivered Orders

ULO—Unliquidated Obligations

USAID—U.S. Agency for International Development

USDA—U.S. Department of Agriculture

USSGL—U.S. Standard General Ledger

V

VA— Veterans Administration

W

WCF—Working Capital Fund

WEP—Water and Environmental Program

WIC—Special Supplemental Program for Women, Infants, and Children

WIP—Work in Progress