2007

Performance and Accountability Report

"that by the best cultivation in the physical world, beneath and around us, and the intellectual and moral world within us, we shall secure an individual, social and political prosperity and happiness, whose course shall be onward and upward, and which, while the earth endures, will not pass away."

— President Abraham Lincoln, USDA Founder,1862

USDA

United States
Department of Agriculture

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Message from the Secretary

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

From enhancing economic opportunities for agricultural producers, to protecting the Nation's food supply, to improving nutrition and health, to protecting the Nation's natural resources and environment, USDA has a proud record of accomplishment in FY 2007. We are pleased to share the highlights of our efforts in this FY 2007 Performance and Accountability Report.

USDA and its more than 100,000 employees touch the lives of every American every day. The 144-year-old USDA is one of the most complex departments in the Federal Government, with more than 300 programs. Annually, we spend more than $75 billion of our fellow Americans' money. In 2007, these resources helped:

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

To help USDA become more successful, program performance must be measured and we must place an even greater focus on accountability. To assist in this effort, the Department created the USDA Senior Management Control Council to oversee and administer the Department's assessment of internal controls for our programs, financial systems, and financial reporting relating to the Federal Managers' Financial Integrity Act (FMFIA) and the Federal Financial Management Improvement Act (FFMIA). Through the work of the Council, valuable information on the state of our systems allows us to provide a reasonable assurance that the content of this report is based on sound, accurate data.

I am proud to report that USDA fully implemented the requirements to assess and report on internal control for financial reporting this year—a significant accomplishment given the scope of our activities and the complexity of our operations. Our assessment identified areas within our financial reporting controls that have improved since our last report and areas in which continued improvement is needed—for which we have already begun executing corrective action plans. As such, I provide a qualified assurance that, except for the areas in need of improvement as described in the Management Assurances section of this report, USDA management controls, financial systems, and financial reporting controls meet the objectives of FMFIA and FFMIA. The financial and performance information presented herein is complete and accurate, and in accordance with Office of Management and Budget guidance and the Reports Consolidation Act of 2000.

USDA was first called "the people's department" by President Abraham Lincoln. I believe we still live up to that title. I am proud of our employees and the positive impact their diverse efforts have had on American life during the past year. I also want to thank you for your interest in USDA and its work. I am pleased to share this information with all of our stakeholders, and I look forward to reporting even more progress in the year ahead.

Charles F. Conner
Acting Secretary of Agriculture
November 15, 2007

About this Report

The Government Performance and Results Act of 1993 requires all Federal agencies to engage in a strategic planning process that directly aligns resources with results, and enhances the accountability of all government endeavors to the American taxpayers who finance them.

This results-oriented process includes the development and implementation of a five-year strategic plan, as well as annual reporting that sets specific, measurable targets for performance at the beginning of each fiscal year, and then offers a concrete, data-based assessment at year-end of the success of these endeavors.

This FY 2007 Performance and Accountability Report is the year-end progress report of the United States Department of Agriculture (USDA). It reviews the strategic goals and objectives the Department set for itself at the beginning of the fiscal year and compares initial targets to actual performance. The data used by USDA to measure actual performance is collected using standardized methodology that has been vetted by Federally employed scientists and policymakers and, ultimately, by the undersecretaries of the respective mission areas, all of whom attest to the completeness, reliability and quality of the data.

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

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

I.

Management's Discussion and Analysis

An Overview of the United States Department of Agriculture

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

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

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

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

This report provides information on USDA's core performance measures as described in its *Strategic Plan for FY 2005-2010*. They are:

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

These six goals mirror USDA's commitment to provide first-class service, state-of-the-art science and consistent management excellence across the broad responsibilities of the Department. USDA uses the Program Assessment Rating Tool (PART) to assess and improve program performance so that the Department can achieve better results. The PART identifies how well and efficiently a program is working and what specific actions can be taken to improve its performance. PART ratings and analysis

for all Federal Government programs can be found on the Web at ExpectMore.gov. Other internal and external program evaluations related to the measures and conducted during fiscal year (FY) 2007 are included in this document.

Although change has been a constant in the evolution of the U.S. farm and food sector, the new century brings growing importance to consumer preferences and the reach of global markets. USDA's objectives reflect this. Through these objectives, USDA will strive to:

- Expand international trade for agricultural products and support international economic development;
- Expand domestic marketing opportunities for agricultural products and strengthen risk management, the use of financial tools and the provision of sound information to help farmers and ranchers in their decision-making process;
- Further develop alternative markets for agriculture products and activities;
- Providing financing needed to help expand job opportunities and improve housing, utilities and infrastructure in rural America;
- Enhance food safety by taking steps to reduce the prevalence of foodborne hazards from farm to table and safeguard agriculture from natural and intentional threats;
- Improve nutrition by providing food assistance and nutrition education and promotion; and
- Manage and protect America's public and private lands working cooperatively with other levels of Government and the private sector.

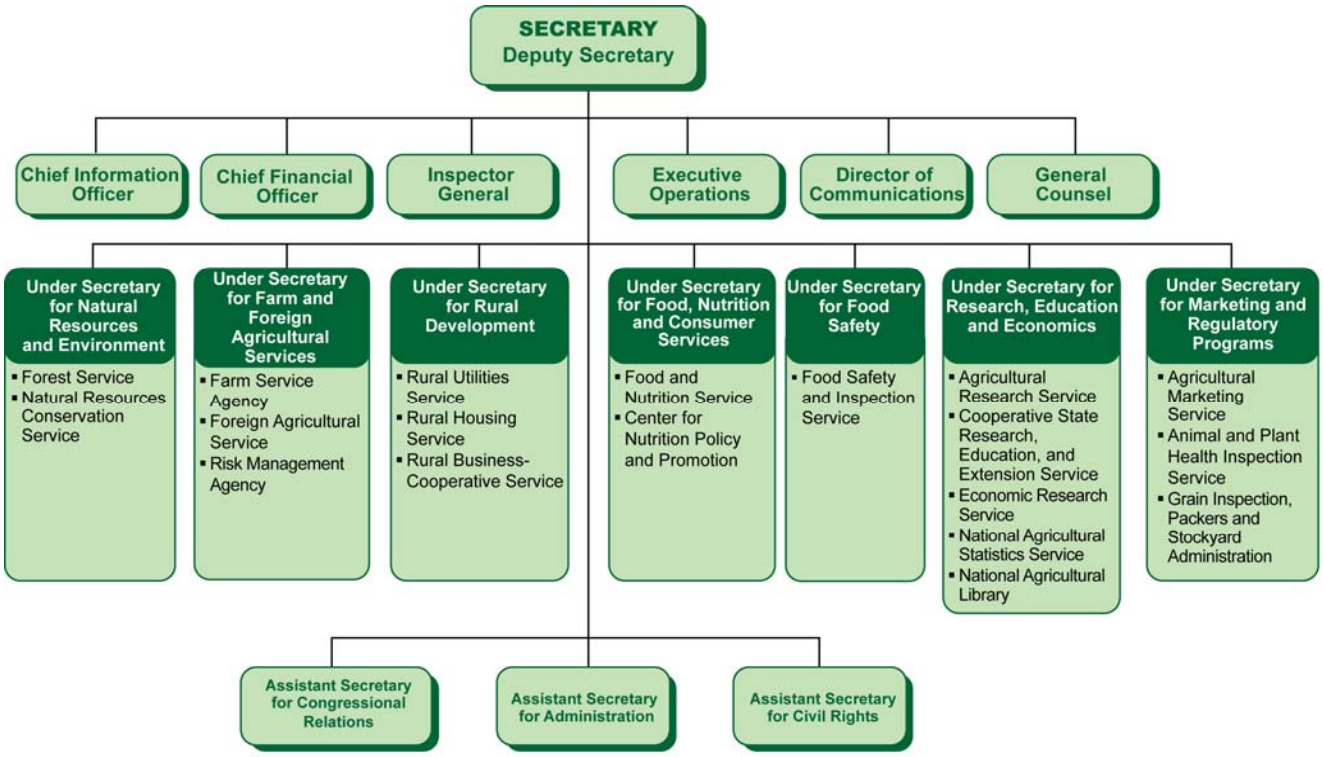


Exhibit 1: Headquarters Organization

Mission Statement

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

USDA's FY 2007 key milestones include:

- Awarding $19.25 million to create or retain jobs for businesses located in rural communities;
- Aiding thousands of disabled farmers in 21 States by providing education and assistance to continue farming through the funding of more than $3.7 million for "AgrAbility" projects. AgrAbility is a consumer-driven, USDA-funded program that provides vital education, assistance and support to farmers and ranchers with disabilities;
- Donating nearly $35 million to 11 States to fund 12 special projects designed to protect threatened and endangered species, and enhance wildlife habitat on wetlands.
- Partnering with the American Angus Association to facilitate the registration of up to 15,400 new premises as part of the National Animal Identification System. This move will ensure the availability of a nationwide communications network to assist livestock owners and animal health officials in the event of an animal disease event.
- Resuming the sign-up for the Emergency Forestry Conservation Reserve Program (EFCRP). EFCRP helps landowners and operators restore and enhance the approximately 5.6 million acres of forestland damaged by the hurricanes of 2005;
- Donating $50 million worth of Government-owned bulk commodities to U.S. food processors in exchange for further processed agricultural products to be distributed through the Department's domestic and international food-assistance programs; and
- Awarding nearly $4 million in grants to 14 tribal colleges in seven States. The funding will help the colleges purchase equipment, build or renovate classrooms, make needed repairs and finance infrastructure improvements.

Mission Areas

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

Natural Resources and Environment

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

Farm and Foreign Agricultural Services

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

address the unavoidable challenges inherent in agriculture, such as natural disasters.

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

Rural Development

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

Food, Nutrition and Consumer Services

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

Food Safety

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

Research, Education and Economics

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

Marketing and Regulatory Programs

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

Departmental Offices

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

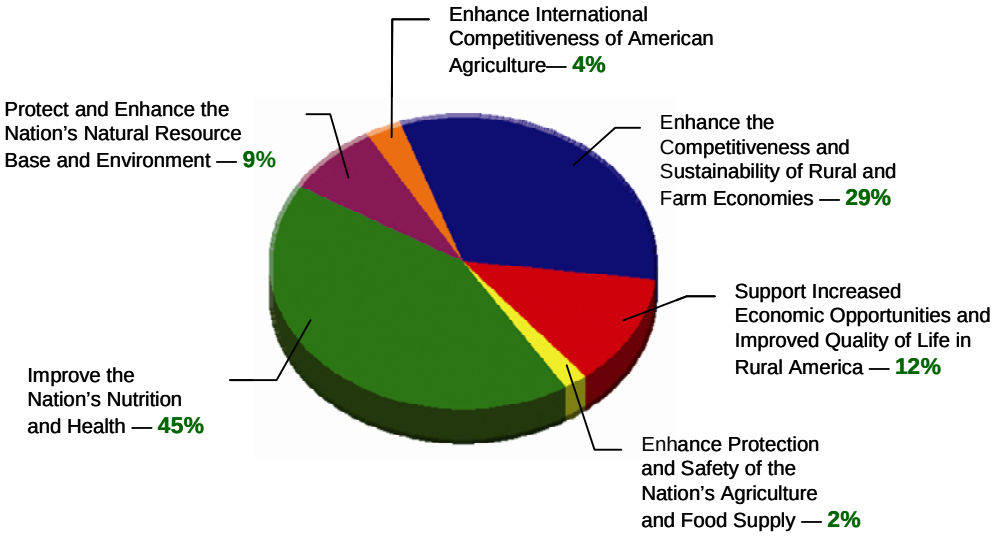
Resources

Congressional appropriations are the primary funding source for USDA operations. FY 2007 program obligations totaled $127.9 billion, a decrease of $14.5 billion compared to FY 2006. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments.

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

USDA Program Obligations Dedicated to Strategic Goals

FY 2007 Actual Program Obligations



FY 2006 Actual Program Obligations

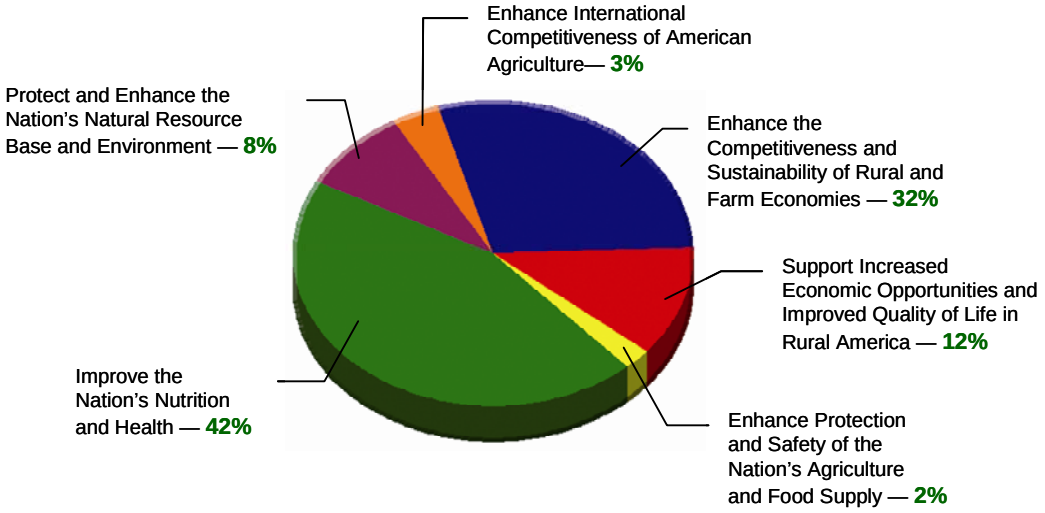
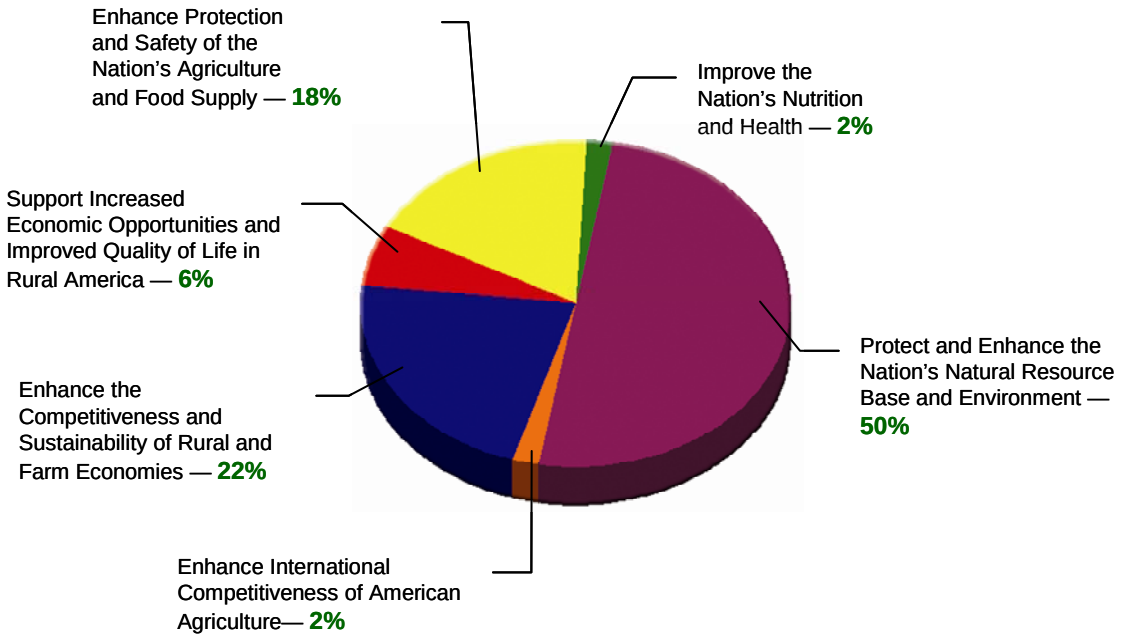


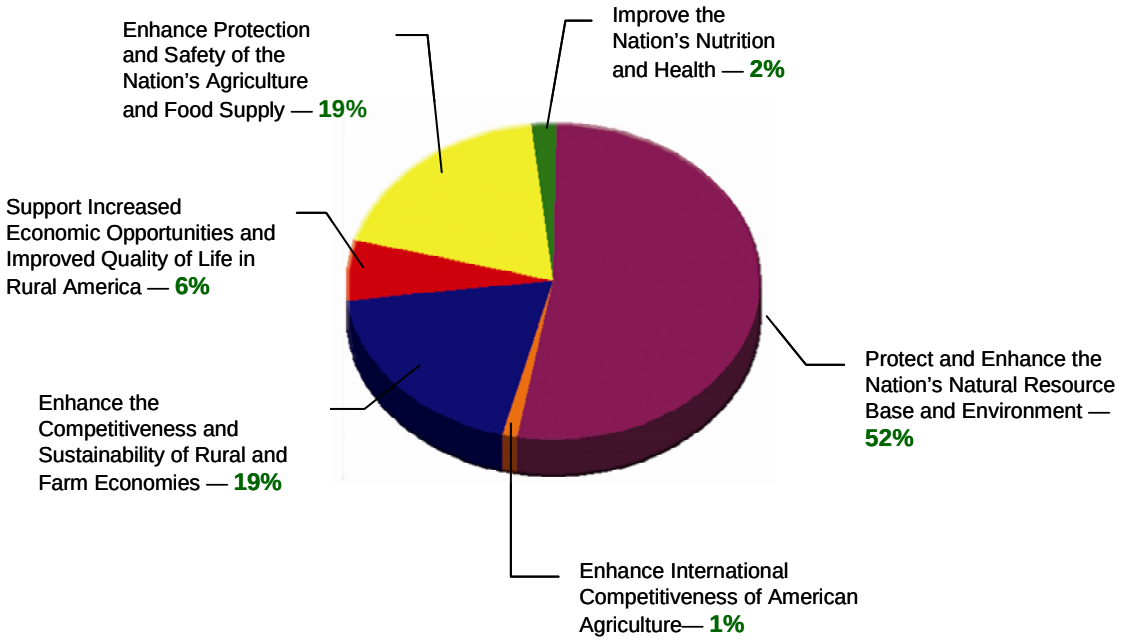
Exhibit 3: FY 2006 and 2005 USDA Staff Years Dedicated to Strategic Goals

USDA Staff Dedicated to Strategic Goals

FY 2007 Actual Staff Years



FY 2006 Actual Staff Years



Performance Goals, Objectives and Results

Of the 34 performance goals contained in USDA's FY 2008 and Revised FY 2007 Budget Summary and Annual Performance Plan, 28 were met or exceeded, 1 was reported as deferred and 5 were unmet. The following Performance Scorecard table, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analyses of these results can be found in the Performance Section of this report.

Exhibit 4: USDA Scorecard for FY 2007

Performance Scorecard for FY 2007				
Objectives		**Annual Performance Goals**		**Result**
Strategic Goal 1: Enhance International Competitiveness of American Agriculture				
1.1	Expand and Maintain International Export Opportunities	1.1.1	Dollar value of agricultural trade expanded through trade agreement negotiation, monitoring, and enforcement (Non-Sanitary and Phytosanitary)	Unmet
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Food Aid Targeting Effectiveness Ratio	Met
		1.2.2	Number of countries in which substantive improvements are made in national trade policy and regulatory frameworks that increase market access	Met
1.3	Improved Sanitary and Phytosanitary (SPS) System to Facilitate Agricultural Trade	1.3.1	Value of trade preserved annually through USDA staff interventions leading to resolution of barriers created by SPS or TBT measures (Sanitary and Phytosanitary) ($ in millions)	Exceeded
Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies				
2.1	Expand Domestic Market Opportunities	2.1.1	Increase the number of products designated under the BioPreferred Program	Unmet
2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems	2.2.1	Timeliness – Percent of time official reports are released on the date and time pre-specified to data users	Met
		2.2.2	Percent of market-identified quality attributes for which USDA has provided standardization (percent)	Met
2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers	2.3.1	Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance	Met
		2.3.2	Percentage of eligible crops with NAP coverage	Met
		2.3.3	Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by FSA	Met
Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America				
3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth	3.1.1	Number of jobs created or saved through USDA financing of businesses	Met
3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities	3.2.1	Homeownership opportunities provided	Met
		3.2.2	Number of borrowers/subscribers receiving new or improved service from agency funded water facility (millions)	Exceeded
		3.2.3	Percentage of customers who are provided access to new and/or improved essential community health facilities	Exceeded
		3.2.4	Percentage of customers who are provided access to new and/or improved essential community public safety services	Exceeded
		3.2.5	Number of program borrowers/subscribers receiving new or improved electric service	Met
		3.2.6	Number of program borrowers/subscribers receiving new or improved telecommunications service	Exceeded

Performance Scorecard for FY 2006				
Objectives		**Annual Performance Goals**		**Result**
Strategic Goal 3 (Cont'd)				
Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply				
4.1	Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.	4.1.1	Reduce overall public exposure to generic *Salmonella* from broiler carcasses using existing scientific standards (percentage of industry in Category 1 i.e., low risk for presence of *Salmonella*)	Exceeded
		4.1.2	Reduce the percentage of ready-to-eat meat and poultry products testing positive for *Listeria monocytogenes*	Exceeded
		4.1.3	Reduce the prevalence of *E. coli O157:H7* on ground beef	Met
4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	4.2.1	The cumulative number of specific plant diseases labs are prepared to detect	Met
		4.2.2	The cumulative number of specific animal diseases labs are prepared to detect	Met
		4.2.3	Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	Met
Strategic Goal 5: Improve the Nation's Nutrition and Health				
5.1	Improve Access to Nutritious Food	5.1.1	Participation levels for the major Federal nutrition assistance programs (millions per month): Food Stamp Program, National School Lunch Program, School Breakfast Program, Special Supplemental Nutrition Program for Women, Infants and Children	Met
5.2	Promote Healthier Eating Habits and Lifestyles	5.2.1	Application and usage level of nutrition guidance tools (billions pieces of nutrition guidance distributed)	Exceeded
5.3	Improve Nutrition Assistance Program Management and Customer Service	5.3.1	Increase Food Stamp payment accuracy rate	Deferred
Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment				
6.1	Protect Watershed Health to Ensure Clean and Abundant Water	6.1.1	Comprehensive nutrient management plans applied (number of plans) ▪ Conservation Technical Assistance ▪ Environmental Quality Incentives Program	Unmet
		6.1.2	Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	Unmet
6.2	Enhance Soil Quality to Maintain Productive Working Cropland	6.2.1	Cropland with conservation applied to improve soil quality ▪ Conservation Technical Assistance Program ▪ Environmental Quality Incentives Program ▪ Conservation Security Program	Met
6.3	Protect Forests and Grasslands	6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	Met
		6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes 1, 2 or 3 outside the wildland-urban interface	Unmet
		6.3.3	Number of acres in condition classes 2 or 3 in Fire Regimes 1, 2 or 3 treated by all land management activities that improve condition class	Met

Performance Scorecard for FY 2006				
Objectives		Annual Performance Goals		Result
		6.3.4	Grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres) ▪ Conservation Technical Assistance Program ▪ Environmental Quality Incentives Program ▪ Conservation Security Program	Exceeded
6.4	Protect and Enhance Wildlife Habitat to Benefit Desired, At-Risk And Declining Species	6.4.1	Wetlands created, restored or enhanced ▪ Conservation Technical Assistance ▪ Wetlands Reserve Program	Met

Actions on Unmet and Deferred Goals

USDA continuously works to improve its performance across all of its strategic goals and objectives. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, the Department consciously alters its approach in ways that enhance its service to the public, but that make a specific performance goal a less effective indicator of real progress. The Annual Performance Report section of this report offers further discussion of the Department's actions on its goals.

Management Challenges

Annually, the Office of Inspector General (OIG) prepares a report for the Secretary on the most significant management challenges identified in USDA (Appendix A). These challenges have been identified as potential issues that could hamper the delivery of Department programs and services. To mitigate these challenges, USDA management provides accomplishments for the current fiscal year and/or planned actions for the upcoming one. Most of the challenges identified in FY 2006 remain for FY 2007. Three new challenges were added. Additionally, the civil rights management and complaint processing within USDA was reinstated this fiscal year as a major management issue. OIG removed one FY 2006 challenge and certain issues associated with other challenges because of USDA improvements. The following table summarizes those challenges that changed from FY 2006 to FY 2007.

FY 2006 Management Challenges	FY 2007 Changes
Challenge #1—Interagency Communication, Coordination and Program Integration Need Improvement	Issue Removed—Improve communication and strengthen controls for beef exported to Japan.
Challenge #2—Implementation of Strong, Integrated Management Control (Internal Control) Systems Still Needed	Issue Added—Develop Rural Housing Service controls over administering disaster housing assistance programs to ensure aid is provided to those in need and avoid benefit duplication.
Challenge #3—Implementation of Improper Payments Information Act Requirements Needs Improvement	Issue Removed—Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling more than $100 billion.
Challenge #4—Departmental Efforts and Initiatives in Homeland Security Need to be Maintained	Issue Removed—Develop an information system to track noncompliance violations related to specified risk materials better. Issue Removed—Improve security and accountability of explosives and munitions.
Challenge #5—Department wide Efforts and Initiatives on Genetically Engineered Organisms Need to be Strengthened	Challenge was incorporated into a new global trade challenge

FY 2006 Management Challenges	FY 2007 Changes
Challenge #6—USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight	Challenge Removed
	New Challenge—USDA Needs to develop a Proactive, Integrated Strategy to Assess American Producers to Meet the Global Trade Challenge • Continue to strengthen genetically engineered organism field testing controls to prevent inadvertent genetic mixing with agricultural crops for export. • Develop a global market strategy. • Strengthen trade promotion operations.
	New Challenge—Better Forest Service Management and Community Action Needed to Improve the Health of the National Forests and Reduce the Costs of Fighting Fires • Develop methods to improve forest health. • Establish criteria to reduce the threat of wildland fires.
	New Challenge—Improved Controls Needed for Food Safety Inspection Systems • Complete corrective actions on prior recommendations. • Develop a time-phased plan to complete assessments of establishment's food safety system control plans and production processes, including a review program that includes periodic reassessment. • Develop a process to accumulate, review and analyze all data available to assess the adequacy of food safety systems. • Improve the accuracy of data available in the systems. • Continue to develop and implement a strategy for hiring and training inspectors.
	Challenge Reinstated—Material Weaknesses Continue to Persist in Civil Rights Control Structure and Environment • Develop a plan to process complaints timely and effectively. • Ensure integrity of complaint data in the system. • Develop procedures to control and monitor case file documentation and organization.

The following table includes FY 2007 accomplishments and/or FY 2008 planned actions.

USDA's Management Challenges

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

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

Fiscal Year 2007 Accomplishments

- Initiated Departmental clearance to publish the Routine Uses for System of Records in the *Federal Register* to allow producer and member information to be disclosed to RMA and, subsequently, approve insurance providers, their agents and loss adjusters under contract with RMA;
- Established future common reporting requirements for producer, State and county offices based on recommendations from RMA/FSA working group; and
- FSA and RMA initiated reconciling differences between crop data definitions.

Planned Actions for Fiscal Year 2008

- Continue to pilot a Comprehensive Information Management System (CIMS) Managers' Report to identify differences in information provided by producers to RMA and FSA;
- Incorporate RMA and FSA production data and Common Land Unit data into the CIMS database;
- Develop a single acreage reporting process for insured producers to reduce the burden of duplicating reporting requirements for producers for common elements, which would eliminate the need for reconciliation;
- Publish Routine Uses for System of Record for CIMS in the Federal Register to share data with insurance providers;
- Finalize reconciliation of differences between crop data definitions;
- Develop procedures for accessing and utilizing CIMS Projects;
- Meet monthly to identify and resolve Geospatial data issues (FSA, RMA and NRCS);
- Will consult on program procedures common to FSA and NRCS before directives are issued to field offices;
- Developing the Lean Six Sigma Grants Process to better integrate the management of grants and financial assistance programs better. The process will include cost share, easements, stewardship, emergency landscapes and traditional grants;
- Develop enhanced standard programmatic reports to isolate and resolve eligibility and vendor issues, or other data anomalies that might lead to improper payments efficiently;
- Improve automated member eligibility verification, which will prevent clients from entering into new contracts or modifying existing contracts; and
- Enhance NRCS Easement Business Tool to data mine and data share between USDA agencies.

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

- Develop Rural Housing Service controls over administering disaster housing assistance programs to ensure aid is provided to those in need and avoid benefit duplication.

Planned Actions for Fiscal Year 2008

- Establish procedures to compare Federal Emergency Management Agency (FEMA) numbers for duplication after a disaster and upgrade the Multi-Family Information System to reject duplicate FEMA numbers.
- Develop procedures to monitor owners and management agents immediately following a disaster.

- Strengthen quality control, publish sanction procedure and perform required reconciliation in the Federal Crop Insurance Program.

Fiscal Year 2007 Accomplishments

- Reviewed selected RMA Approved Insurance Providers operations to determine their compliance with quality control guidelines outlines outlined in the Standard Reinsurance Agreement and associated Appendix IV.

Planned Actions for Fiscal Year 2008

- Continue reviews of selected Approved Insurance Providers operations to determine compliance with qualify control guideline outlined in the Standard Reinsurance Agreement and associated Appendix IV.

- Improve FS internal controls and management accountability to manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments effectively.

Planned Actions for Fiscal Year 2008

- Complete corrective actions to successfully implement Government Performance and Results Act;
- Improve oversight within FS of national firefighting contract crews by implementing corrective actions in response to OIG audit reports;
- Conduct annual internal control risk assessment throughout FS and develop plans to address identified risks;
- Perform an annual systems assessment of all Forest Service financial/mixed financial systems;
- Conduct oversight reviews on performance accountability within various regions;
- Continue to implement corrective actions identified through the OMB Circular A-123, Appendix A , OIG/ GAO audits; and
- Implement corrective action steps that address the FISMA plan of action and milestones.

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

Fiscal Year 2007 Accomplishments

- Implemented Compliance Task Force recommendations;
- Monitored review of progress for short term, medium-term and long-term solutions to resolve control weaknesses identified during OMB A-123, Appendix A assessment; and
- Implemented recommendations for training methods to improve internal controls and reduce/eliminate improper payments.

Planned Actions for Fiscal Year 2008

- Monitor the Web-based National Compliance Review database for compliance reviews and spot check results, and take necessary actions to correct identified internal control weaknesses;
- Continue to implement corrective actions identified through OMB Circular A-123, Appendix A; and
- Continue to implement recommendations to improve internal control and reduce/eliminate improper payments.

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

- Emphasize security program planning and management oversight and monitoring.

Fiscal Year 2007 Accomplishments

- Enhanced Cyber Security Scorecard reporting requirements to reflect security components of the Privacy Act, OMB Circular A-123, Appendix A and the President's Management Agenda;
- Established a Cyber Security Service program with level one personnel to handle routine service questions and the technical questions handled by a number of subject matter experts;
- Established database to track the number and types of questions fielded by the Cyber Security Service Program;
- Provided a weekly report to management on the status of ticket closures processed at the Cyber Security Communication Center; and
- Continued to yield significant improvements to Cyber Security internal process and program improvement processes.

Planned Actions for Fiscal Year 2008

- Continue to use the FISMA Cyber Security Scorecard and issue monthly to Senior IT leadership and executive management within the Department; and
- Implement the Department of Justice's Cyber Security Assessment and Management for FISMA reporting, Plan of Action and Milestones (POA&M) tracking and general security program management tool.

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

Fiscal Year 2007 Accomplishments

- Coordinated with USDA agencies through the IT Executive Steering Committee to mitigate IT control weaknesses identified in FISMA and A-123 assessment reviews;
- Implemented a quality assurance group to ensure existing OIG audit findings and POA&Ms that contribute to the Department's material weakness are resolved to prevent reoccurrence;
- Identified security risks by using a vulnerability scanner tool; and
- Finalized contract for the procurement of SafeBoot for laptop and desktop file encryption.

Planned Actions for Fiscal Year 2008

- Integrate OMB Circular, A-123 and FISMA program elements into a system's life cycle; and
- Continue with policy and procedure updates and implement new scorecard reporting elements, as needed.

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

Fiscal Year 2007 Accomplishments

- Implemented the ASSERT tool to ensure that risk ratings are properly assigned and risk assessment performed;
- Reviewed POA&M closures; and
- Hired contractor services to assist in OCIO's concurrency review of Certification and Accreditation packages.

Planned Actions for Fiscal Year 2008

- Ensure that risk ratings are properly assigned, system self-assessments are performed, POA&Ms are generated, and tasks and milestones are managed appropriately;
- Review risk ratings (systems categorizations) early in the certification and accreditation process to ensure security testing and evaluations are performed for the appropriate level;
- Conduct reviews on POA&M closure documentation and control testing;
- Initiate policy gap analysis and revise the Access Control and Configuration Management policies and procedures; and
- Publish revised policy and procedures for Access Control;

- Improve access controls.

Fiscal Year 2007 Accomplishments

- Prepared a list of common/core controls using National Institute of Standards and Technology guidance to monitor agency compliance with access controls for IT systems;
- Completed a FISMA security policy gap analysis to improve review of access controls; and
- Issued a memorandum on "*Wireless Network Security*" to USDA agencies to provide guidance on access controls.

Planned Actions for Fiscal Year 2008

- Conduct security reviews and implement policy and procedures on securing wireless devices;
- Complete configuration guidelines for all operating systems; and
- Monitor security status using the Cyber Security Scorecard.

- Implement appropriate application and system software change control.

Fiscal Year 2007 Accomplishments

- Monitored Configuration Control Board activities as part of OCIO's monthly security scorecard.

Planned Actions for Fiscal Year 2008

- Monitor this challenge during security compliance reviews.

- Develop disaster contingency (service continuity) plans.

Fiscal Year 2007 Accomplishments

- Reviewed USDA agency's contingency plans for completeness and compliance with National Institute of Standards and Technology guidelines.

Planned Actions for Fiscal Year 2008

- Test successfully all USDA agency's Continuity of Operations plans;
- Ensure that disaster recovery plans are in the Enterprise Contingency Planning Program System and all systems are accounted for through a comprehensive inventory process; and
- Monitor USDA agencies' compliance with disaster recovery plan testing through the Cyber Security Scorecard, and the Certification and Accreditation concurrency process.

4) Implementation of Improper Payments Information Act Requirements Needs Improvement.

- Provide management oversight at all levels, programmatically within agencies and operationally at the State offices, in the improper payments elimination process.
- Develop a supportable methodology/process to detect and estimate the extent of improper payments.
- Develop and implement a corrective action plan to reduce the amount of these payments.

Fiscal Year 2007 Accomplishments

- Completed all scheduled risk assessments and provided the results to OMB for review;
- Finalized sampling for specific high risk programs and developed corrective action plans and set targets for the next year for OMB review;
- Submitted component rates and corrective action plans for the Special Supplemental Nutrition Program for Women, Infants and Children, and the Child & Adult Care Food Program;

- Prepared an error rate for School Lunch/Breakfast Program and developed a corrective action plan ;
- Gathered statistical sampling results and identified actions needed by service centers to reduce future findings;
- Updated field operation and program managers' performance plans to include improper payment as a performance element; and
- Developed plans to measure improper payments for high risk programs and provided the results to OMB for review.

Planned Actions for Fiscal Year 2008

- Continue to complete sampling for high risk programs;
- Review and validate the results of the statistical sampling of the high risk programs;
- Monitor the development of action plans to ensure areas of weakness are mitigated; and
- Update managers and employees performance standards to include improper payment as a performance element.

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

- Continue vulnerability and risk assessments to determine adequate food safety and security over agricultural commodities that the Department manages, transports, stores and distributes;
- Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive (HSPD) 9; e.g., develop animal and plant diagnostic and tracking networks; and
- Continue efforts to coordinate with the U.S. Department of Homeland Security in implementing effective control systems to ensure the safety and security of agricultural products entering the country.
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Fiscal Year 2007 Accomplishments

- Jointly with the Federal Bureau of Investigation, the Department of Homeland Security, the Food and Drug Administration, and other USDA agencies, conducted a Strategic Partnership Protection Agro-terrorism facility vulnerability assessment to determine appropriate levels of security needed for USDA-owned agricultural commodities, including bulk grain, oilseeds, rice and processed commodities.

Planned Actions for Fiscal Year 2008

- Analyze risk assessment findings and identify changes needed to existing policies and procedures to address weaknesses found.

- Continue to strengthen controls over select agents and toxins

Fiscal Year 2007 Accomplishments and Planned Actions for Fiscal Year 2008

- Implemented procedures for inspecting registered organizations in possession of select agents. The new procedures verify that organizations conduct and document annual performance tests of their security plans. These procedures also will be implemented during Fiscal Year 2008.

- Work with States in preparing for and handling *avian influenza* occurrences in live bird markets or other "off-farm" environments

Fiscal Year 2007 Accomplishments and Planned Actions for Fiscal Year 2008

- Implemented a Memorandum of Understanding between APHIS and FSA that provides a further understanding of each agency's cooperation, expectations, and responsibilities to control and eradicate *avian influenza* and other foreign diseases of livestock; and
- Implemented national *avian influenza* surveillance activities to be undertaken by Federal and States agencies, and the commercial poultry industry in the event of an outbreak.

6) Material Weaknesses Continue to Persist in Civil Rights Control Structure and Environment.

- Develop a plan to process complaints timely and effectively.

Planned Actions for Fiscal Year 2008

- Develop automated intake report for pending complaints;
- Establish formal procedures for prompt resolution of complaints not processed timely;
- Develop automated adjudication reports for pending complaints;

- Reassess performance standards for Specialists in the Employment Complaints Division to include timely completion of assigned cases;
- Require contract agreements for investigations to include a standard provision for timely and quality services; and
- Request EEOC to conduct training and provide technical assistance with investigations and processing of complaints.

- Ensure integrity of complaint data in the system.

Planned Actions for Fiscal Year 2008

- Finalize formal plan for business rules;
- Create audit procedures for reviewing sample cases for data integrity ;
- Create automated quality control tool; and
- Conduct audit of sample cases.

- Develop procedures to control and monitor case file documentation and organization.

Planned Actions for Fiscal Year 2008

- Develop comprehensive records management procedures for EEO case files;
- Implement procedures for transferring and safeguarding documents part of an EEO complaint file; and
- Obtain services of an external contractor to inventory and review EEO case files and establish record retention procedures.

7) USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge.

- Continue to strengthen genetically engineered organism field testing controls to prevent inadvertent genetic mixing with agricultural crops for export.
- Develop a global market strategy.

Fiscal Year 2007 Accomplishments

- Created the Office of Country and Regional Affairs at FSA to develop and oversee country, regional and cross-cutting strategies;
- Developed a tracking system to monitor foreign trading partners' compliance with U.S. bilateral, regional and multilateral trade agreements covering agricultural products.

Planned Actions for Fiscal Year 2008

- Finalize development of 14 initial coordinated country and regional marketing strategies;
- Develop processes and systems to monitor USDA global strategy for maximizing market access opportunities for U.S. agricultural exports;
- Develop a comprehensive strategy for monitoring and enforcing noncompliance issues related to trade agreements;
- Analyze and assess methods to increase the effectiveness and alignment of FAS international programs that effect USDA operations;
- Develop integrated strategies for key crosscutting trade issues within USDA, such as *avian influenza*, biofuels, food security and new technologies/biotech; and
- Continue bilateral and multilateral activities to provide continuity and sustained presence needed to assure market access for U.S. agricultural exports, and foster the global acceptance of agricultural biotechnology, as well as targeting new activities in support of free trade discussions.

- Strengthen trade promotion operations.

Planned Actions for Fiscal Year 2008

- Analyze and reassess market development programs by coordinating industry trade partners' program initiatives with USDA functional area efforts;
- Review USDA outreach efforts, including assessment of USDA and FAS Web sites in consultation with stakeholders and partners;
- Continue development of new program management software and ongoing efforts to streamline program administration;

- Further develop evaluation criteria and processes to demonstrate effectiveness of market development program administration and funding allocations; and
- Conduct annual review/reassessment of FAS outreach effort.

8) Better Forest Service Management and Community Action Needed to Improve the Health of the National Forests and Reduce the Cost of Fighting Fires.

- Develop methods to improve forest health; and
- Establish criteria to reduce the threat of wildland fires.

Planned Actions for Fiscal Year 2008

- Develop national guidance for the regions to use in assessing the risks from wildfires;
- Monitor the effectiveness of hazardous fuel treatments and restoration projects;
- Obtain clarification on both FS and States' protection responsibilities in the wildland urban interface and on other private properties threatened by wildfires;
- Develop partnerships with States and counties to develop and deliver fire prevention ordinances for use in planning and zoning in wildland urban interface areas; and
- Conduct large fire cost reviews.

9) Improved Controls Needed for Food Safety Inspection Systems.

- Develop a time-phased plan to complete assessments of establishment food safety system control plans and production processes, including a review program that includes periodic reassessment; and
- Continue to develop and implement a strategy for hiring and training inspectors.

Fiscal Year 2007 Accomplishments

- Conducted food safety assessment training;
- Maintained data and information systems infrastructure adequate to support inspection activities; and
- Developed an FSIS Enterprise Architecture Blueprint to document, assess and improve the lines of business processes.

Planned Actions for Fiscal Year 2008

- Continue to implement modernization efforts to improve the security, quality and sustainability of system infrastructure.

- Develop a process to accumulate, review and analyze all data available to assess the adequacy of food safety system; and
- Improve the accuracy of data available in the systems.

Fiscal Year 2007 Accomplishments

- Developed the Enterprise Architecture Blueprint to provide the foundation for documenting, assessing and improving the lines of agency business processes, and ensuring they are properly aligned to the system's capabilities and needs. The blueprint also provides the mechanism to align and improve system data capture and automation capabilities further; and
- Developed the Public Health Information Consolidation Projects (PHICP) and the Public Health Data Communication Infrastructure Systems (PHDCIS) to plan, track and report on the IT operational and development activities better. PHICP tracks and reports the development of information systems for FSIS. PHDCIS contains the operational, maintenance, and infrastructure hardware and activities.

Planned Actions for Fiscal Year 2008

- Implement a modernization effort to continue to improve the security, quality and sustainability of the system infrastructure.

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

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

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

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

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

USDA's Results Agenda—Implementing Federal Management Initiatives

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

- Ensure an efficient, high-performing, diverse workforce, aligned with mission priorities and working cooperatively with partners and the private sector;
- Enhance internal controls, data integrity, management information and program and policy improvements as reflected by an unqualified audit opinion;
- Reduce spending and burden on citizens, partners and employees by simplifying access to the Department's information. This enhancement is added by implementing business processes and

information technology needed to make its services available electronically;

- Link budget decisions and program priorities more closely with program performance and consider the full cost of programs and activities;
- Reduce improper payments by developing targets and implemented corrective action plans;
- Efficiently and effectively manage its real property;
- Transform IT enterprise infrastructure to be cost effective and consistent across all agencies and geographic regions;
- Improve its research and development investments by using objective criteria; and
- Support the essential work of faith-based and community organizations.

USDA employees are charged with executing these management initiatives, which they do with an emphasis on customer service. The PMA calls for the U.S. Office of Management and Budget (OMB) to score departments on each initiative. Green indicates success; yellow indicates mixed results and red indicates an unsatisfactory score. There are two scores awarded. "Status" indicates that a department is meeting the standards established for success. "Progress" indicates that it is progressing adequately in meeting established deliverables and timelines. The arrows next to the scores indicate whether the score has improved ↑, declined ↓ or remained the same ↔ compared to FY 2006.

Status	HUMAN CAPITAL	Progress
● ↔		● ↔

The PMA challenges Federal Government leaders to think boldly and strategically to improve the management and performance of Government. Nowhere is this challenge more important than in the strategic management of human capital.

Building upon its success in completing the human capital initiatives and objectives set forth in its 2004 Human Capital Strategic Plan, USDA developed a Strategic Human Capital Plan in December 2006. The plan incorporates Human Capital Accountability into its framework. USDA's Strategic Human Capital Plan established five strategic goals that drive USDA's human capital initiatives:

- Human capital management strategies are aligned with the Department's mission, goals and organizational objectives, and integrated into strategic plans, performance plans and budgets;
- Leaders and managers effectively manage people, ensure continuity of leadership and sustain a learning environment that drives continuous improvements;
- Skills, knowledge and competency gaps/deficiencies in mission-critical occupations have been closed, and meaningful progress toward closing skills, knowledge and competency gaps/deficiencies in all agency occupations has been made;
- The workforce is diverse, results-oriented, high-performing, and the performance management system differentiates between high and low levels of performance, and links individual/team/unit performance to organizational goals and desired results effectively; and
- Human capital management decisions are guided by a data-drive, results-oriented planning and accountability system.

To attract a diverse, highly skilled workforce, USDA has marketed itself as the "Employer of Choice" in the Federal Government. Through the use of targeted recruitment efforts and automated hiring systems, USDA has achieved some of the best hiring timelines in the Federal Government. For its general schedule positions, employment offers are made within 21 days, on average. Offers for Senior Executives come within 39 days. The GS timeframe is less than half of the 45-day metric established by the Office of Personnel

Management (OPM) and the Senior Executive timeframe is consistently the best in government.

USDA has implemented OPM's Career Pattern strategies aggressively when recruiting for its mission critical occupations. By identifying appropriate applicant pools and their attractors, building environments suitable for those attractors and designing vacancy announcements highlighting the attractors, the Department has attracted a broader pool of highly skilled applicants successfully. More specifically, the Agricultural Research Service (ARS) identified a critical shortage of DVM/PhD candidates for Veterinary Medical Officer positions. ARS developed a competitive education program whereby candidates become full-time paid employees while enrolled in a full-time PhD program. ARS pays for tuition, books and lab fees in exchange for a three-year work commitment from the student.

Through the adoption of a strategic goal focusing solely on accountability, USDA has demonstrated its commitment to excellence. The Department progressed substantially in completing its accountability reviews. By the end of the fiscal year, it will have conducted all required reviews. Implementation of the resulting recommendations has strengthened all human resources processes throughout USDA. In concert with OPM, USDA is enhancing its accountability program further by institutionalizing and standardizing the delegated examining review process. Through more consistent and timely internal reviews, USDA can focus additional accountability resources on strategic and workforce planning, leadership and knowledge management, and talent management.

Additionally, in achieving its "green" status, USDA has:

- Conducted a Department-wide leadership and human resources skills gap analysis;
- Updated its information technology skills gap analysis and developed an improvement plan;
- Developed an action plan to address the results of the Federal Human Capital Survey; and
- Continued Department-wide implementation of its automated human resources enterprise system, EmpowHR.

USDA will continue to work with its human capital partners to create programs that will enhance employee development. These programs will also increase the use of human capital flexibilities for managers in recruitment and retention, streamline processes for more efficient and faster service, and ensure that the Department workforce has the skills to meet the challenging demands of the 21st century. USDA is committed to leading by example and serving as the vanguard of the Federal Government's overall human capital transformation efforts. Specifically, the Department will:

- Continue implementing the improvement plan for its expanded performance management Beta site;
- Continue reviewing opportunities for greater organizational and operational efficiencies within selected USDA mission areas;
- Complete its scheduled accountability reviews and report; and
- Develop and maintained a diverse, talented workforce capable of achieving the USDA mission.

Status	COMPETITIVE SOURCING	Progress
● ↔		● ↔

The Office of the Chief Financial Officer oversees USDA's Competitive Sourcing initiative. The Department is implementing competitive sourcing reasonably and rationally to achieve significant cost savings, improved performance and a better alignment of the agency's workforce to its mission. This initiative is aimed at improving organizations through efficient and effective competition between public and private

sources. USDA will continue to simplify and improve the procedures for evaluating resources.

The Department requires that a feasibility study, including cost-benefit analysis, be completed prior to conducting a competitive sourcing study. This strategy ensures that functions selected for public-private sector competitions result in an organization implemented with lower costs and increased management efficiencies. Studies continue to be linked to agency human capital plans to ensure that workforce planning and restructuring, and retention goals are met while achieving cost savings.

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

The Department has earned a yellow for status and a red for progress largely because of the impact of legislative restrictions on planned feasibility studies.

Competitive Sourcing results are reported to Congress annually on December 31 for the preceding fiscal year. The results provided in this report are for FY 2006 as reported to Congress on December 31, 2006.

Actions taken by USDA include:

- Completed competitions to improve productivity and produce annual savings:
  - The Natural Resources Conservation Service completed a study on 34 full-time employees (FTEs) in FY 2006. Estimated gross savings is $2.8 million through 5 years with annualized savings of $550,000 for the competitive sourcing study completed in FY 2006. Actual savings on the studies completed in FY 2006 totaled $568,000;
  - Planned feasibility studies covering more than 2,500 FTEs. When the results of feasibility studies indicate a favorable return on investment and market research shows potential qualified vendors exist, an A-76 competition is conducted. If the results are unfavorable, competitions are not conducted; and
  - Announced two competitive sourcing studies.
- Conducted training on the Office of Management and Budget's Competitive Sourcing Tracking and Workforce Inventory Tracking systems and the FAIR Act Inventory; and
- Convened a Department-wide group to review function codes used in the FAIR Act inventory to reduce redundancy and replace old function code definitions with USDA specific definitions.

Challenges

- **Forest Service (FS) Legislative Restrictions**—House Appropriations Committee's Interior, Environment and Related Agencies Subcommittee limitations on competitive sourcing. Proposed language in the U.S. Department of Interior FY 2008 Appropriations Bill places a one-year moratorium on FS' Competitive Sourcing activities. That moratorium will prevent FS from completing studies in accordance with the approved green plan.
- **Farm Service Agency and Rural Development Legislative Restriction**—The Appropriations Act prohibits funds to be used to study, complete a study of, or enter into a contract with a private party to execute a competitive sourcing activity of the Secretary of Agriculture without a subsequent Act of Congress. This act covers USDA support personnel relating to rural development or farm loan programs; and
- The Office of the Chief Information Officer competition covering desktop infrastructure, data center, telecommunications and cyber security could not be conducted in the original scope due to the legislative restrictions cited previously.

Status	FINANCIAL PERFORMANCE	Progress
↔		↔

OCFO oversees USDA's Financial Performance. The office works with all USDA agencies and staff offices to ensure the Department's financial management reflects sound business practices. The PMA requires all Federal agencies to obtain an unqualified financial statement audit opinion. The FY 2007 opinion was qualified because improvements are needed in internal controls over financial reporting related to the credit reform process. USDA financial managers have focused significant attention on enhancing internal controls, improving asset management, implementing a standard accounting system and improving related corporate administrative systems Department-wide.

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

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

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

The FMMI investment has the following key attributes:

- Integration with such existing and emerging eGovernment initiatives as eGovernment Travel Services, ePayroll, Grants.gov, and eLoans; current corporate solutions for which financial results must be reflected in the budgetary and general ledger accounts of the Department (e.g., asset management and procurement) and program-specific systems that support the general ledger (e.g., programmatic loan systems);
- Integration with performance management and budgeting, allowing USDA to meet the PMA and Government and Performance Results Act requirements; and
- Compliance with the Federal Financial Management Improvement Act (FFMIA), including Federal financial management system requirements, applicable Federal accounting standards and U.S. Government Standard General Ledger at the transaction level.

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

The Department began to modernize and retire the legacy administrative systems in FY 2003. USDA has

retired several of the legacy applications. Others are to be retired and replaced by a different portfolio and investment within the next two fiscal years.

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

FFMIA Financial System Strategy—USDA has evaluated its financial management systems to assess FFMIA compliance. Currently, the Department is not compliant with the Federal Financial Management System requirements and Federal Information Security Management Act (FISMA) requirement. USDA's financial systems strategy is to continue working in FY 2008 to meet FFMIA and FISMA objectives. The Office of Inspector General identified material weaknesses for USDA's information technology security and controls in FY 2007. The Department added new initiatives with several milestones to improve the controls over the Commodity Credit Corporation's information security program and financial management systems and reporting, and its application controls for the Program Contracts System (ProTracts). ProTracts is a Web-based program designed to manage conservation program applications and cost-share agreements. While USDA has completed many of the FY 2007 initiatives to comply with statutory requirements, it will continue monitoring progress on plans to improve its financial management systems. The Department will also work to comply fully with FISMA requirements.

USDA's plans to improve financial management include:

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

USDA scored red for status and green for progress on the September 30, 2007, scorecard.

Actions taken by USDA in FY 2007 to achieve these results include:

- Held monthly meetings with agency CFOs to discuss financial management policy, information systems and quality assurance issues and initiatives. At these meetings, agencies are provided with financial indicator data to provide focus for financial reporting quality control activities;
- Improved agencies' financial performance measures, targets and milestones as part of their efforts to expand the use of financial information for decision-making;
- Developed significant initiatives using the Lean Six Sigma Transaction Process (LSTP). LSTP

originated in manufacturing industries during a time of great demand for quality and speed. One initiative OCFO developed with the Forest Service is automating the processing of contract invoices. This move was designed to improve efficiency and shorten the time required for issuing payments, which will save interest. LSTP is expected to be completed in FY 2008;

- Continued partnership with the U.S. Department of Veterans Affairs Financial Services Center in Austin, Texas, to process USDA telephone and utility bills through the Electronic Data Interchange (EDI) process. This new process will allow for the invoices to be received electronically rather than by mail in a paper invoice form. More than 250,000 bills will be processed annually through EDI; and
- Completed all in-scope cycle risk assessments, flowcharts and narratives, Information Technology (IT) information-gathering questionnaires, risk and control matrices, entity-level controls questionnaires, general computer control matrices, process and IT test plans and results as required to implement A-123 Appendix A, "Internal Control over Financial Reporting." USDA agencies have finalized corrective action plans to address significant deficiencies and material weaknesses. The Department will track critical path milestones related to its assessment of internal control over financial reporting and maintain monthly status reports on progress toward correcting material weaknesses.

Status	EXPANDING E-GOVERNMENT	Progress
↔		↔

USDA continues its commitment to leadership in Expanding Electronic Government under PMA and using IT to help respond more directly and effectively to its stakeholders. These stakeholders include farmers and producers, families, school children, and rural communities. The Department implements a sound and integrated enterprise architecture and manages secure IT investments that perform on schedule and within budget. USDA also participates in 30 Presidential Initiatives and Lines of Business.

USDA activities for FY 2007 support the following goals:

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

USDA scored yellow for status and red for progress on the September 30, 2007, scorecard.

Actions taken by USDA in FY 2007 include:

- Implemented an Integrated IT Governance Process (IGP). IGP combines Capital Planning, Security and Privacy, Enterprise Architecture, Earned Value Management, and Portfolio Analysis to plan, manage and control the Department's IT investment portfolio more effectively. By integrating these disciplines in one process, USDA can guarantee a secure, reliable, consistent and efficient IT infrastructure, identify innovative new ways to deliver services to citizens and implement cost savings by combining similar initiatives Department-wide;
- Expanded the Enterprise Architecture (EA) information base to support more robust analysis used to inform and guide the decision making process. EA establishes the enterprise-wide roadmap to support the Capital Planning and Investment Control process;
- Established a hotline to report lost/stolen IT equipment to facilitate incidence response;
- Blocked access to gaming, auction, and social networking sites. USDA also began an aggressive, proactive approach to eliminate peer-to-peer

activity with the network. The result was an approximate 64-percent reduction in virus activity (350,000 monthly reduced to 120,000 monthly) for the Department;

- Increased outreach efforts for information security through a series of "Best Practices" seminars. Speakers have been from the National Institute of Standards and Technology and Department of Justice on security content automation and certification and accreditation;
- Established a monthly cyber security scorecard to focus management attention on key areas important to such external reviewers as OMB and Congress;
- Offered USDA's eAuthentication Service as one of the General Services Administration-certified, Security Assertion Markup Language-compliant, Government-wide credential service providers. This certification enables USDA to provide Level 2 credentials to other Federal agencies;
- Integrated with 251 business applications - exceeding the FY 2007 target of 200 for the USDA eAuthentication Service;
- Authorized more than 95,000 employees and 160,000 customers for USDA's eAuthentication Service;
- Continued the promotion of AgLearn as USDA's official training system. AgLearn is the Department's implementation of the eTraining Presidential eGovernment Initiative. In a typical month in FY 2007, 46,500 employees completed 760 different courses on AgLearn;
- Supported more than 140,000 users and more than 1,400 Agency AgLearn Administrators with more than 1.1 million course completions;
- Provided Department-wide, agency-specific mandatory training, including security, privacy and ethics training, through AgLearn;
- Launched campaign to initiate Department-wide use of the SF-182 request for training form through AgLearn;
- Commissioned an independent operational analysis that found AgLearn well on track to meeting the original goals and costing $1.5M less annually than projected in the 2004 Business Case;
- Secured enterprise SkillSoft license for more than 2,500 courses now available to USDA employees for a little more than $7 annually per user through AgLearn. Previously, agencies were separately paying more than twice as much for these same courses. Also included in this cost is access to hundreds of high-quality leadership videos available to USDA senior managers and individuals in agency-emerging leadership programs;
- Continued to expand the Enterprise Correspondence Management Module (ECMM). ECMM is designed to track incoming correspondence from public, private, or political inquiries. The Secretary's correspondence is now handled exclusively through ECMM;
- Converted more than 965,000 *Staff Action* documents to ECMM. More than 220,000 documents have been created since ECMM launched at the beginning of FY 2006. *Staff Action* is USDA's current correspondence-management system;
- Moved 49 business applications to the Enterprise Shared Services platform provided by USDA's National Information Technology Center (NITC) with more than 50 other applications in various stages of development. NITC operates 24 hours a day, 7 days a week, offers Level 4 security clearances and hosts GovBenefits.gov;
- Offered USDA's customers the option to apply online for all of its discretionary and competitive grant opportunities through Grants.gov; and
- Moved all rulemaking agencies to the Federal Docket Management System (FDMS) in partnership with the E-Rulemaking Presidential Initiative. FDMS allows the public to view and

comment easily on information pertaining to Federal regulations published by USDA.

Status	PERFORMANCE IMPROVEMENT INITIATIVE	Progress
● ↔		● ↔

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

USDA plans to:

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

USDA scored green for status and progress on the September 30, 2007, scorecard. Actions taken by USDA in FY 2007 to achieve these results include:

- Worked with OMB, the Department conducted 10 PART assessments. Of the 11 PARTs, one rated "Effective," two rated "Moderately Effective," six rated "Adequate" and two rated "Results Not Demonstrated (RND)." Based on actual funding levels for FY 2007, a little more than three percent of funding for USDA programs is associated with programs that have PART ratings of RND. Additionally, no USDA programs scored an "Ineffective" rating;
- Worked with agencies to ensure that the specific plans and milestones developed to address PART recommendations are reasonable and detailed enough to address them fully. The Department uses the internal scorecard process to track agency progress toward meeting performance targets and addressing PART recommendations;
- Developed budget requests and making budget decisions supported by sound and thorough analysis. This analysis considered the effects of funding decisions on costs and performance. These budget decisions were presented and justified to Congress and others using performance information;
- Defined targets for improvements in performance and efficiency, and action plans to achieve targets. The Deputy Secretary, subcabinet and other senior managers continue to receive and discuss the Quarterly Budget and Performance Tracking Report. They use the report to monitor progress in achieving planned performance and efficiency gains, and take action where needed to ensure targets are met. All PARTed USDA programs have at least one efficiency measure that indicates programmatic strides in cost-effectiveness; and
- Continued to use the Management Initiatives Tracking System (MITS) PART module to enable more active and efficient participation by senior Department officials during the PART process. MITS also provides managers with the ability to track the implementation of PART improvement plans and achievement of performance targets.

Status	REAL PROPERTY	Progress
● ↑		● ↔

Executive Order 13327, Federal Real Property Asset Management, establishes the framework for improved

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

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

USDA's plans include:

- Updated the USDA Asset Management Plan (AMP) and accompanying agency building block plans, which feature policies and methodologies for maintaining property holdings in an amount and type according to agency budget and mission. AMP presents the Department's strategic vision and plan of action for compliance with the Government-wide real property management initiative;
- Implemented the approved USDA AMP and accompanying agency building block plans (BBPs);
- Revised draft interim-year targets and out-year goals for asset management performance measures;
- Completed a strategy for addressing the backlog of deferred maintenance;
- Ensured that agencies close any remaining data gaps for constructed asset-level reporting and developing an expanded data validation and verification process;
- Maintained a comprehensive inventory and profile of agency real property, and providing timely and accurate information for inclusion into the Government-wide real property inventory database;
- Developed a final draft interagency agreement between USDA and the U.S. Departments of Interior and Labor regarding Job Corps Centers;
- Developed the Capital Programming and Investment Process to ensure scarce resources are directed to highest priority asset needs;
- Completed the Asset Management Initiatives and Three Year Timeline document for meeting goals and objectives of the AMP and BBPs; and
- Actively participated in such Government-wide management vehicles as the Federal Real Property Council (FRPC). FRPC provides a forum to address critical real estate and workplace issues challenging all Federal agencies.

USDA scored yellow for status and green for progress on the July 31, 2007, scorecard.

Actions taken by USDA in FY 2007 to achieve these results include:

- Revised the comprehensive AMP, including agency-specific BBPs, with the latest policies, practices and procedures. These are designed to optimize the level of real property operating, maintenance and security costs;

- Implemented the revised USDA AMP and agency BBPs and requiring agencies to supply examples of improved management practices resulting from AMP and BBP implementation;
- Finalized draft interim-year targets and out-year goals for asset management performance measures;
- Completed a strategy for addressing the backlog of deferred maintenance that targets available resources to the highest priority assets;
- Ensured that USDA agencies continued closing data gaps in constructed asset-level reporting and requiring that agencies validate and verify data accuracy;
- Maintained a comprehensive inventory and profile of agency real property and providing timely and accurate information for inclusion into the Government-wide real property inventory database;
- Submitted a final draft interagency agreement between USDA and the U.S. Departments of Interior and Labor regarding Job Corps Centers;
- Developed and publishing the Capital Programming and Investment Process to ensure scarce resources are directed to highest priority asset needs; and
- Completed the Asset Management Initiatives and Three Year Timeline document for meeting goals and objectives of the AMP and BBPs. The timeline includes a list of assets for disposition and an investment prioritization list for mission critical and dependent assets.

Status	RESEARCH AND DEVELOPMENT INVESTMENT CRITERIA	Progress
●		●
↔		↔

This program initiative calls for Federal research agencies to use the three criteria of relevance, quality and performance systematically in planning and managing programs, and developing budgets. USDA's principle research and development agencies—the Agricultural Research Service (ARS); Cooperative State Research, Education and Extension Service (CSREES); Economic Research Service (ERS); and Forest Service Research and Development (FS R&D)—continue to integrate criteria into their program planning and management processes aggressively. In particular, the agencies are using the criteria to frame external expert program reviews to obtain objective assessments of current programs and recommendations for future program planning. Using the criteria ensures that programs are addressing the right issues, meeting high-quality standards and accomplishing their identified goals.

USDA's plans include:

- Continuing to integrate the use of the investment criteria in program planning, management and assessment;
- Promoting collaboration among research agencies to promote common criteria and performance measures when appropriate; and
- Using the results of program assessments to inform all aspects of program management.

USDA scored green for status and progress on the September 30, 2007, scorecard.

Actions taken by USDA in FY 2007 to achieve these results include:

- Classified programs into portfolios, being subjected to rigorous external reviews. Subsequent annual internal reviews are being conducted to assess progress in responding to the external review recommendations;
- Reached the halfway mark of its program assessments with the completion of four of the eight external peer reviews of its programs. The results of the completed program reviews are being used in planning and management;
- Created a new science quality staff charged with providing leadership in performance

accountability, science application, information management, education and strategic planning;

- Completed its first two program reviews and is drawing on them and recommendations to enhance the programs. Preparation for a third review is complete and will be implemented in the fall of 2007; and
- Completed four national program assessments in FY 2007. The data from the assessment was fed into the next program cycle, incorporated into the research program action plans and used in the budgeting process.

Status	ELIMINATE IMPROPER PAYMENTS	Progress
↔		↔

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

USDA scored "yellow" for status and "green" for progress on the September 30, 2007, scorecard. The Department's overall goal is to achieve "green" in FY 2008 and "green" in FY 2009.

The Office of Management and Budget (OMB) reported that Federal agencies made more than $40 billion in improper payments during FY 2006, down from $45 billion in FY 2004.

For FY 2007, USDA identified 16 programs that are at risk for improper payments. USDA's sampling of these programs estimated that the Department's improper payments totaled $4.4 billion (improper payment rate of 6.1%), down from the FY 2006 amount of $4.6 billion (improper payment rate of 7.0%). Of the FY 2007 improper payments amount, $3.9 billion was due to incorrect disbursement and $460 million was due to incomplete paperwork. In FY 2006 USDA reported improper payments due to incorrect disbursements of $2.0 billion and incomplete paperwork of $2.6 billion.

This is the first year USDA measured all of its high risk programs. The Food and Nutrition Service's (FNS) National School Lunch and School Breakfast programs reported improper payment rates for the first time in FY 2007. The estimated amounts of improper payments were $1.4 billion (improper payment rate of 16.3%) for the School Lunch program and $520 million (improper payment rate of 24.9%) for the School Breakfast program. Corrective action plans were developed for each program addressing the causes and identifying initiatives to reduce improper payments. FNS' Women, Infant and Children program and Child and Adult Care Food program reported component rates in FY 2007 as they did for FY 2006.

The seven Farm Service Agency (FSA) programs reported significant improvement in FY 2007. FSA's estimated improper payments for FY 2007 were $563 million (improper payment rate of 2.5%), down from $2.9 billion (improper payment rate of 11.2%) for FY 2006. The FSA reductions came from improvements in the quality of its risk assessments and statistical sampling. The improved statistical sampling focused on verifying program eligibility and uncovered administrative weaknesses that prevent FSA from determining if payments are proper. Aggressive corrective action plans were developed to improve the quality of documentation for program eligibility.

USDA's plans include:

- Achieving the overall status of green by July 1, 2008;
- Developing and implementing policies, controls and procedures at the Department, agency and field levels to reduce the number of improper payments;
- Setting and meeting appropriate reduction targets;

- Setting and meeting appropriate recovery targets;
- Demonstrating that the documentation and internal control failures at the field level have been corrected;
- Revising sampling methodologies to provide improper payment rates nearer the time of payment, leading to more timely corrective actions;
- Creating aggressive correction plans with measured performance;
- Recovering, where possible, overpayments made to individuals and organizations;
- Reporting and prosecuting fraud;
- Training field personnel on key controls and teaching the importance of control procedures and the potential risks of noncompliance;
- Increasing accountability at all levels by integrating the employee's individual results into his or her annual performance rating; and
- Enhancing program controls and reiterate current program policies regarding program compliance through notices to field personnel.

Actions taken by USDA in FY 2007 include:

- Provided an Improper Payments and Internal Controls Overview for USDA agency executives;
- Provided a comprehensive Improper Payments and Internal Controls Training Session for USDA agency personnel;
- Provided Improper Payments breakout sessions at the annual USDA Financial Management Training;
- Consolidated small and similar programs together for improved focus in the risk assessment process. USDA moved from 146 programs in FY 2006 to 138 programs in FY 2007;
- Performed an inherent risk survey to better evaluate which programs need more frequent or robust risk assessments;
- Revised risk assessment guidance to require that test of transactions sampling be statistical;
- Sampled all 16 programs determined to be high risk by statistical or other approved methods. The results of these tests are shown in Appendix B of this report; and
- Developed corrective actions for all high risk programs and set reduction and recovery targets for programs where appropriate.

Status	IMPROVED CREDIT PROGRAM MANAGEMENT	Progress
● ↔		● ↑

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

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

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

USDA is committed to achieving the goals of its credit programs while effectively managing its portfolio's performance. USDA's scorecard rating as of September 30, 2007, was "Red" for status and "Green" for progress. The Department is developing plans to meet the initiative's goals. The Department's target is to achieve "Green" in FY 2009.

USDA's plans include:

- Setting goals related to reaching target borrowers and reducing deviation from risk standards;
- Setting goals to reduce the total cost of servicing and liquidating loans, and improve the debt-recovery rate;
- Establishing customer satisfaction ratings that meet or exceed industry standards;
- Defining its target borrower segments clearly, regularly assessing whether its borrowers meet that definition and whether such borrowers comprise an acceptable risk that can be managed effectively;
- Establishing or verifying that partner lenders have established sound lending policies and procedures implemented in effective transaction-approval processes, loan portfolio management and loss recovery;
- Establishing or verifying that partner lenders have created collateral valuation processes with clear policies and procedures ensuring independence in appraisals and valuations, and adequate monitoring of appraisers' quality and certification;
- Maintaining a reasonable level of risk and productivity of taxpayer cash used in lending programs through effective management information reporting. This reporting includes indicators of loan volume, exceptions to underwriting standards, concentrations of credit risk, delinquency and default rates, rating changes, problem loans, and charge offs, and using such information to improve program results;
- Establishing mutually agreeable goals that can be justified by comparisons to relevant programs to control the total cost of originating, servicing and liquidating loans and improve the rate of debt recovery; and
- Complying with all relevant provisions of the Debt Collection Improvement Act.

Actions taken by USDA in FY 2007 include:

- Issued guidance for writing-off or justifying loans delinquent more than two years in order to comply with OMB Circular A-129;
- Reconciled and documented that all delinquent debt over two years affected by this initiative were written-off or fully justified at the end of the 2nd Quarter, FY 2007;
- Established workgroups to identify existing and potential risk indicators; and
- Conducted presentations for OMB on guaranteed lender and collateral management by major USDA credit areas highlighting leadership, sound lending policies and procedures, loan portfolio management and loss recovery, and monitoring and evaluation of lenders.

Status	FAITH-BASED AND COMMUNITY INITIATIVE	Progress
● ↔		● ↔

The Faith-Based and Community Initiative is working to create a more open and competitive awards process. This helps ensure that the Federal Government partners with the organizations most capable of meeting the needs of the poor.

For years, USDA partnered with faith-based and community organizations to help deliver food and other vital assistance to those in need. The initiative works to strengthen these existing partnerships and create new ones to reach even more people in need. Faith-based and community groups already work with the individuals that the Department's assistance programs serve. These groups are valuable to USDA's efforts in reaching more people with its programs, and being more successful in alleviating hunger and building stronger communities.

The Initiative works to:

- Promote opportunities and build the capacity of faith-based and community organizations through outreach and technical-assistance activities;
- Identify and eliminate barriers that impede the full participation of faith-based and community organizations in the Federal grants process;

- Ensure that equal treatment principles are understood at the Federal, State and local levels of Government, and, in turn, educate faith-based and community organizations receiving Federal funds on their responsibilities; and
- Develop and launch pilot programs to test new strategies and strengthen the partnership between faith-based and community organizations, and the Federal Government.

USDA scored green for both status and progress on the September 30, 2007, scorecard.

Actions taken by USDA in FY 2007 to achieve these results include:

- Conducted 3,678 outreach and technical assistance activities to strengthen the ability of faith-based and community organizations to serve those in need;
- Held 440 educational activities for State and local Government agencies and faith-based and community groups on equal treatment principles;
- Developed additional Web-based resources for faith-based and community groups to enhance their knowledge about partnership opportunities and funding applications;
- Reduced barriers to access for faith-based and community organizations applying for Federal funds;
- Created new program partnership opportunities for faith-based and community groups; and
- Expanded data collection on State-administered programs to measure the creation of new partnerships and study the implementation of equal treatment principles better.

Financial Statement Highlights

BUDGETARY RESOURCES

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

	2007	2006	% Change
Appropriations	$108,428	$109,856	-1%
Obligations Incurred	$128,954	$145,458	-11%
Net Outlays	$89,950	$99,674	-10%

Data in millions

Appropriations

Appropriations decreased $1.4 billion in FY 2007. This decrease is primarily due to a $2.2 billion decrease at CCC for its prior year realized losses and a $2.5 billion decrease at FNS for the Food Stamp program, offset by a $2.8 billion increase at FSA for disaster assistance programs and a $1.1 billion increase at RMA for crop insurance programs.

Obligations Incurred And Net Outlays

Obligations Incurred decreased $16.5 billion in FY 2007. This decrease is primarily due to a $12.1 billion decrease at CCC due to favorable market conditions for commodities and a $1.6 billion decrease at RD due to the dissolution of the Rural Telephone Bank.

Net Outlays decreased $9.7 billion in FY 2007, primarily due to the decrease in obligations incurred as described above.

BALANCE SHEET

CONDENSED BALANCE SHEET DATA

As of September 30, 2007 and 2006
(in millions)

	FY 2007	FY 2006	% CHANGE
Fund Balance with Treasury	$47,340	$42,191	12%
Accounts Receivable, Net	9,218	8,881	4%
Direct Loan and Loan Guarantees, Net	80,348	77,791	3%
General Property, Plant, and Equipment, Net	4,931	4,905	1%
Other	651	461	41%
Total Assets	142,488	134,229	6%
Debt	75,101	83,447	-10%
Loan Guarantee Liability	1,258	1,296	-3%
Other	38,422	39,210	-2%
Total Liabilities	114,781	123,953	-7%
Unexpended Appropriations	30,937	26,385	17%
Cumulative Results of Operations	-3,230	-16,109	80%
Total Net Position	27,707	10,276	170%
Total Liabilities and Net Position	$142,488	$134,229	6%

Total Assets

Total assets increased $8.3 billion in FY 2007. This increase is primarily due to a $5.1 billion increase in Fund Balance with Treasury and a $2.6 billion increase in Direct Loan and Loan Guarantees, Net.

The increase in Fund Balance with Treasury is primarily due to FSA and FNS. FSA received $2.8 billion for disaster assistance programs and borrowed $1 billion from Treasury for credit program financing. FNS retained $2.5 billion from the prior year for the Food Stamp program. CCC repaid Treasury $1.4 billion in loan principal and interest.

Direct Loan and Loan Guarantees, Net is the single largest asset on the USDA Balance Sheet. RD offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These represent 85 percent of the total USDA loan programs. Loan programs administered by the FSA represent 8 percent of the total. FSA provides support to farmers who are temporarily unable to obtain private, commercial credit. The remaining 7 percent represents commodity loans and credit programs administered by CCC. CCC's loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide foreign food assistance, expand foreign markets, and provide domestic low-cost financing to protect farm income and prices.

The increase in Direct Loan and Loan Guarantees, Net is primarily due to growth in electric programs at RD.

Total Liabilities

Total liabilities decreased $9.2 billion in FY 2007. This decrease is primarily due to an $8.3 billion decrease in Debt and a $.8 billion decrease in other liabilities.

Debt represents amounts owed to Treasury primarily by CCC and RD. For CCC, the debt primarily represents financing to support Direct and Counter Cyclical, Crop Disaster and Loan Deficiency programs. For RD, the debt primarily represents financing to support Single and Multi Family Housing loan programs.

The decrease in debt is primarily due to repayment by CCC of $13 billion loan interest and principal on its credit programs, and additional borrowing by RD and FSA for their credit programs of $3.8 billion and $1 billion, respectively.

Other liabilities mainly consists of $12.9 billion in Resources Payable to Treasury, $1.8 billion for the Conservation Reserve Program, $5.4 billion for the Tobacco Transition Payment Program, $4.2 billion for the Direct and Counter-Cyclical Program and $4.6 billion related to crop insurance programs.

Other liabilities decreased primarily due to the return of $.6 billion from the Foreign Credit Liquidating Funds to Treasury by CCC. Liquidating funds primarily serve to collect principal and interest payments resulting from pre-credit reform loans.

Total Net Position

Total net position increased $17.4 billion in FY 2007. This increase consists of a $4.5 billion increase in unexpended appropriations and $12.9 billion increase in cumulative results of operations. The increase in unexpended appropriations is primarily due to the $2.8 billion additional funding for disaster assistance programs received by FSA late in the fiscal year. The increase in cumulative results of operations is primarily due to an increase at CCC of $11.9 billion as a result of favorable market conditions for commodities which reduced program costs.

NET COST OF OPERATIONS

CONDENSED STATEMENT OF NET COST

For the Years Ended September 30, 2007 and 2006
(in million)

	FY 2007	FY 2006	% CHANGE
Goal 1: Enhance International Competitiveness of American Agriculture:	$1,484	$404	267%
Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies:	15,099	24,458	-38%
Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America:	2,202	3,068	-28%
Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	2,509	2,980	-16%
Goal 5: Improve the Nation's Nutrition and Health:	53,948	53,028	2%
Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment:	11,079	11,488	-4%
Net Cost of Operations	$86,321	$95,426	-10%

Net Cost of Operations

Net cost of operations decreased $9.1 billion in FY 2007. This decrease is primarliy due to reduced program costs of $10 billion in support of Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies and increased costs of $.9 billion in support of Goal 1: Enhance International Competitiveness of American Agriculture at CCC.

The FY 2006 Statement of Net Cost was reclassified to reflect the six strategic goals outlined in USDA's Strategic Plan for FY 2005-2010.

Systems, Controls and Legal Compliance

Management Assurances

STATEMENT OF ASSURANCE

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

USDA conducted its assessment of the financial management systems and internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, and 2) financial reporting as of June 30, 2007, which includes safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control." Based on the results of these evaluations, USDA reduced its existing material weaknesses under financial reporting from four to two. The Department's remediation activities and the fiscal year (FY) 2007 A-123, Appendix A testing resulted in the FY 2006 "USDA County Office Operations" being downgraded to a significant deficiency and the Financial Accounting and Reporting/Accrual material weakness being resolved. Additionally, two new material weaknesses under financial reporting were identified for a total of four material weaknesses reported in FY 2007.

Other than the exceptions noted in the FMFIA and FFMIA sections, financial management systems conform substantially with the objectives of FMFIA and the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2007, and 2) financial reporting as of June 30, 2007. However, the Departmental management identified prior year violations of the Anti-Deficiency Act that were not considered chronic or significant. These violations relate to restrictions on the use of funds to combat forest fires and transportation costs for donated food commodities. The latter transactions also violated the Commodity Credit Corporation Charter Act.

Charles F. Conner
Acting Secretary of Agriculture
November 15, 2007

Federal Managers' Financial Integrity Act Report on Management Control

BACKGROUND

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

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

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

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

- As a material weakness in reporting under FMFIA; and
- If relating to financial management systems, as an instance of a lack of substantial compliance under the Federal Financial Management Improvement Act (FFMIA). (See the FFMIA Report on Financial Management Systems.)

USDA conducts its annual evaluation of internal controls over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix A. Assessment results are reviewed and analyzed by the USDA Senior Assessment Team. Final assessment results are reviewed and approved by the Senior Management Control Council.

USDA operates a comprehensive internal control program to ensure compliance with FMFIA requirements and other laws, and OMB Circulars A–123 and A–127, "Financial Management Systems." All USDA managers are responsible for ensuring that their programs operate efficiently and effectively and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles and related requirements. In conjunction with OIG and GAO, USDA management works aggressively to determine the root causes of its material weaknesses to promptly and efficiently correct them.

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

FY 2007 Results

In FY 2006, USDA identified four material weaknesses: Information Technology (IT), Financial Accounting and Reporting/Accruals, County Office Operations (COO) and Funds Control. During FY 2007, USDA reduced these four material weaknesses to two. However, two new material weaknesses related to unliquidated obligations and credit reform quality control processes were added in FY 2007. USDA now has a total of four material weaknesses. Therefore, the "Secretary's Statement of Assurance" provides qualified assurance that USDA's system of internal control complies with FMFIA's objectives. The following Exhibit provides a summary of the material weaknesses.

Exhibit 5: Summary of Material Weaknesses

Internal Control (FMFIA Section 2)						
Statement of Assurance	Qualified Statement of Assurance					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USDA Information Technology	1					1
Financial Accounting and Reporting/Accruals	1		(1)			0
USDA County Offices Operations	1				(1)	0
Funds Control Management[1]	1					1
Financial Reporting – Unliquidated Obligations (New)		1				1
Financial Reporting – Credit Reform (New)		1				1
TOTAL MATERIAL WEAKNESSES	4	2	(1)	0	(2)	4
Financial Management Systems (FMFIA Section 4)						
Statement of Assurance	Qualified Statement of Assurance					
Non-Conformance	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management[1]	0				1	1
TOTAL NON-CONFORMANCES	0	0	0	0	1	1

[1] Funds Control Management was identified as a Section 2 FMFIA material weakness in FY 2006. The material weakness was addressed in FY 2007; however, the financial management system non-compliance remains. (See FFMIA Report on Financial Management Systems.)

Required Reporting

Exhibit Numbers 6 and 7 are provided to meet the reporting requirements of OMB Circular A-136, "Financial Reporting Requirements" and include a breakdown by various categories related to the Financial Statement Audit and Management's Statement of Assurance for FMFIA and FFMIA.

Exhibit 6: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
USDA Information Technology	1					1
Financial Accounting and Reporting/Accruals	1		(1)			0
USDA County Offices Operations	1				(1)	0
Funds Control Management	1					1
Financial Reporting – Unliquidated Obligations (New)		1				1
Financial Reporting – Credit Reform (New)		1				1
TOTAL MATERIAL WEAKNESSES	4	2	(1)	0	(1)	4

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
	0					0
TOTAL MATERIAL WEAKNESSES	0					0

Conformance with Financial Management System Requirements (FMFIA § 4)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	0				1	1
TOTAL Non-Conformances	0				1	1

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	No	No
1. System Requirements	No	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	No	
4. Information security policies, procedures and practices	No	

Material Weaknesses Reassessed or Resolved

USDA reassessed or resolved two of its four existing material weaknesses in FY 2007.

Financial Accounting and Reporting/Accruals — This material weakness has been resolved. The Forest Service (FS) and the Commodity Credit Corporation (CCC) management had reported a lack of effective preventive and detective controls around the completeness, accuracy and validity of accrual estimate calculations. Both FS and CCC have taken action to remediate this weakness as follows:

FS:

- Utilized a statistical model for estimating field accruals;
- Incorporated a seasonality adjustment into the accrual calculations; and
- Refined the queries and database used to calculate the regressions.

CCC:

- Strengthened the program account analysis process for monitoring the accounting events for each program;
- Enhanced the analytical review of program operations prior to posting accruals;
- Developed the Obligation and Accruals Guidance Report to document trigger points for recording account activity; and
- Improved the managerial review process for accrual entries recorded at year-end.

Additionally, this weakness included CCC's Statement of Financing process, which has been resolved. They have:

- Enhanced the methodology used in the compilation of the Statement of Financing, the mapping logic, and the treatment of transactions for specific lines items;
- Documented the deviations from Treasury's crosswalk and Implementation Guide; and

- Implemented an "audit task force" approach to perform effective technical reviews of the financial statement compilation process.

USDA County Office Operations — This weakness was reassessed and downgraded to a significant deficiency. During FY 2007, FSA underwent a rigorous effort to identify and document the processes and controls existing at USDA county offices related to program enrollment, payment calculations, disbursements, receipts, reporting and monitoring. The results of this comprehensive assessment confirmed that mitigating factors are in place to reduce the risk of a material misstatement occurring in the financial statements. Controls were strengthened by no longer accepting cash receipts in one-person offices and centralizing password maintenance/access to county office systems.

New Material Weaknesses

USDA identified two new material weaknesses under Financial Reporting related to unliquidated obligations and improvements needed in the Credit Reform quality control process.

Financial Reporting – Unliquidated Obligations

USDA assessed the controls for reviewing unliquidated obligations and determined there was a lack of consistent review of unliquidated obligations at several component agencies. As a result, accounts were not being deobligated on a timely basis as required by Department regulation and procedures. USDA agencies need to implement effective and sustainable control procedures over the review and certification of unliquidated obligations.

Financial Reporting – Credit Reform

USDA determined that controls were lacking in the Credit Reform quality assurance process to ensure that the cash flow models, data inputs, estimates and reestimates for financial reporting were subject to appropriate controls and management oversight. As a result, additional resources were needed to correct the credit reform information in the financial statements and related disclosures. USDA plans to perform and document independent quality assurance reviews of model changes, data extracts and the reestimates process before delivery to external parties.

Summary of Outstanding Material Weaknesses

Material Weakness Existing	1. USDA Information Technology	Overall Estimated Completion Date	FY 2008
	Internal control design and operating effectiveness deficiencies in the four areas: software change control, disaster recovery, logical access controls, and physical access that aggregate to an overall IT material weakness.		

FY 2007 Accomplishments:	Planned Actions:
• Implemented the required National Institute of Standards and Technology controls for IT throughout USDA and other policy guidance; • Instituted a quality assurance process to ensure that deficiencies are resolved at root causes and operating effectively; • Implemented the Inter-Agency Planning, Assessing and Remediating Controls group to identify clear responsibilities for internal control in agencies sharing IT systems and networks reducing combined agency resources required for internal control efforts while improving the effectiveness of internal controls; • Consolidated the A-123 and FISMA efforts so that agencies would only have to document and test internal control and IT security weaknesses once, by one methodology; and • Selected a Department of Justice tool to aid USDA agencies in tracking and documenting IT controls, policies, procedures and standardizing testing. Streamlined process facilitates the annual A-123 and FISMA reviews and tests, reducing agency resources required for these efforts.	• Standardize and streamline FISMA and A-123 testing; • Fully implement FISMA compliance tool throughout USDA; • Execute internal control education plan for all levels and agencies throughout USDA; • Remediate the IT material weakness; and • Continue monitoring progress through the Information Technology Executive Steering Committee.

Material Weakness Existing	2. Funds Control Management	Overall Estimated Completion Date	FY 2008
	Improvements needed in funds control processes.		

FY 2007 Accomplishments:	Planned Actions:
• Monthly reviews and analysis of CCC obligation status with fund managers; • Quarterly certification of CCC obligations by fund managers; • Institutionalized monthly and quarterly review and certification processes; and • Strengthened the program account analysis process.	• Document CCC obligation business events and develop solutions for providing pre-authorization of funds.

Note: Funds Control Management is also classified as an FFMIA system non-compliance for FY2007.

Material Weakness New	3. Financial Reporting – Unliquidated Obligations	Overall Estimated Completion Date	FY 2008
	Lack of consistent review of unliquidated obligations.		

Planned Actions:
• Implement effective and sustainable control procedures over the review and certification of unliquidated obligations at the component level.

Material Weakness New	4. Financial Reporting – Credit Reform	Overall Estimated Completion Date	FY 2008
	Controls are lacking in the Credit Reform quality assurance process to ensure that cash flow models, data inputs, estimates and reestimates are subject to appropriate management oversight.		

Planned Actions:
• Ensure proper monitoring and reporting of change control process; and • Perform and document independent quality assurance reviews of model changes, data extracts and the reestimate process before delivery to external parties.

Federal Financial Management Improvement Act Report on Financial Management Systems

BACKGROUND

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

Exhibit 7: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Information Technology[1]	1 and 4	Multiple	9/30/2008
Funds Control Management	Section 1 Section 3	CCC FS	9/30/2009 9/30/2008

Sections:
FFMIA:
1 – Federal financial management system requirements.
3 – Standard general ledger at the transaction level
FISMA:
4 – Information security policies, procedures or practices.

[1] The information technology material weakness, which is reported in the Federal Managers' Financial Integrity Act Report on Management Control, is comprised of four initiatives: Software Change Control; Disaster Recovery; Logical Access Controls; and Physical Access Controls.

FY 2007 RESULTS

During FY 2007, USDA evaluated its financial management systems to assess substantial compliance with the Act. In assessing FFMIA compliance, USDA considered all the information available. This information included the auditor's opinions on component agencies' financial statements, the work of independent contractors and progress made in addressing the material weaknesses identified in the *FY 2006 Performance and Accountability Report* – Report on Management Control section.

The Department is not substantially compliant with Federal financial management system requirements and the standard general ledger at the transaction level. Additionally, as reported in the FMFIA section of this report, USDA continues to have weaknesses in information technology controls that results in non-compliance with the FISMA requirement. As part of the financial systems strategy, USDA agencies continue to work to meet FFMIA and FISMA objectives. The Information Technology Executive Steering Committee continues to monitor the correction of information technology weaknesses in USDA's financial systems. The Department made substantial progress in addressing its information technology weakness. However, additional effort is required to comply substantially with the Act's requirements.

The descriptions of corrective actions taken to address the information technology, financial accounting and reporting, and funds control initiatives reported in FY 2006 are included in the FMFIA section of this report.

Auditor-identified deficiencies at the USDA Forest Service related to the requirement to record obligations in the standard general ledger at the transaction level were identified in FY 2007. Transactions were not obligated as required by appropriation law prior to payment. The transactions include temporary travel, grants and other reoccurring utility type transactions. Posting models are needed at the transaction level to accommodate transfers of stewardship land acquisitions and to record exchange review transactions to the proper general ledger accounts. Corrective action plans will be developed to address these deficiencies.

The financial management system non-compliance portion of the CCC FY 2006 Funds Control material weakness is now being reported under FFMIA. While additional work remains, CCC has made progress toward implementation of a funds control system to remediate the financial system noncompliance.

Federal Financial Management System Requirements/Funds Control Management

In FY 2007, CCC began to address the need for a fully integrated funds control system within the financial management system that is capable of interfacing with CCC's general ledger system at the transaction level and provides management with timely information to periodically monitor and control the status of budgetary resources recorded in the general ledger. FY 2007 accomplishments include:

- Developed the to-be process design; and
- Developed the business case for the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS).

In FY 2008, CCC will:

- Document CCC obligation business events and develop solutions for providing pre-authorization of funds;
- Prepare system requirements documentation;
- Select software solution; and
- Begin to implement the software solution.

In FY 2009, CCC will:

- Develop a fully integrated funds control system; and
- Continue implementation of the software package.

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

BACKGROUND

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

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

FY 2007 Results

USDA agencies closed 64 audits in FY 2007. The Department's current inventory of audits that have reached management decision and require final action to close totals 154 which includes 37 new audits in FY 2007. Two of these audits are in appeal status. As shown in the accompanying exhibit, the Department continued to reduce its inventory of open audits in FY 2007. This is a 32-percent decrease during since FY 2003.

Exhibit 8: Decrease in Total Open Audit Inventory

Note: The FY 2006 ending balance was revised from 168 to 181 to include 13 audits that reached management decision in September 2006. These adjustments are also reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibit 10 and Exhibit 12.

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. Reports on resolved audits must include the elements listed in the first three of the accompanying bullets:

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

Exhibit 9: Audit Follow-Up Definitions

Term	Definition
Disallowed Cost	An incurred cost questioned by OIG that management has agreed should not be chargeable to the Government.
Final Action	The completion of all actions that management has concluded is necessary in its management decision with respect to the findings and recommendations included in an audit report. In the event that management concludes no action is necessary, final action occurs when a management decision is accomplished.
Funds To Be Put to Better Use (FTBU)	An OIG recommendation that funds could be used more efficiently if management took actions to implement and complete the recommendation, including: • Reductions in outlays; • De-obligation of funds from programs or operations; • Withdrawal of interest subsidy costs on loans or loan guarantees, insurance or bonds; • Costs not incurred by implementing recommended improvements related to the operations of the establishment, a contractor or grantee; • Avoidance of unnecessary expenditures noted in pre-award reviews of contract or grant agreements; or • Any other savings which are identified specifically.
Management Decision	Management's evaluation of the audit findings and recommendations, and the issuance of a final decision on corrective action agreed to by management and OIG concerning its response to the findings and recommendations.

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

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

The Department is currently in the testing phase for implementation of its online Web-based Audit Tracking Module (ATM) that will improve the audit tracking and management processes. The ATM is designed to 1) make the tracking process more efficient and easier to manage, and 2) ensure that appropriate management and functional-level officials and staff have real-time accurate information. It will also allow for efficient coordination between USDA agencies, OCFO, and the OIG.

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

Of the 64 audits that achieved final action during the fiscal year, 21 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 52 with a monetary value of $105,242,632.

For audits with disallowed costs that achieved final action in FY 2007, OIG and management agreed to collect $17,799,418. Adjustments were made totaling $7,231,206 (41 percent of the total) because of: 1) changes in management decision; 2) legal decisions; 3) write-offs; 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs; and 5) agency discovery. Management recovered the remaining $10,568,212.

Exhibit 10: Inventory of Audits with Disallowed Costs[1]

Audits with Disallowed Costs	# of Audits	Amount ($)
Beginning of the Period	62	112,382,569
Plus: New Management Decisions	11	10,659,481
Total Audits Pending Collection of Disallowed Costs	73	123,042,050
Adjustments		(7,231,206)
Revised Subtotal		115,810,844
Less: Final Actions (Recoveries)*	21	(10,568,212)
Audits with DC Requiring Final Action at the End of the Period	52	105,242,632

*Recoveries do not include $104,557 interest collected.

Exhibit 11: Distribution of Adjustments to Disallowed Costs

Category	Amount ($)
Changes in Management Decision	136,018
Legal Decisions	681,004
Write-Offs	4,751,352
Agency Documentation	1,750,966
Agency Discovery	-88,134
Total	**7,231,206**

Final action occurred on 5 audits that involved FTBU amounts. USDA projects more efficient use for 99.9 percent of the amount identified based on the corrective actions implemented. The number of FTBU audits remaining in the inventory to date is 23 with a monetary value of $68,450,878.

Exhibit 12: Inventory of Audits with Funds To Be Put to Better Use

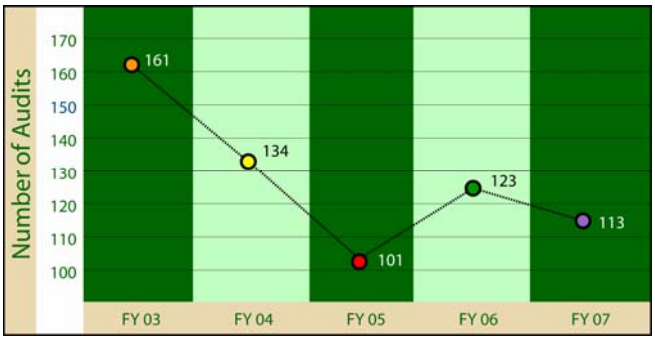
Audits with Funds to be Put to Better Use	# of Audits	Amount ($)
Beginning of the Period	22	224,199,709
Plus: New Management Decisions	6	6,378,639
Total Audits Pending	28	230,578,348
Less: Final Actions	5	162,127,470
Audits with FTBU Requiring Final Action at the End of the Period	23	68,450,878
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		161,926,675
FTBU Not Implemented		200,795
Total FTBU Amounts for Final Action Audits		**162,127,470**

Audits Open One or More Years Past the Management Decision Date

The number of audits open one or more years without final action decreased from 123 to 113 audits. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits. Although there were more audits added to this category of audits in FY 07, final action was completed on 24 percent of last year's open audit inventory. These closures represent 47 percent (30 of 64) of all the audits closed for the FY.

[1] Exhibit 10 and Exhibit 12 include only those open audits with disallowed costs and funds to be put to better use, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 10 and Exhibit 12 will not equal the total resolved audit inventory balance in Exhibit 8.

Exhibit 13: Decrease in Audits Open One or More Years Past Management Decision Date



Two audits are proceeding as scheduled, 78 are behind schedule and agencies have completed corrective actions on 33 audits that are pending collection of associated disallowed costs. While an additional 7 audits were scheduled for completion by September 30, 2007, final action documentation was not evaluated during this reporting period.

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

The categories are pending the following activities:

- Issuance of policy/guidance;
- Conclusion of investigation, negotiation or administrative appeal;
- Completion of IT system security weaknesses, systems development, implementation, reconciliation or enhancement;
- Results of internal monitoring or program review;
- Results of agency request for change in management decision;
- Office of the General Counsel or OIG advice;
- Conclusion of external action; and
- Administrative action.

Exhibit 14: Distribution of Audits Open One or More Years Past the Management Decision Date, Disallowed Costs and FTBU

	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
Agency	No.	DC($)	FTBU ($)	No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)
Totals	2	0	0	78	25,745,752	28,134,584	33	48,347,563	33,937,655

Management's Report on Audit Follow-Up

Exhibit 15: Audits Open One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
(33) Pending issuance of policy/guidance					
05600-1-TE	09/28/89	9/30/07	RMA Crop Year 1988 Insurance Contracts with Claims	-	-
04801-4-CH	02/12/99	10/31/07	RHS Evaluation of Rural Rental Housing Tenant Income Verification Process	-	-
04801-6-KC	12/18/00	10/31/07	RHS Rural Rental Housing Program Insurance Expenses, Phase I	$1,029,999	$9,000
08601-38-SF	9/23/04	3/31/08	FS Review of Firefighting Safety Program	-	-
08601-41-SF	113/2006	3/31/08	FS Collaborative Ventures and Partnerships with Non-Federal Entities	$37,890	-
10099-10-KC	09/30/03	12/30/07	NRCS Homeland Security Protection of Federal Assets	-	-
13001-3-TE	8/16/04	4/30/08	CSREES Implementation of Agricultural Research,	$3	$482,400

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
			Extension, and Education Reform Act of 1998		
24099-3-HY	6/21/00	10/31/07	FSIS Imported Meat and Poultry Inspection Process	-	-
24099-4-HY	02/25/03	10/31/07	FSIS Imported Meat and Poultry Inspection Process, Phase II	-	-
24501-1-FM	11/24/04	6/30/08	FSIS Application Controls Review of FSIS' Performance Based Inspection Service System	-	-
24601-2-HY	6/9/04	6/30/08	FSIS Oversight of the *Listeria* Outbreak in the Northeast U.S.	-	-
24601-6-CH	3/15/06	10/31/07	FSIS Review of Food Safety Inspection Service's In-Plant Performance Systems (IPPS)	-	-
27601-3-CH	03/22/96	03/31/08	FNS Food Stamp Program—Disqualified Recipient System	-	-
27601-27-CH	04/30/02	03/31/08	FNS Food Service Management Companies	-	-
27601-35-CH	7/14/06	5/31/09	FNS Child and Adult Care Food Program, Supper Meals Served in Schools	-	-
33099-5-CH	4/20/05	9/30/08	APHIS National Cooperative State/Federal Bovine Tuberculosis Eradication Program	-	-
34099-2-AT	09/14/01	10/31/07	RBS Business and Industry Loan Program, Omnivest Resources, Inc.	$4,052,351	-
34601-1-HY	07/22/98	10/31/07	RBS Business and Industry Loan Program—Morgantown, West Virginia	-	-
34601-3-CH	03/11/03	10/31/07	RBS Processing of Loan Guarantees to Members of the Western Sugar Cooperative	-	-
34601-7-SF	12/04/02	10/31/07	RBS B&I Liquidation of Loans to the Pacific Northwest Sugar Company in Washington State	-	$14,000,000
34601-8-SF	9/30/03	10/31/07	RBS Liquidation of Business and Industry Guaranteed Loans	$45,246	$598,112
34601-15-TE	09/30/03	10/31/07	RBS National Report on the Business and Industry Loan Program	-	-
50099-17-KC	2/17/05	03/31/08	CSREES Biosecurity Grant Funding Controls over Biosecurity Grants Funds Usage	-	$4,318
50601-2-HY	9/9/05	11/30/07	DA/OHCM Review of Management Oversight of Federal Employees' Compensation Act Operations	-	-
50601-6-TE	03/04/04	12/30/07	ARS Controls Over Plan Variety Protection and Germplasm Storage	-	-
50601-9-AT	3/24/04	11/30/08	DA/OPPM (HS) Controls Over Chemical and Radioactive Materials at U.S. Department of Agriculture Facilities	-	-
50601-10-AT	3/8/04	12/31/07	HS Follow-up Report on the Security of Biological Agents at USDA Laboratories	-	-
50801-2-HQ	2/27/97	9/30/08	OCRE Evaluation Report for the Secretary on Civil Rights Issues, Phase I	-	-
50801-12-AT	9/9/02	11/30/07	DA Management of Hazardous Materials Management Funds	-	$1,813,809
60801-1-HQ	9/30/98	9/30/08	OCRE Evaluation of the Office of Civil Rights Efforts to Reduce Complaints Backlog	-	-
60801-2-HQ	3/24/99	9/30/08	OCRE Evaluation of the Office of Civil Rights Management of Settlements Agreements	-	-
60801-3-HQ	3/10/00	9/30/08	OCRE Evaluation Report for the Secretary on Civil Rights Issues (Phase 7)	-	-
60801-4-HQ	3/10/00	9/30/08	OCRE Status of Recommendations Made in Prior Evaluations of Program Complaints	-	-
(2) Pending conclusion of investigation, negotiation or administrative appeal					

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
04801-3-KC	03/31/99	10/31/07	RHS Bosley Management, Inc. – Sheridan, Wyoming	$146,690	$85,516
34004-5-HY	02/18/00	10/31/07	RBS Audit of Procurement Operations, Virginia State Office, Richmond, Virginia	-	-
(19) Pending completion of IT system security weaknesses, systems development, implementation, or enhancement					
03099-27-TE	5/24/01	10/01/07	FSA Payment Limitations – Majority Stockholders of Corporations	-	-
06401-17-FM	11/5/04	09/30/09	CCC Financial Statements for FY 2004	-	-
08099-6-SF	03/27/01	09/30/08	FS Security Over USDA Information Technology Resources	-	-
08401-2-FM	02/28/03	09/30/08	FS Audit of FY 2002 Financial Statements – Summary of Information Technology Findings	-	-
08601-40-SF	7/6/05	3/31/08	FS Emergency Equipment Rental Agreements Audit	-	-
10099-1-TE	02/01/02	12/31/07	NRCS Security Over IT Resources	-	-
11099-44-FM	12/14/06	11/30/08	Potential Improper Payments/Purchase Card Management System	-	-
24099-1-FM	08/11/03	10/31/07	FSIS Security Over Information Technology Resources at FSIS	-	-
24601-3-CH	9/30/04	10/31/07	FSIS Review of the Food Safety Information Systems	-	-
24601-3-HY	6/29/04	10/31/07	FSIS Effectiveness Checks for the Pilgrim's Pride Recall	-	-
33099-4-CH	03/03/04	9/30/08	APHIS Management and Security of Information Technology Resources	-	-
33501-1-CH	03/31/05	12/31/07	APHIS Review of Application Controls for the Import Tracking System	-	-
33601-1-HY	2/14/05	6/30/08	APHIS (FSIS) Oversight of the Importation of Beef Products from Canada	-	-
33601-4-CH	03/31/03	9/14/07	APHIS Controls Over Permits to Import Biohazardous Materials	-	-
50501-4-FM	10/21/05	9/30/07	OCIO Review of the U.S. Department of Agriculture's Certification and Accreditation Efforts		
50401-53-FM	11/15/04	9/30/07	OCFO (OCIO) USDA Consolidated Financial Statements FY 2004 and FY 2003	-	-
50401-56-FM	11/15/05	9/30/07	OCFO USDA Consolidated Financial Statements FY 2004 and 2005	-	-
60016-01-HY	9/8/05	9/30/08	OCRE Follow up on the Recommendations Made to the Office of Civil Rights for Program and Employment	-	-
85401-9-FM	11/7/03	10/31/07	RD Financial Statements for FY 2003 and 2002	-	-
(8) Pending results of internal monitoring or program review					
06401-4-KC	2/26/02	6/30/08	CCC Financial Statements for FY 2001	-	$19,586
13501-1-HY	7/8/05	12/31/07	CSREES Application Controls Review of the Cooperative Research Education and Extension Management System	-	-
08601-1-HY	3/31/05	3/31/08	FS Implementation of the Government Performance and Results Act	-	-
08401-4-FM	11/10/04	9/30/07	FS Audit of Fiscal Year 2004 Financial Statements	-	-
08601-30-SF	03/31/03	3/31/08	FS Review of FS Security Over Explosives/Munitions/Magazines Located Within the National Forest System	-	-
08601-42-SF	3/14/06	3/31/08	FS Firefighting Contract Crews	-	-

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC	FTBU
08601-45-SF	8/8/06	3/31/08	FS Follow-up Review of FS Security Over Explosives/Munitions Magazines Located within the National Forest System	-	-
33099-11-HY	6/12/06	9/30/07	APHIS Oversight of the Avian Flu Outbreak	-	-
(1) Pending results of request for change in management decision					
10501-5-SF	7/24/06	12/31/07	NRCS Application Controls Program Contracts System	-	-
(2) Pending Office of General Counsel (OGC) or OIG advice					
23801-1-HQ	08/20/98	11/30/07	OO Review of Office of Operations Contract with B&G Maintenance, Inc.	-	$249,866
85001-1-HY	4/25/06	10/31/07	RD Review of Shenandoah Valley Electric Cooperative's Grant	$8,000,000	-
(3) External Action Required					
08003-5-SF	12/15/00	3/31/08	FS Land Acquisitions and Urban Lot Management Program	-	$10,329,300
24601-1-CH	06/21/00	10/31/07	FSIS Laboratory Testing of Meat and Poultry Products	-	-
27099-60-AT	12/23/05	6/30/08	FNS Special Wages Incentives Program in Puerto Rico	$11,780,275	-
(10) Pending Administrative Action					
05099-18-KC	6/1/04	6/2/08	RMA Management and Security of Information Technology Resources	-	-
05099-109-KC	1/27/05	9/30/10	RMA Activities to Renegotiate the Standard reinsurance Agreement	-	-
06401-15-FM	12/26/02	09/30/09	CCC Financial Statements for FY 2002	-	-
06401-16-FM	11/7/03	12/31/07	CCC Financial Statements for FY 2003		
10601-7-TE	6/7/06	12/31/07	NRCS Controls Over Vehicle Maintenance Costs	-	-
33601-1-AT	09/14/04	9/30/08	APHIS Security Over Owned and Leased Aircraft	-	-
50099-11-HY	03/31/05	12/30/07	REE Implementation of Federal Research Misconduct Policy in the U.S. Department of Agriculture	-	-
50099-13-AT	03/29/02	12/31/07	Multi-Agency Audit Oversight and Security of Biological Agents at Laboratories Operated by USDA	-	-
50601-5-AT	9/30/98	12/31/07	CSREES Managing Facilities Construction Grants	$653,298	$542,677
50601-10-KC	1/25/06	9/30/07	APHIS Monitoring BSE Expanded Surveillance Program Implementation Phase II	-	-
Total Number Audits (78)			**Total**	**$25,745,752**	**$28,134,584**

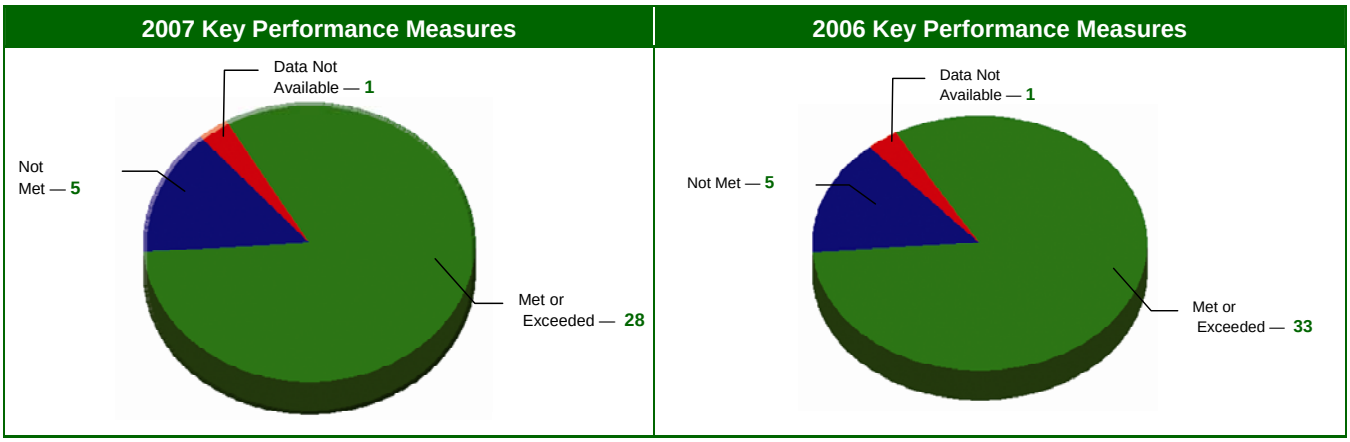
II.

Annual Performance Report

The United States Department of Agriculture's (USDA) mission is to provide leadership on food, agriculture, natural resources and related issues based on sound public policy, the best available science and efficient management. The Department executed this mission in FY 2007 through activities such as:

- Completing new free trade agreements, opening new international markets and maintaining existing markets;
- Meeting with experts from around the globe to discuss current and emerging economic opportunities;
- Providing farmers and ranchers with risk management and financial tools;
- Expanding economic opportunities by improving the quality of life through financing housing, utilities and community facilities in rural areas;
- Ensuring the safety and protection of the Nation's food supply;
- Helping millions of low-income households and most of America's children improve their health and diets via targeted nutrition assistance programs;
- Fostering better nutrition and health with dietary guidance and promotion;
- Fighting potential pest and disease outbreaks;
- Working to ensure the health and protection of the environment; and
- Providing aid to those impacted by severe weather and other disasters.

Exhibit 16: Key Performance Measures



Note: Performance measures are refined based on Program Assessment Rating Tool (PART) reviews. The PART is a method of measuring program success.

USDA's public performance management reporting process includes:

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

Most of USDA's programs and activities are represented in specific performance goals and targets, which are described in this section. The performance measures report data through the third quarter of FY 2007, and use projections for the fourth quarter. FY 2007 data using actual fourth quarter figures will be reported in the FY 2008 Planning and Accountability Report.

The Department also conducts and supports a broad range of research, educational and statistical activities that contribute to the achievement of its goals. The Department's success depends on creating and enhancing knowledge at the frontiers of physical and social sciences, and providing that knowledge to agriculture, forestry, consumers and rural America. Accordingly, selected accomplishments in research are presented throughout this report. Data collection methodology is standardized and transparent and is vetted by scientists, policymakers and the Department's senior management.

When he created the USDA, it was President Abraham Lincoln's hope "that by the best cultivation in the physical world, beneath and around us, and the intellectual and moral world within us, we shall secure an individual, social and political prosperity and happiness, whose course shall be onward and upward, and which, while the earth endures, will not pass away." The following chapters of the *USDA Performance and Accountability Report* show how the Department committed itself to keeping President Lincoln's dream alive during FY 2007.

Strategic Goal 1: Enhance International Competitiveness of American Agriculture

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

Expanding global markets for agricultural products is critical for the long-term economic health and prosperity of the domestic food and agricultural sector. America's natural resources, technologies and infrastructure enable agricultural production beyond domestic needs. Expansion of global markets will increase demand for agricultural products and contribute directly to economic stability and prosperity for America's ranchers and farmers.

To expand overseas markets and facilitate trade, USDA assists in the negotiation, monitoring and enforcement of trade agreements. Working with producers and commodity trade associations, USDA administers an array of market development and export promotion programs designed to build long-term markets abroad. The Department helps expand trade opportunities through technical assistance and training programs. These tools support agricultural development and growth in developing countries. They also help these countries participate in, and benefit from, international trade. USDA works to facilitate trade by adopting science-based regulatory systems and standards.

OBJECTIVE 1.1: EXPAND AND MAINTAIN INTERNATIONAL EXPORT OPPORTUNITIES

Overview

United States agricultural exports were $79 billion in FY 2007, up $10.4 billion from FY 2006 and the second highest annual increase ever. Record sales are expected in every major product category except cotton. Two-thirds of the overall export increase this year is because of more sales of grains and oilseeds with sales up an estimated $4.7 billion and $2.4 billion, respectively. Large exportable supplies, tight markets and rising unit value raised corn exports $2.5 billion, while soybeans rose $1.7 billion and wheat another $1.5 billion. Other developments unrelated to tight grain and oilseed markets contributed to one of the largest increases of U.S. agricultural exports in history.

Key Outcome

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

Horticultural exports jumped $1.1 billion to a record $17.8 billion supported by a competitive dollar, strong foreign demand and higher prices for some products. Animal product exports rose $900 million with gains for beef, pork, broiler meat, hides and dairy products. Beef exports to Asian markets rose, pork exports remain at record levels, and increased shipments and high global prices pushed U.S. dairy exports to record highs.

The World Trade Organization (WTO) is charged with administering trade rules among its 150 member countries and customs areas. The goal of reaching an agreement on the outline of a new multilateral trade agreement by the expiration of the United States' Trade Promotion Authority (TPA) on June 30 was not reached mainly due to disagreement among members on disciplines for non-agricultural market access. Still, efforts to obtain agreement are ongoing as USDA continues to work with the Office of the U.S. Trade Representative (USTR) to reach that goal. The USTR is the lead trade negotiator for the U.S. Government.

In 2007, the free trade agreement (FTA) with the Dominican Republic (DR) took effect. The DR joins El Salvador, Guatemala, Honduras and Nicaragua, all of which had implemented the Dominican Republic-Central American Free Trade Agreement (DR-CAFTA) in the preceding year. The remaining DR-CAFTA partner, Costa Rica, ratified the accord through a referendum, and will implement it in 2008.

In addition, the United States has successfully completed FTA negotiations with Peru, Colombia, Panama and South Korea. These agreements now await ratification by the Congress.

Discussions on a FTA with Malaysia are ongoing. However, renewal of Trade Promotion Authority (TPA) by the Congress will be required in order for that initiative, or any other future FTA initiative, to be brought to a favorable conclusion.

USDA also continues to monitor the impact of earlier FTAs. One such agreement is the North American Free Trade Agreement (NAFTA), a comprehensive trade-liberalization regime between the United States, Canada and Mexico, which will be fully implemented by January 2008. Supported by NAFTA, U.S. agricultural exports to Canada and Mexico continue to expand at an accelerated rate, setting new records year after year. Canada remains the largest market with U.S. agricultural sales forecast at a record $13.1 billion in FY 2007. Canada is a major market for U.S. fresh and processed fruits and vegetables, snack foods, wine and many other consumer-ready products. Mexico remains the 2nd largest market with FY 2007 exports forecast at a record $12.6 billion. Mexico's demand for U.S. agricultural products continues to grow. Higher prices are leading to record U.S. coarse grains sales to Mexico and a large increase for soybeans this year. Mexico is a large buyer of U.S. coarse grains, soybeans, cotton and wheat, but higher-value consumer foods are increasingly important as well. U.S. meat exports have rapidly grown in the past few years, and larger increases are expected this year for fresh vegetables, dairy products, poultry meat and sweeteners.

Another example is a specific Morocco FTA issue in which aggressive monitoring of this agreement identified a compliance issue with Morocco's implementation of the wheat tariff rate quota (TRQ). United States and Moroccan officials have had several bilateral discussions to address issues of timeliness and transparency. Morocco's administration of wheat TRQ has improved, facilitating increased U.S. exports of wheat.

United States agricultural exports to Japan are forecast at $9.3 billion, making it the 3rd largest agricultural export market. About 60 percent of sales to Japan consists of bulk and intermediate commodities, mainly coarse grains, soybeans, wheat and animal feeds. Again, higher unit values result in large value gains for U.S. corn and soybeans. The rest of the sales are high-value consumer-ready foods, mainly pork, fresh and processed fruits and vegetables, tree nuts and pet foods. Despite continued import restrictions on beef due to fears involving a chronic central nervous system disease found in cattle, *Bovine Spongiform Encephalopathy (BSE)*, U.S. beef exports showed signs of recovery in 2007. During the first nine months of FY 2007 (October 2006 – June 2007), beef shipments rose to 28,113 metric tons valued at $142 million.

The European Union (EU) remains the fourth largest market for U.S. agricultural products. Exports to the EU were $7.7 billion in FY 2007. The EU is an important market for soybeans, tobacco, animal feeds and live animals. It is the largest market for tree nuts, and an important market for other selected consumer foods and beverages, most notably wine and fresh fruit. The importance of the EU market for U.S. suppliers continues to decline with fewer opportunities in most categories due to sanitary and phytosanitary (SPS) restrictions, restrictions on biotech crops, and highly restrictive food laws that limit market access, domestic supports that keep production high and highly-competitive processed food industries. (SPS refers to measures imposed by governments to protect human, animal and plant health from foreign pests, diseases and contaminants.)

U.S. agricultural exports to China, the fifth largest market, are forecast at a record $7.6 billion in FY 2007. Exports to China have risen rapidly in the past few years because of China's strong economic growth and record U.S. soybean and cotton sales. China is also the largest market for U.S. animal hides. U.S. consumer food sales remain modest due to very high tariffs and large foreign investment flows impacting domestic production capacity. However, China has become an important poultry and meat market. Sales are rising for fresh fruit, processed fruits, vegetables, tree nuts and many other consumer foods. China's trade barriers are being reduced through its WTO membership, producing dividends which will continue for the next several years.

USDA works closely with the USTR and other Government agencies to pursue new trade agreements. In FY 2007, Vietnam gained membership to the WTO, following 11 years of negotiation. As part of the WTO negotiations, Vietnam signed a WTO bilateral trade agreement with the United States. Additionally, while Russia is still working toward multilateral consensus on its WTO accession, after nearly 15 years, the United States and Russia concluded a bilateral agreement in connection with its pending accession. Furthermore, the United States continues to work on accession agreements with several other countries.

USDA and the USTR also work to enforce the provisions of existing agreements, providing U.S. exporters and consumers with the full economic benefit of trade agreements and rules. USDA also works to maintain effective government-to-government relationships that support open trade that will lead to increased export opportunities for U.S. farmers and agribusinesses. The Department's industry partners promote trade and outreach activities to educate producers, processors and exporters on emerging market opportunities as a result of trade agreements. To capitalize on trade opportunities, USDA offers market intelligence, supply and demand forecasts and sales-development assistance to enhance U.S. exporters' success in the highly competitive global marketplace.

Challenges for the Future

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

Selected Results in Research, Extension and Statistics

USDA Assists in Improving Russian Agricultural Statistics. Through the U.S. Department of State's Emerging Markets Program, USDA has been collaborating with the Russian State Statistics Service (ROSSTAT) to improve that country's agricultural statistics. The Department helped organize Russia's 2006 agricultural census, the first since 1920. In recognition of this support, the ROSSTAT presented gold medals to the Department's International Programs Office staff for "Distinguished Service." The medals were the first presented to foreigners by the ROSSTAT.

China in 21st Century Agricultural Markets. China is one of the top 10 markets for U.S. agricultural exports and the world's largest producer and exporter of many commodities. USDA continues to investigate how policy and economic developments in China affect global agricultural markets. In one recent article entitled: "Food Safety Improvements Underway in China," Department analysts examined the growing concern by consumers, both domestically and internationally, for safer food. The report discusses China's initial steps to overhaul its food system to meet international food safety standards.

Macroeconomic Linkages to Agriculture. The USDA publication "Weaker Dollar Strengthens US Agriculture," reports that the depreciating U.S. dollar combined with strong economic growth in developing countries has increased the competitive advantage of U.S. agriculture and stimulated foreign demand for U.S. agricultural products.

Analysis of Results

USDA did not reach its performance goal of preserving $900 million of agricultural trade through trade agreement negotiation, monitoring and enforcement largely because not all successfully negotiated FTAs have been implemented. Costa Rica is scheduled to hold a referendum on ratification and the U.S. Congress has not yet ratified the Peru, Colombia, Panama and South Korea FTAs. There were no large, unexpected threats addressed under Department monitoring and enforcement activities except for those related to sanitary and phytosanitary (SPS) barriers, which are accounted for separately under Objective 1.3 in this report. The number of trade maintenance issues and their potential impact on U.S. exports depends primarily on foreign governmental action. Both the problems and the solutions are highly unpredictable. Solutions can range from a quick agreement with officials at the port of entry to a long negotiation process followed by a lengthy regulatory or legislative process. The cost of an action can range from a few thousand to billions of dollars.

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

The exact value of new markets opened through trade agreements is difficult to determine using traditional economic models. In a new market, there are little data to estimate consumer demand. Market development takes time and centers on consumer and wholesaler education to create a desire to purchase U.S. products, rather than those of competitors. Therefore, it is difficult for USDA to estimate the impact of monitoring and enforcement efforts. Instead, the Department tracks only instances in which there is a clearly defined and imminent threat, which is then acted upon.

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

Exhibit 17: Increase U.S. Export Opportunities

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
1.1.1 Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring and enforcement (Non-SPS) ($ Mil)	$900	$670	Unmet

Exhibit 18: Trends in Expanding and Retaining Market Access

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
1.1.1 Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring and enforcement ($ Mil) Baseline: 1999 = $2,567	$2,713	$3,950	$800	$14	$670

FYs 2003 - 2004 data is based on SPS and non-SPS related trade barriers. FY 2005, 2006 and 2007 data is based on non-SPS trade barriers.

Objective 1.2: Support International Economic Development and Trade Capacity Building

Overview

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

Key Outcome

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

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

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

The Food for Progress program provides for the donation of U.S. agricultural commodities to developing countries and emerging democracies committed to introducing and expanding free enterprise in the agricultural sector. Priority is given to countries, with the greatest need for food, that are making efforts to improve food security and agricultural development, alleviate poverty and promote broad-based, equitable and sustainable development.

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

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

Recent examples of the above actions include two biotechnology technical assistance activities designed for farmers. The first workshop was conducted in the Philippines where 20 farm leaders—representing the Philippines, Indonesia, Thailand, Vietnam, Malaysia and China—held discussions on acceptance and market access for biotechnology crops and supported the organizational sustainability of the Asian Farmers Regional Network. The second was a farmer-to-farmer workshop conducted in South Africa in which thirty agricultural officials and seed-industry and farmer-organizations from Kenya, Uganda, Tanzania and Mali participated. They discussed practical options for promoting the acceptance and development of agricultural biotechnology, especially for maize and cotton. The two activities involved over 50 leaders from 10 countries.

Another example is USDA assistance to Iraq through the Iraq Agricultural Extension Revitalization Project (IAER) and provision of expert advisors to the Ministry of Agriculture and Provincial Reconstruction Teams (PRTs). PRTs are units led by the U.S. Department of State with military support, charged with fostering security and stability, while facilitating economic reconstruction. The USDA advisors focus on rehabilitating agricultural infrastructure, both physical and institutional. More USDA advisors have been recruited and are being cleared for deployment. At the Iraqi Ministry of Agriculture in Baghdad, advisors are working to strengthen agricultural strategy, food safety, soil science and agricultural extension and education. In addition, a consortium of land-grant universities, led by USDA, is further bolstering extension efforts by providing training and technical assistance to Iraqi universities under the IAER Project. Funding for the effort is provided by the U.S. Department of State.

Under the U.S.-India Agricultural Knowledge Initiative (AKI) of 2005, USDA is helping to revitalize the strong partnership in agriculture born of the Green Revolution in the 1960s. Projects are focusing on human capacity building, biotechnology, food processing and marketing and water resources management. The AKI is also helping to build a sound policy and regulatory environment in India that promotes trade and investment while reinvigorating U.S.-India agricultural-university partnerships with new collaborative activities. A notable AKI accomplishment is support for approval of imported Indian mangos for the U.S. market by the Animal and Plant Health Inspection Service with benefits for the Indian economy and new opportunities for U.S. agricultural products to be introduced into Indian markets.

Selected Results in Research, Extension and Statistics

Laying the Ground Work for Future International Development and Trade. Through a USDA International Science and Education grant, 50 Cornell University students and 25 Indian students from several universities completed the course requirements for Agriculture in Developing Nations in the field of International Agriculture and Rural Development. The grant is designed to increase cross-cultural understanding and agribusiness networks between the U.S. and India. The course included a 20-day field study trip to sites in India. It enabled the development of long-term collaboration among partnership institutions. Additionally, Indian students were able to apply for graduate studies in leading U.S. land grant universities.

Challenges for the Future

Hunger and malnutrition still impact much of the world. USDA works closely with the United Nations' World Food Program (WFP) and private voluntary relief and development organizations. WFP offers food assistance to natural disaster victims, the displaced and the world's hungry and poor.

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

A key USDA trade policy priority — a successful conclusion to the Doha Round — recognizes the importance of trade to developing countries. TCB opportunities give developing countries an incentive to participate in the Doha process. By helping countries joining WTO understand and meet their new commitments, TCB builds markets for the future by fostering economic growth.

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

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

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

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

Analysis of Results

The food aid targeting effectiveness ratio is a long-term measure which has been developed to gauge the effectiveness of USDA food aid programs in improving food security in low income countries. The ratio measures how effective the targeting of USDA food aid programs is in addressing the food distribution gap in the most food insecure countries. The USDA Economic Research Service calculates the ratio using its food security assessment model which measures food security based on estimations of food

gaps in 70 of the world's poorest countries. Food gaps represent the difference between projected food availability and targeted food consumption. The performance goal for supporting improvements in foreign trade policies was exceeded, with impacts in thirteen countries.

Under the DR-CAFTA, USDA trade capacity building efforts have led to mutually beneficial accomplishments in Central America. Over the past year, notifications to the Sanitary and Phytosanitary Committee of the WTO increased from zero to 16 in the Dominican Republic, and from four to 16 in Nicaragua. These notifications allow U.S. exporters to better understand regulatory changes affecting their goods prior to shipment overseas. In addition, Costa Rica, El Salvador, Guatemala, Honduras and Nicaragua partially harmonized their official emergency response systems for all avian pathological diseases to better coordinate regionally in the event of an *avian influenza* outbreak, thus reducing the potential of disease reaching the United States border. In addition, Costa Rica, Dominican Republic, El Salvador, Guatemala, Honduras and Nicaragua committed to regionally harmonize laboratory testing procedures as well as to develop a regional reference laboratory system. Harmonized laboratory testing procedures that are consistent with U.S. testing methodology across the DR-CAFTA countries reduces the potential for U.S. exports to be rejected.

USDA hosted a workshop in El Salvador in November 2006 for Central American plant-health officials to gain knowledge of new USDA rules for mitigation of pests and diseases related to the export of peppers and tomatoes to the United States. Developing strategic relationships with officials attending the workshop has improved USDA's ability to access information on phytosanitary conditions in Central America. Central American countries are also benefiting from new market opportunities introduced in the workshop.

In support of the African Growth and Opportunity Act (AGOA) that significantly enhances U.S. market access for 38 Sub-Saharan African (SSA) countries, USDA's Pest Risk Assessment (PRA) project with USAID has trained over 200 persons from 35 countries in SSA on a wide variety of issues related to phytosanitary protocols. When the project began in 2003, PRAs had been submitted to USDA for only two products from Sub-Saharan Africa. Since then, USDA's efforts have improved overall phytosanitary capabilities throughout Sub-Saharan Africa by strengthening links with national plant protection organizations, fostering increased regional collaboration, supporting greater activity in international organizations and providing targeted technical training on phytosanitary issues. Four final rules have been published in the *Federal Register,* establishing the conditions for importation of commodities—Zambian baby corn and baby carrots, Kenyan peas and Namibian table grapes—into the United States, setting the stage for trade in fresh produce from Sub-Saharan Africa. Additionally, 36 PRAs (including four regional PRAs), the precursors to import rules, are in various stages of development. At this year's AGOA Forum, USDA committed to further streamline the regulatory process for PRAs.

USDA technical assistance was also provided to Sub-Saharan African countries for understanding complexities of Codex Alimentarius, the international organization for setting food standards worldwide. Adoption of Codex standards by U.S. trading partners provides regulatory measures within legal parameters of WTO agreements. African countries have begun to participate more frequently in Codex meetings, but these meetings often involve complex technical issues that have been under discussion for years, leaving novice delegates at a clear disadvantage. To address this gap, USDA hosted a technical assistance workshop in Mozambique, a seminar for African Codex contact points in Washington, D.C. and a colloquium on key Codex issues in Ghana. As a result, African delegates have a better understanding of the issues that will be negotiated at upcoming Codex Committee and Commission meetings. SSA delegates

are also building coalitions both within the continent and with the United States and, in January 2007, created a regional strategy for the Codex Committee for Africa to be implemented over the next five years.

USDA is helping Egypt develop its regulatory framework for agricultural biotechnology. These efforts include an environmental risk assessment workshop for ministry officials and the National Biosafety Committee and ongoing expert consultations to the Ministry of Agriculture in developing an authorization system for field trials for commercialization of genetically modified crops. As a result, this year Egypt has—for the first time—approved permits for field trials for several agricultural biotechnology products.

Following USDA assistance in achieving greater consistency and transparency in international standards, Armenia passed a new food safety law in January 2007 that incorporates science-based processes and international standards established by Codex Alimentarius. This new law will also help facilitate U.S. exports to that country.

USDA has provided training for personnel from the Serbian Ministry of Agriculture extension service and from universities in pest management, including identification, diagnosis, risk assessment, risk management, monitoring and international standards. As a follow-up, in May 2007 staff from USDA's Center for Integrated Pest Management installed and provided training in Serbia on basic software modules that USDA's Animal and Plant Health Inspection Service uses to meet U.S. phytosanitary requirements and those of the International Plant Protection Center (IPPC). This will help Serbia to meet reporting requirements established by the IPPC and the European and Mediterranean Plant Protection Organization (EPPO) for international agricultural trade. Moreover, it will help to facilitate expansion of trade between Serbia and the United States.

The Department of Agriculture of the Philippines (DA) used USDA training to develop food safety regulations that mirror those of the United States, improve the consultative process during the development of food policies and regulations and formulate more WTO-consistent food regulations regarding quarantine, inspection and customs clearance. The positive working relationship between the DA and USDA has helped resolve key market access issues, such as maintaining the market in the Philippines for U.S. beef and lifting the temporary ban on U.S. beef offal.

Exhibit 19: Support Foreign Food Assistance

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
1.2.1 Food Aid Targeting Effectiveness ratio	45%	45%	Met

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

Exhibit 20: Support Foreign Food Assistance

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
1.2.2 Number of countries in which substantive improvements have been made in national trade policy and regulatory frameworks that increase market access	7	13	Met

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

Objective 1.3: Improved Sanitary and Phytosanitary (SPS) System to Facilitate Agricultural Trade

Overview

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

Key Outcome

An Improved Global SPS System for Facilitating Agricultural Trade

The negative impact of some SPS measures is growing due to increasing trade in food and agricultural products. This is apparent in the growth of trade in consumer-ready products such as meats, fruits, vegetables and processed foods. The problem is compounded by the emergence of threats like BSE, poor regulatory infrastructure in many developing countries and political pressures that cause foreign governments to implement stricter-than-needed SPS measures.

In response, USDA works closely with other Federal agencies to strengthen regulatory coordination, address SPS measures and other technical barriers to trade and encourage trading partners to use sound science and risk management principles in regulatory decision making. USDA leads Federal efforts to monitor adherence to the SPS Agreement of the WTO and helps lead enforcement of the agreement. USDA also works through international organizations to develop stronger science-based standards to facilitate trade. Additionally, USDA conducts regulatory capacity-building activities with selected trading partners. These activities protect the life and health of humans, animals and plants around the world. They also facilitate trade through efficient regulation.

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

While some of the issues are difficult to resolve, USDA can pursue long-term solutions. BSE is a good example. In FY 2007, USDA submitted documentation on BSE risk factors and BSE risk mitigation measures to the World Organization for Animal Health (OIE) and received a formal "Controlled Risk" categorization that will provide additional scientific rationale to our efforts to expand market access in key markets already open to U.S. beef exports (such Japan, Korea, Taiwan and Mexico) and to reopen those markets (such as China and Russia) that have been closed to U.S. beef since the initial case of BSE was detected in December 2003. The Department also strives to hold countries accountable for complying with their trade agreements. This will continue to be a top priority for USDA as it seeks to reopen markets for U.S. beef.

Selected Results in Research, Extension and Statistics

Food Safety Improvements Underway in China. With the expansion in food imports, there are growing concerns about food safety practices in countries that export to the U.S. For example, there is a gap between Chinese and international food safety standards. A November 2006 article in Amber Waves, a newsletter produced by the Economic Research Service, reviews the challenges for Chinese food safety and Government programs to improve standards. Only a small portion of Chinese production meets the new Government standards for safer food.

Challenges for the Future

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

USDA works closely with the USTR and other Government agencies to pursue and enforce trade agreements. These agreements include provisions to ensure that technical regulations and measures designed to enhance food safety and protect plant and animal health do not become barriers to trade. USDA staff in more than 90 countries helps open, retain and expand international markets for U.S. food and agricultural products. This staff includes veterinarians, economists, marketing experts, plant pathologists and others. While this group represents USDA overseas as its key supplier of market intelligence, it also helps solve minor trade threats before they become substantial disruptions. Staff members do this by being able to speak knowledgeably with foreign decision makers. They also help support U.S.-based technical experts who develop science-based protocols and health certification procedures for exporting food and agricultural products.

Analysis of Results

USDA met its performance goal of preserving $2.2 billion of trade in 2007 through USDA staff interventions leading to resolutions of issues created by SPS barriers or TBT measures. This was accomplished through monitoring and compliance enforcement, overseas advocacy and negotiations of technical protocols. The two most important successes were regaining commercially viable access to the Korea market for U.S. beef and lifting a detaining order Mexico placed on imports of U.S. rice not accompanied by a "GMO-free" certificate.

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

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

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

Exhibit 21: Increase U.S. Export Opportunities

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
1.3.1 Value of trade preserved annually through USDA staff interventions leading to resolutions of barriers created by SPS or TBT measures. ($ Bil)	$2.2	$2.457	Exceeded

Exhibit 22: Trends in Expanding and Retaining Market Access

Trends	Fiscal Year 2007[1]				
	2003	2004	2005	2006	2007
1.3.1 Value of trade preserved annually through USDA staff interventions leading to resolutions of barriers created by SPS or TBT measures. ($ Mil) Baseline: 1999 = $2,567	$2,713	$3,950	$2,000	$2,600	$2,457

[1] FYs 2003 - 2004 data is based on SPS and non-SPS related trade barriers. FY 2005, 2006 and 2007 data is based on SPS trade barriers.

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

Rural America is of critical importance to the Nation's prosperity and technological advancement. USDA enhances the competitiveness and sustainability of rural and farm economies by expanding domestic market opportunities, increasing the efficiency of domestic agricultural production and marketing systems and providing risk management and financial tools to farmers and ranchers.

Objective 2.1: Expand Domestic Market Opportunities

Overview

Biobased products are commercial or industrial products (other than food or feed) composed mainly of biological products such as renewable agricultural materials (plant, animal and marine materials) or forestry materials. Using biobased products lessens national dependence on foreign oil. It also promotes economic development by creating new jobs in rural communities and providing new markets for farm commodities. Section 9002 of the Farm Security and Rural Investment Act of 2002 (FSRIA) authorized the Federal Biobased Products Preferred Procurement Program (FB4P). FB4P authorizes the preferred procurement of biobased products that fall under items (generic groupings of products) designated by rulemaking.

Key Outcome

Increased use of biobased products throughout the agricultural sector

In October 2006, FB4P was renamed as "BioPreferred." The funding level for FY 2007 is $1 million in mandated Commodity Credit Corporation funds and $1.5 million in appropriated funding. The Office of Energy Policy and New Uses (OEPNU) implements it through successive rulemakings. Creating a demand for biobased products supports the farm and rural sectors by expanding and stabilizing the demand for agricultural commodities. To designate by rulemaking, USDA must provide information on the product's environmental and health effects, and life-cycle costs. The Department also can set a minimum biobased content for the item. USDA identifies products and manufacturers and must gain their voluntary support in providing test information on those products to enable designation. Also under BioPreferred, OEPNU expects to publish a proposed rule regarding a voluntary labeling program. Under the program, manufacturers of qualifying products will be

permitted to carry the USDA Certified Biobased Product label and logo.

Congress created BioPreferred to achieve the following objectives:

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

FSRIA calls for Federal agencies to purchase biobased products over their petroleum-based counterparts, as long as the biobased materials are reasonably available and priced, and comparable in performance. As the country's single largest consumer, purchasing roughly $400 billion annually in goods and service, the Federal Government's preferred use of biobased resources will help achieve the above stated objectives.

A series of rules to designate items for preferred procurement have been published. Manufacturers of products falling under those items have posted product and contact information on a BioPreferred electronic catalog for qualifying products under designated items.

The first final rule (round 1), was published on March 16, 2006. Three more proposed rules (rounds 2, 3 and 4) were subsequently published in the Federal Register. Once finalized these rules will add 30 designated items. The items by round include:

- **Round 1 —** mobile equipment hydraulic fluids, biobased roof coatings, water-tank coatings, diesel fuel additives, penetrating lubricants, bedding, bed linens and towels;
- **Round 2 —** Adhesive and mastic removers, plastic insulating foam for residential and commercial construction, hand cleaners and sanitizers, composite panels, fluid-filled transformers, disposable containers, fertilizers, soluble, semi-synthetic, and synthetic metalworking fluids, sorbents, and graffiti and grease removers;
- **Round 3 —** 2-Cycle engine oils, lip care products, nondurable films, stationary equipment hydraulic fluids, disposable cutlery, glass cleaners, food grade greases, multipurpose greases, rail track greases, truck greases, greases not classified elsewhere, dust suppressants, carpets, and carpet and upholstery cleaners; and
- **Round 4 —** Bathroom and spa cleaners, clothing products, concrete and asphalt release fluids, general purpose de-icers, durable films, general purpose firearm lubricants, cold weather firearm lubricants, floor strippers, pretreatment/spot removers, laundry products, metalworking fluids—straight oils, and wood and concrete sealers.

Technical information to support each proposed rule is available at the BioPreferred Web site at www.biobased.oce.usda.gov.

The proposed rules for rounds 2, 3, and 4 are part of a series of rules that will be issued designating biobased items. USDA has identified about 170 items for which it is collecting test data needed for the additional designations of items. These designations will extend preferred procurement status to include all qualifying biobased products.

Previously, USDA had developed a model procurement program of training and education to help Federal procurement officials and biobased product users identify and purchase the qualifying materials. Information on the guidelines and the model program are available at https://www.usda.gov/biobased.

The benefits of this BioPreferred are broad. Some accrue directly to the private sector through the program's operation. Others may accrue indirectly via the public sector.

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

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

Collectively, the benefits from BioPreferred create an information database that both the private and public sectors can use to evaluate designated items to make an informed purchasing/procurement decision. This information also helps reduce the dependence on petroleum-based products and reduce environmental impacts. BioPreferred increases the demand for processing facilities in rural areas. It also boosts the demand for biomass material from agricultural, marine and forest sources.

Challenges for the Future

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

- Informing rural America about the benefits of biodiesel fuel use and helping farmers transition to a new style of operating;
- Developing public policies supporting biobased products;
- The need for public education about the environmental, performance and energy-security benefits of using biobased products, and managing the carbon cycle more effectively;
- The development and evaluation of measures that identify and assess the benefits of the increased usage of biobased products, including benefits internal to the seller and user of the products, and external benefits that affect society and the environment;
- The willingness of manufacturers and vendors of biobased products, working with USDA, to provide the material and data necessary to test and evaluate the biobased content, environmental attributes and life-cycle costs required for the Department to designate generic groupings of products for preferred procurement within the program; and
- The willingness of manufacturers and vendors of biobased products designated by rulemaking for preferred procurement within the program to cooperate with USDA in publicizing their availability.

This can be done by vendors voluntarily posting product and contact information on the program Web site at www.biobased.oce.usda.gov. This will allow Federal agencies to find biobased products for procurement.

In response to these challenges, USDA is creating regulations and operating procedures for the Bioenergy Program and the BioPreferred program. The Department is continuing to shape a model procurement program for Federal agencies to help them meet their responsibilities within the program's parameters. This model will educate and train Federal agencies about procurement and how to use related informational resources. It will also allow manufacturers and vendors to identify and evaluate biobased products available in the marketplace for their use. This model procurement program will make an important contribution toward creating market-based opportunities to produce and consume increased amounts of biobased products.

Analysis of Results

Rules are being issued designating multiple biobased items that will receive a preference in Federal procurements; they were not published on schedule and the goal is unmet. The rulemaking process took longer than expected.

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

Exhibit 23: Increase the Use of Biobased Products

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
2.1.1 Increase the number of products designated under the BioPreferred Program	Publish 16 items in Final Rule	Published 6 items in Final Rule	Unmet

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

Objective 2.2: Increase the Efficiency of Domestic Agricultural Production and Marketing Systems

Overview

Key Outcome

Agricultural Producers Who Compete Effectively in the Economic Market

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

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

USDA worked closely with the rapidly expanding organic agriculture industry to refine the definitions and requirements for organic production and labeling. USDA's National Organic Program participated in an industry meeting to discuss the services available to U.S. farmers and agricultural processors. The Department plans to enhance and expand the use of production and handling standards for certified organic products.

The Organic Foods Production Act of 1990 created the National Organic Program. It is designed to establish national standards governing the marketing of agricultural products as organically produced. These standards assure consumers that organically produced products meet a consistent standard. They also facilitate commerce in fresh and processed food that is produced organically. Before the program's creation,

individual States established their own organic production and labeling requirements. The nationwide program provides a more efficient and competitive system for the marketing of organic agricultural products within the U.S. and for exports.

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

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

USDA also provided assistance, both directly to farmers and through local and State organizations, to help small farmers in marketing their products. Areas of support focused on training, the development of good agricultural practices, market research and crop diversification.

Selected Results in Research, Extension and Statistics

Increasing the Nutritional Value of Wheat. USDA-supported researchers cloned a gene, GPC-B1, from wild wheat. The gene increases the protein, zinc and iron content in the grain. This finding offers a potential solution to nutritional deficiencies affecting hundreds of millions of children around the world. The researchers found that all commercial pasta and bread wheat varieties analyzed so far have a nonfunctional copy of the GPC gene. This suggests that the gene was lost during wheat domestication. Reintroducing the functional gene into commercial wheat varieties could increase their nutritional value.

Protecting the Honeybee. A microarray, a device that can measure thousands of genes simultaneously, was developed and distributed by USDA-supported researchers. The device, among myriad other uses, will allow scientists to study honeybee genes. American Foul Brood (AFB), a disease caused by bacteria, attacks bee larvae and can kill entire honeybee colonies. The microarray lets researchers look at how AFB is affecting the bee, what genes are involved in the process and, more importantly, determine an appropriate immune response to promote honey bee health. The microarray is also a potentially powerful tool for research into the Collapsing Colony Disorder (CCD) of honeybees. CCD threatens pollination, honey production and the production of crops dependent on bees for pollination. Without pollination, most plant fruits will not develop.

Ethanol Co-Products Used for Livestock Feed. Important co-products result when corn is converted to ethanol. The co-products, also called distillers grains (DDG) or corn gluten feed, can be fed to livestock. USDA and the Nebraska Corn Development, Utilization and Marketing Board conducted a 12-State study to determine the extent to which co-products are used by livestock operations and to identify concerns and barriers which prevent operations from using co-products. The survey, the most extensive of its kind, should provide a good baseline for tracking ethanol co-product feeding trends in the future.

The First Decade of Genetically Engineered Crop in the United States. Ten years after the first generation of genetically engineered (GE) varieties became available commercially, their adoption by U.S. farmers is widespread. Despite the benefits to farmers, such as higher yields, time-management savings and lower pesticide costs, environmental and consumer concerns may have limited acceptance of GE crops, particularly in Europe. The USDA report, *The First Decade of Genetically Engineered Crop in the United States*, focuses on GE crops and their domestic adoption during the past decade. The report found that (1) the pace of research and development by producers of GE seed has been rapid, (2) farmers have adopted some GE varieties widely and rapidly, and benefited from such adoption, and (3) the level of consumer concerns about foods that contain GE ingredients varies by country, with European consumers being most concerned.

In addition, the Agricultural Statistics Board (ASB) prepares and issues official national and State forecasts and estimates relating to crop production, stocks of agricultural commodities, livestock products, dairy products, poultry products, agricultural prices, agricultural wage rates, chemical usage and other related subjects. The calendar lists release dates and specified times for USDA's national agricultural statistics reports. These reports cover more than 120 crops and 45 livestock items. All of the agricultural statistics reports scheduled by ASB were released on-time to achieve the 100 percent performance target in FY 2007.

Analysis of Results

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

Exhibit 24: Agricultural Statistics Reports Released On-Time

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

Exhibit 25: Trends in Agricultural Statistics Reports Released On-Time

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
2.2.1 Agricultural Statistics Board reports are released on time 100 percent of the time	100.0%	99.2%	99.8%	100.0%	100.0%

Exhibit 26: Percent of Market-Identified Quality Attributes for which USDA Has Provided Standardization

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
2.2.2 Percent of market-identified quality attributes for which USDA has provided standardization (percent)	97%	97%	Met

Exhibit 27: Trends in Market-Identified Quality Attributes for which AMS/GIPSA Has Provided Standardization

Trends		Fiscal Year 2007				
		2003	2004	2005	2006	2007
2.2.2	Percent of market-identified quality attributes for which USDA has provided standardization (percent)	96%	96%	96%	97%	97%

Overview

USDA facilitates the marketing of agricultural products in domestic and international markets, while ensuring fair trading practices and promoting a competitive and efficient marketplace, to the benefit of producers, traders, and consumers of U.S. food and fiber products. Programs promote a strategic marketing perspective that adapts product and marketing decisions to consumer demands, changing domestic and international marketing practices, and new technology.

Key Outcome

Economically Sound Agricultural Production Sector

A variety of programs enhance the marketing and distribution of agricultural products. Activities include the dissemination of market information; surveillance of egg handling operations; development of commodity grade standards; protection of producers from unfair marketing practices; statistical sampling of commodities for pesticide residues; development of organic standards; research and technical assistance aimed at improving efficiency of food marketing and distribution; and pesticide recordkeeping.

USDA also establishes the official U.S. standards for grain, conducts official weighing and grain inspection activities, and grades rice, dry beans and peas, processed grain products, and hops. USDA regulates and monitors the activities of dealers, market agencies, stockyard owners, live poultry dealers, packer buyers, packers, and swine contractors in order to detect prohibited unfair, unjust discriminatory or deceptive, and anti-competitive practices in the livestock, meat and poultry industries. USDA also reviews the financial records of these entities to promote the financial integrity of the livestock, meat, and poultry industries.

Analysis of Results

USDA accomplished its goal for FY 2007 partly by developing two additional quality attribute standards. These standards were grades of peppers (other than sweet peppers) and a revised standard for turkey meat.

At a meeting of the Fruit and Vegetable Industry Advisory Committee, USDA was asked to identify fresh fruit and vegetables that may be better served if grade standards were developed. USDA identified pepper varieties that could not be certified to a U.S. grade as possibly in need of official grade standards, because they were not included in the current United States Standards for Grades of Sweet Peppers. Such standards are used by the fresh produce industry to describe the product they are trading, thus facilitating the marketing of the product.

Prior to undertaking research and other work associated to develop the standards, USDA published a notice in the Federal Register soliciting comments on the possible development of United States Standards for Grades of Peppers (Other Than Sweet Peppers). In response to the request for comments, USDA received two comments; one comment was from an industry group, and another one was from a pepper shipper. Both comments were in support of developing the standards.

The adoption of the U.S. grade standards will provide the pepper (other than sweet peppers) industry with U.S. grade standards similar to those extensively in use by the fresh produce industry to assist in the orderly marketing of other commodities. Accordingly, USDA adopted the United States Standards for Grades of Peppers (Other Than Sweet Peppers). The effective date of the standard was March 7, 2007.

In April 2007, the United Nations Economic Commission for Europe (UNECE) adopted the revised standard for turkey meat developed by USDA's poultry programs. For the past several years, a USDA official has chaired the Specialized Section in the process of revising the poultry standards of the UNECE. From 2004 through 2007, USDA led the standard through the process of gaining consensus from UNECE delegates to adoption by the Working Party on Agricultural Quality Standards, the official standards body of UNECE.

The purpose of the turkey meat standard is to facilitate global trade by providing an international language for use between buyers and sellers. The language describes turkey meat items commonly traded in international commerce, and it defines a coding system for each item that supports electronic commerce and communications. In addition to the language, the standard provides photos that correspond with the text descriptions of each item.

Those who benefit from the development and use of this standard include U.S. producers, processors and marketers of turkey and turkey products. This segment of U.S. agriculture can use the standard to expand markets and increase global trading of turkey and turkey products.

USDA also amended the U.S. Standards for Soybeans and offered a rapid, field-based test for Ochratoxin, a mycotoxin which can occur in corn and wheat. USDA amended the soybean standard and established a new milling yield standard for Medium Grain Rice produced in the western United States. Efforts to offer a rapid field-based test for Ochratoxin were delayed due to substandard commercial test kit performance.

Objective 2.3: Provide Risk Management and Financial Tools to Farmers and Ranchers

USDA is committed to enhancing the competitiveness of the American agricultural economy. Farmers and ranchers must have timely and accurate information to stay ahead in an increasingly global market and reduce the risks inherent in agriculture. USDA provides the risk-management and financial tools needed to minimize losses and maximize the efficiencies of agricultural operations. Vital to the economic well-being of farmers and ranchers is their ability to increase production, maintain their farms and equipment and lessen risks in the production process.

Agricultural producers often face economic losses due to causes beyond their control, such as low prices and reduced yields due to drought, excessive moisture, insects and other natural disasters. Production agriculture is characterized by small profit margins and ever-changing cycles of good and bad yields. USDA provides and supports cost-effective risk management for farmers. This assistance is designed to improve the economic stability of agriculture by developing risk management tools. Tools range from yield-based insurance products that protect individual crops against loss of yield to products that protect an entire operation against loss. Providing risk management tools to farmers and ranchers helps them protect their livelihood in times of disasters. USDA uses the value of risk protection to measure the effectiveness of risk management. The value of risk protection denotes the amount of insurance in force protecting and stabilizing the agricultural economy. It also illustrates the acceptance of these products by producers and indicates a broadening of economic stability across the agricultural spectrum.

Overview

Key Outcome

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

The USDA Federal crop insurance program provides an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters. Recently, USDA has seen dramatic growth in this program. In 1998, the program insured 181.8 million acres. Insured acreage has since grown steadily, reaching 206.4 million acres by 2000, 217.4 million acres by 2003, and 261.7 million acres by 2007. Since 2000, insured acreage in the program has increased by 55.3 million acres, for an overall increase of 27.0 percent. Federal crop insurance is available to producers solely through private insurance companies that market and provide full service on policies upon which they share the risk with USDA. Principally, the Standard Reinsurance Agreement (SRA) defines the amount of risk they share. The SRA calls for insurance providers to deliver risk-management insurance products to eligible entities under certain terms and conditions. Providers are responsible for all aspects of customer service and guarantee payment of producer premiums to the Federal Crop Insurance Corporation (FCIC). In return, FCIC reinsures the policies and provides premium subsidy to producers and reimbursement for private insurance companies' administrative and operating expenses. FCIC is a wholly-owned Government corporation created in 1936 to provide a comprehensive Nationwide crop insurance program.

In 2005, FCIC renegotiated the SRA. The changes promote policy sales in less profitable areas and reduce program fraud, waste and abuse. During 2007, 16 companies participated. Most of these companies have requested authorization to increase the amount of premium they underwrite and the number of States they intend to serve. USDA continues to receive inquiries from additional insurance companies interested in joining the program. The value of risk protection provided to agricultural producers through FCIC-sponsored insurance exceeded $50 billion in 2007. As recently as 1998, the value of this risk protection was less than $28 billion.

Selected Results in Research, Extension and Statistics

Plant Disease Early-Warning Systems. The most valuable early-warning systems provide timely forecasts that farmers can use to make informed pest management decisions. To evaluate the value of early-warning systems, USDA examined its coordinated system for soybean rust surveillance, reporting, prediction and management. The Department estimated that the information provided by the framework increased U.S. soybean producers' profits by as much as $299 million in 2005 ($4.12 per acre), the year in which it was developed.

Valuing Counter-Cyclical Payments: Implications for Producer Risk Management and Program Administration. A new model improved USDA's original method of estimating counter-cyclical payment rates. The model accounted for the variability in market price forecast errors. This enhanced method produced more accurate estimates. Forecasters and producers can use the model to calculate the probabilities of repayment. Producers can reduce the probability of repayment by using commodity futures contracts to hedge against losses in expected counter-cyclical payments.

Challenges for the Future

USDA's challenge is to continue expanding and improving coverage, particularly for underserved States, areas, communities and commodities. To do this, the Department needs to address the information technology cost increase associated with maintaining and upgrading data needs.

USDA is researching how to deliver more products to cover specialty crops with unique agronomic and economic characteristics, including reviewing and approving private-sector insurance products reinsured by FCIC that are targeted to the unique needs of underserved areas and various specialty crops. The Department also continues to evaluate the delivery of other risk management products to agricultural producers as well as to provide education, outreach and

non-insurance risk management assistance initiatives and tools through partnerships. Today, approximately 79 percent of the acreage planted in major crops is covered by Federal crop insurance. Coverage is routinely expanded by providing existing crop insurance programs in new counties and States. It also occurs through the development of new types of coverage, such as the market-based coverage for livestock, pasture, rangeland, and forage (PRF) and revenue protection. These programs, along with diversified production, marketing, and the use of futures and options, allow each producer to customize his or her risk management strategy. These products help producers protect themselves from yield or market risks.

To meet producer needs, USDA continues to seek out actuarially sound and innovative risk management solutions for providing coverage suited for a diverse agriculture. For example, a new plan of insurance for PRF uses an index consisting of a satellite-based vegetative index and a proxy crop, paired with a Temperature Constrained Normalized Difference Vegetation Index (NDVI). Another PRF solution uses a Rainfall Index, which uses a weighted warm season/cool season indexing period and the National Oceanic and Atmospheric Administration rainfall data system.

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

USDA continued to strengthen its procedures for the evaluation of the plans of operation that are submitted by insurance companies to be eligible for an SRA with FCIC. The evaluation includes analysis of financial solvency and operational capacity to ensure that the insurance companies are able to adequately sell and service Federal crop insurance. USDA continues to conduct in-depth review and analysis of all reinsurance arrangements, plans of operations and support contracts such as data processing agreements.

USDA expanded its strategic data acquisition and analysis efforts by adding remote sensing and geospatial analyses to its data warehousing and data mining initiative. The data warehouse was extended to include the compilation of detailed geospatial NEXRAD radar data. The application of these data and analysis tools were then increased to include underwriting and program integrity issues throughout the program. Data mining activities continue to save money by preventing cases of fraud, waste and abuse. USDA's Risk Management Agency (RMA) and USDA's Farm Service Agency (FSA) continue to work on the Comprehensive Information Management System (CIMS). This project is designed to identify common and unique producer and crop information reported to both agencies; develop services to access the information; and reduce the reporting burdens of farmers, ranchers, producers, RMA, FSA, and crop insurance providers.

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

Analysis of Results

USDA exceeded its target by $9.9 billion in FY06, and is on target in FY07. During the 2006 crop year, the economic risk of American agricultural producers was reduced by approximately $49.9 billion through Federal crop insurance coverage. The performance measure illustrates the dollar value of FCIC insurance in force within the agricultural economy. It also shows the amount of potential collateral provided to qualify for commercial loans. Since the 1999 crop year, the value has increased by approximately $19 billion. While there are a number of factors that influence these figures, including market-price increases and inflation, they still represent a major growth in the amount of the agricultural economy insured via the FCIC-sponsored insurance.

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

The Non-insured Crop Disaster Assistance Program (NAP) provides financial assistance to producers of crops for which there is no available crop insurance when low yields, loss of inventory, or prevented planting occur because of a natural disaster. FSA/CCC has met its FY 2007 target for increasing the percentage of eligible crops with NAP coverage to 11.76%. The NAP program set a performance threshold to meet its annual goal of a range from 11.5% to 14.5%. The target and threshold represents the value of crops participating in the program compared to the universe of the value of crops eligible to participate in the NAP program. While the participation rate may fluctuate from year to year, the program remains on track towards meeting its long term target of 13.9% in FY 2010.

USDA provides direct and guaranteed farm operating and ownership loans to farmers and ranchers temporarily unable to obtain credit from a commercial lender, Farm Credit System institution or other lender at reasonable rates and terms. The Farm Credit Program is designed to maintain and improve the quality of life in rural America and on the farm through constant commitment to competitive lending, expert financial services and advice. USDA assistance is particularly important to minorities, women and beginning farmers who typically have limited financial assets or limited farming experience.

Barriers to entering production agriculture include such factors as the initial capital investment, high land values and increasing input costs. Beginning farmers, racial and ethnic minority farmers and women are especially susceptible to these barriers because of their limited resources. Access to loan funds can be an important tool in overcoming the barriers and allowing these groups to begin or maintain a farming operation.

USDA accomplished its goal of providing increased assistance to minorities, women and beginning farmers in FY 2007. These results continue the trend of increased lending to the targeted groups.

Because of the volatile nature of the market and the unpredictability of natural disasters, USDA regularly reviews its NAP and other farm support programs. These reviews help provide effective, customer-focused programs. Additionally, information technology and infrastructure modernization represent an ongoing challenge to the Department. Significant costs are associated with providing adequate technical assistance to support USDA programs and management.

The structure of U.S. agriculture continues to change. Most farms have grown larger and increasingly dependent on technology. These changes resulted in increased capital needed to gain entry into farming. The costs of operating a farm also continue to increase because of higher input costs. These issues create major challenges for the Department. To keep pace, USDA will continue efforts to modernize the program delivery system and refine and adjust program requirements to maximize opportunities for minority, women and beginning farmers.

Exhibit 28: Providing Tools to Help Farmers and Ranchers Stay Economically Viable

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
2.3.1	Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance ($ Bil)	$50.7	$48.9†	Met†
2.3.2	Percentage of eligible crops with Non Insured Crop Disaster Assistance Payments (NAP) coverage	13.00%	11.76%	Met*
2.3.3	Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by FSA	16.00%	15.9 %*	Met

†Value meets the performance threshold for "met."
*Values in the range 11.5-14.5% meet the performance threshold for "met."

Exhibit 29: Trends in Providing Tools To Keep Farmers and Ranchers Economically Viable

Trends		Fiscal Year 2007				
		2003	2004	2005	2006	2007
2.3.1	Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance ($ Bil) Baseline: 1999 = $30.9	$40.7	$41.5	$44.7	$48.1	$50.7
2.3.2	Percentage of eligible crops with Non Insured Crop Disaster Assistance Payments (NAP) coverage	6.66%	11.12%	12.82%	12.70%	11.76%
2.3.3	Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by FSA	14.20%	14.50%	15.00%	15.50%	16.00%

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

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

Overview

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

One of USDA's core missions is to ensure that rural residents enjoy the same economic opportunities as that of other Americans. Credit limitations and other market imperfections can hurt rural economies. Job growth is limited and incomes are insufficient for rural families to thrive and rural youth to stay in local communities. USDA programs, therefore, serve as capital enhancement tools for rural America. They provide affordable access to capital for investment in businesses and economic infrastructure. Long-standing Department programs and the more recently implemented energy-related and value-added programs greatly facilitate the expansion of economic opportunities in rural areas.

Key Outcome

Enhanced Capital Formation for Rural Communities

The Internet-based economy provides unique opportunities for rural America. A rural broadband infrastructure can help overcome many limitations on rural business development caused by geographic distance and a small local customer base. Thus, USDA is providing capital to finance access to broadband service for rural communities. Internet access is critical

to enabling rural businesses to participate in the developing global economy.

USDA's Business and Industry (B&I) Guaranteed Loan Program provides up to a 90 percent guarantee to commercial lenders. In California, for example, an $8.5 million B&I loan financed a new, state-of-the-art rice processing facility in a rural county with an unemployment rate almost double the State average (9.3 percent versus 5 percent). USDA financially supported a locally owned, family-run business employing 90 people.

In Louisiana, a $2.5 million B&I loan was used to restructure existing debt, purchase equipment and provide working capital for a food products company. B&I guaranteed loan funds helped create 42 jobs and save 75 others. They also expanded this business' market nationally for such Cajun food products as sausage links, dressing mix, roux and other Cajun culture products.

In Ohio, $3.6 million in B&I loans to a hardwood floor manufacturer helped finance construction of drying kilns for green lumber and processing equipment for flooring products. Funds were also used to refinance debt. The USDA loans helped increase the number of jobs from 44 to 82.

In Arizona, a $3.1 million B&I loan to a Native American housing authority financed the construction of a 30,000-square-foot block plant. The plant now produces aerated concrete products including various size blocks and roof and floor flat panels through a product known as "FlexCrete." Experts say that, while FlexCrete possesses concrete-like qualities, it is lightweight with a high insulation value.

A Michigan specialty-paper manufacturer used a $2.5 million B&I loan to purchase and install 21 energy stations. The manufacturer used the stations to operate a heat-recovery system designed to supplement the paper mill's energy sources. Monthly energy savings is projected to be near $180,000. The company employs 198 people.

USDA also uses revolving loan programs to make small grants and loans to local, not-for-profit organizations for re-lending to other rural businesses. Typically, these businesses are small or beginning operations that are sole proprietorships or family partnerships. Recipients may have insufficient credit histories to qualify for commercial loans or may need loan terms not offered on a traditional commercial basis. Intermediary organizations participating in these programs can provide business-education consulting services and marketing support along with loans. Typically, these are working capital loans to entrepreneurs trying to provide new services or goods. For instance, in a 9-county area of southern Kentucky, start-up funds were used to purchase medical equipment for an outpatient home infusion therapy center employing 24 people.

The USDA Value Added Producer Grant Program has allowed many rural producers to enhance their share of revenues received for their processed products. For example, 27 producers in Monticello, Kentucky invested in a regional soybean mill. A value-added grant coupled with a loan from the State's agricultural development fund allowed the group to purchase a local feed facility to install soybean extrusion equipment. Today, the mill produces a high-quality product and continues to improve production and marketing capacity. Extruded soybean meal is a high-energy natural product sold as animal feed for chickens, hogs and cattle. Soybean oil is food-grade unrefined oil that can be made into bio-diesel fuel and cattle feed or used for cooking products. Soy hulls are sold as ingredients for cattle feed. The owners now have production control and can capture revenues that would have gone to others most likely outside the region.

In Connecticut, a group of nine dairy producers formed a limited-liability company to develop and market a value-added, producer-owned brand of milk and milk products exclusively from local dairy farms. Initially, the group received a value-added planning grant. It, then, was awarded a working-capital grant to

help launch operations. The group's high-quality products can now be found in many large New England supermarkets. Cooperative ownership assures profits are returned to those in the rural community.

These programs also improve employment opportunities in rural areas. Whether a $20,000 grant is used to improve small town lighting or provide targeted training to attract a prospective business operator, all rural residents benefit from these investments. A USDA loan or grant to a rural business for expansion, modernization or start-up, enhances the local job market mix and improves the local tax base. The overall local rural economy is stimulated, jobs are created and the quality life improves for most citizens.

Challenges for the Future

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

- Historical dependence on local natural resources and farm commodities that are subject to cyclical trends and changing regulatory standards and oversight;
- Low profit margins on local commodity sales yet strong competition from foreign commodities;
- Large-scale changes in technology without corresponding skills in rural areas; and
- Inaccessibility and low-density populations resulting in limited foot traffic for retail establishments and smaller discretionary budgets for business improvements, upgrades and modernization.

Additionally, rural areas typically have underdeveloped public services that make it difficult to attract or retain businesses. The lack of public funding for amenities typically offered in urban areas, such as dedicated business parks or expanded transportation links, represents additional challenges. Education, health care and entertainment typically are perceived to be marginally acceptable in rural areas. However, recent proposals provide funding for Rural Critical Access facilities. These proposals, coupled with existing community facilities programs for rural healthcare will improve rural healthcare quality. In reality, every rural area has unique issues.

USDA State and area staff work with regional and State entities to make the best use of Department dollars and other public and private funds. While some areas need more jobs, others are being defined by new industries or commodities. USDA tries to be sensitive to these varying needs.

The Department's grant programs provide funds to under-resourced rural communities to improve their local infrastructure or expertise to be more attractive to new businesses and maintain appeal to local residents. For example, while city improvements are usually funded by special local business tax assessments, they may not be affordable in a marginally viable rural area. Frequently, companies looking for a new location need special skill sets. USDA grants can fund small, targeted job-training programs. In Oklahoma, for example, a grant provided to a local university funded the development of a center for the arts. This grant allowed students to participate in a hospitality-training program. The center also serves as the anchor for a downtown revitalization strategy. The strategy targeted local artisans and attracted both tourists and local buyers. The grant will result in job training, business enhancement and market creation.

All rural residents benefit when the local economy prospers. More and better jobs, and more services, such as health care facilities, shopping, cultural activities, and recreational amenities, and the availability of electronic communications improve the quality of life and encourage young people to settle and stay. Additionally, even small economic gains can increase the tax base to improve public infrastructure.

Renewable energy projects funded by USDA loans and grants improve the local economy through new jobs at the energy plants, enhanced tax base and local profits. Recent funds allowed many small business owners to decrease their energy consumption; thus, their profit margins increase.

Selected Results in Research, Extension and Statistics

USDA studies rural economic development by collecting statistics, conducting research and providing technical assistance to the Nation's 2,500 agricultural cooperatives. The Department uses the data to analyze cooperative operating statistics. The statistics are then used to help rural businesses refine their operating models to remain financially sound employers. With more than 175,000 employees nationwide generating $120 billion in sales, rural cooperatives often are the largest employers in local rural communities and vital to a region's economy.

USDA distributes more than 6,500 cooperative related publications annually and provides internet access to more than 200 publications through its Web site at https://www.rurdev.usda.gov/rbs/pub/NEWPUB.htm. Cooperative business publications address issues ranging from start-up to addressing economic imperfections in the marketplace. Rural Cooperatives Magazine examines current hot topics related to the recent rural renaissance, such as the role of information technology in the ethanol industry.

The Department's programs help improve rural communities by providing technical assistance to limited resource farmers. For example, the Bogue Sound Watermelon Growers Association is a new farming cooperative in North Carolina. It began with 20 farmers in a rural, 3-county region of southeastern North Carolina. In their first season, the farmers marketed 19 truckloads of watermelons. They wanted to add to that success and improve economic returns. The farmers looked to establish their watermelons as a premium-quality item both locally and nationally. USDA conducted a feasibility study on the potential for expanding watermelon sales. Staff examined such factors as production practices, marketing, management and projected financial performance. Recent operations have been very successful. Robust sales have brought prices two-to-three cents per pound higher than market price and volume has increased fourfold.

USDA Increases Access to Historic Census of Agriculture Data. The Department is working to digitize and provide access to the entire Censuses of Agriculture. Historical information has been made available for many censuses, including the first ever agricultural census, conducted in 1840. These historic data can be accessed at https://www.agcensus.usda.gov/Publications/Historical_Publications/index.asp. Additional census results will be posted to this site as they are converted to electronic files.

Analysis of Results

The number of jobs created or saved is linked directly to the amount of total available USDA business program funding, amounts obligated and disbursed to awardees and local economic conditions. Annual job targets are based on historical program operations, subsidy rates and annual appropriations. The target job numbers assume a level funding horizon and timely allocations of funds without regard to the potential impact of major natural disasters. Annual budget authorities' subsidy rates and program levels vary annually. Recently, they resulted in general decline in annual job numbers. Although FY 2007 targets and results decreased, they met expectations given the level of budget authority, subsidy rate, timing and availability of program funds. Remaining program funds will carry over into FY 2008 and continue to provide benefits to rural communities in the next fiscal year.

USDA business loan and grant programs go hand-in-hand with the expansion of economic opportunity as measured by jobs created and saved. Despite this relationship, USDA funds have long-lasting, intangible direct and indirect economic impacts. Thus, the Department looks to estimate the overall economic impact of scarce budget funds on rural areas.

USDA has developed the Socio-Economic Benefit Assessment System (SEBAS) to enhance the ability to estimate net program–investment effectiveness. SEBAS uses detailed information about Department loan or grant funds in conjunction with other available Federal data resources. This process enables estimates of the direct and indirect impacts of program assistance on local and regional economic performance. It also affects the quality of life in rural areas. SEBAS is being tested with various USDA programs. It will allow the Department to analyze data internally to measure program effectiveness. USDA will also be able to use the findings to help develop strategies to enhance program efficiency and performance. Future results will measure program effectiveness in many ways. They will also serve as management tools to help improve program efficiency and performance with limited resources.

Exhibit 30: Strengthen Rural Businesses

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
3.1.1 Jobs Created or Saved	65,100	66,000	Met

Exhibit 31: Trends in Creating or Saving Jobs

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
3.1.1 Jobs Created or Saved	87,619	81,030	73,617	73,072	66,000

Objective 3.2: Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities

Overview

USDA successfully improved the quality of life in rural America during FY 2007. The Department financed:

- Quality homes for 33,264 guaranteed loan and 10,700 direct loan home buyers;
- New/improved water and waste disposal facilities for 1,457,000 subscribers;
- New or upgraded electric service for 1.6 million consumers;
- Broadband telecommunications in 749 counties for 1,205,212 subscribers; and
- Improved community facilities for 15.5 million rural residents.

Key Outcome

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

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

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

Providing reliable, affordable electricity is essential to the economic well-being and quality of life for all of

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

In FY 2007, USDA provided funds to construct, renovate or improve 1,200 essential community facilities. Rural Americans had new or improved services available from 95 health care facilities, 393 public safety facilities, 65 educational/cultural facilities, 5 energy-related facilities, 175 public buildings and improvements and a number of other essential community facilities. In this period, more than 15.5 million rural residents had new or improved services available to them through these facilities.

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

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

USDA leveraged $525,865,257 from other sources with $1.45 billion of Department funds. Investments in water and sewer facilities are critical in encouraging economic growth. The following examples of projects demonstrate the potential economic impacts on project beneficiaries:

- Holly Ridge, North Carolina, a coastal community, faced a crisis with its sewer system. The town operated under a special order of consent from the State Department of Environment and Natural Resources. The order barred it from adding any new sewer users. Additionally, the discharge into the rivers from the existing sewer system did not meet the permit's requirements. USDA provided a $1,350,000 loan and a $2,183,000 grant to upgrade the existing plant, expand and improve the collection system and add a land application spraying field to eliminate the discharge of treated effluent into rivers and streams.

  The upgraded sewer system created several immediate benefits. Eliminating the river discharge improved the environment. Approximately 150 residents, many with failing septic tanks, were added to the system after project completion. A major Holly Ridge company expanded and continued operations, saving 75 jobs. An additional 250 residential customers have been added to the sewer system. Today, the town has 25 commercial customers. The Holly Ridge community continues to grow naturally and more consistently with environmental concerns.

- The Northeast Arkansas Public Water Authority was created to develop a regional water treatment plant to serve the cities of Hoxie, Walnut Ridge and Alicia and the Lawrence County Regional Water District. These communities serve around 3,800 residential and business customers in the Delta Region of Arkansas, the total population of which exceeds 8,200. USDA has assisted the water authority in obtaining leveraged funds from the Arkansas Natural Resource Commission and the Delta Regional Authority for capital improvements. In addition to the water treatment plant, there will also be a major water transmission line to deliver the water to the cities. The total funding package is $11,500,000.

  Besides area residents, the plant will also serve several small businesses and major manufacturers. In the county seat of Lawrence County, Walnut Ridge, a small hospital, nursing homes, a public school, a small four-year college and an old airport with some manufacturing facilities will all benefit. The plant will be designed so that it expands easily. This project will provide a safe, dependable supply of surface water to a large area of Northeast Arkansas. It is expected that the plant will be in full production in the summer of 2009.

- In April 2007, USDA electric programs approved a loan to Earth Resources, Inc., of Carnesville, Georgia. The loan funds were used to finance a 20-megawatt generating facility fueled by 80 percent wood waste and biomass and 20 percent chicken litter. This plant is the first in the State to use a gasification system to convert poultry litter into a useful product—electricity. This facility will generate enough energy annually to meet the needs of more than 15,000 homes. The plant's use of wood waste, biomass and chicken litter provides an attractive solution to the problem of disposing of these items. Gasification technology also produces lower emissions and less reliance on fossil fuels.

USDA broadband access loans fund the deployment of high-speed Internet services in rural America. The following two examples are representative of recent successful projects.

- Before USDA's loan, Greenville, Alabama, a small city in Butler County with a population around 7,100, relied on slow dial-up Internet service—even for city services. A rural broadband access loan to Camellia Communications now funds service to Greenville and other rural communities. It also funds high-speed broadband service to Greenville's local Government and police, fire and public works department. The city clerk reports broadband Internet service has been a huge advantage helping improve productivity and efficiency. The emergency operation center now is able to monitor the weather regularly for up-to-date information and disaster preparedness purposes.
- In Kansas, the Phillipsburg County economic development director noted that the broadband loan to Nex-Tech has helped create a predominant change in the business atmosphere in the county and surrounding area. The new technology helps promote business growth and expansion. It also helps local employers entice, hire and train more work force from within and around the area. The area population is increasing as evidenced by new home construction and a growing demand for rental properties. Community development activity within Phillips County has risen sharply, with town leaders looking at community beautification, infrastructure improvements and new housing projects. Although these benefits may not all be due to Nex-Tech's fiber broadband deployment, the essence of having a strong business base to draw a work force (i.e., residents) into an area starts with the premise of a viable infrastructure for business growth.

Challenges for the Future

Challenges continue to be rising building costs, which results in fewer homes, community facilities and water and waste systems. Also, droughts, limited water resources, extreme temperatures and other environmental factors present unique problems in developing utility systems. Solutions are expensive, resulting in the need for additional grant funds to develop projects.

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

USDA housing program assistance provides direct and guaranteed loans to help rural households achieve homeownership. More than 22,000 low-income rural Americans achieved the dream of homeownership through these programs in FY 2007. These programs specifically attempt to increase the number of minority homeowners. To stretch resources, the programs' loans and loan guarantees are supplemented with resources from private-sector banks, not-for-profit agencies and State housing finance agencies.

The capital made available through electric programs ensures that low-cost, reliable electric power is available to rural consumers, businesses, schools, health facilities and other consumers. The consumer

density in rural areas is a fraction of that in urban areas. This difference necessitates access to lower cost capital to provide a comparable level of service. The electric program finances the construction of electric generation, transmission and distribution facilities serving 39 million rural residents in 2,480 of the country's 3,100 counties. While rural electric cooperatives deliver about 10 percent of the total kilowatt hours sold in the country, they serve 75 percent of the landmass. Cooperatives service 7 consumers per mile of distribution line compared to 35 for investor-owned utilities and 47 for municipal-owned systems. Cooperatives also generate revenue per mile of line of only $8,558, compared to $58,981 for investor-owned utilities and $72,146 for municipal-owned utilities.

USDA is committed to bringing affordable broadband to all rural Americans. Broadband is a transformative technology. It allows rural communities to enhance the quality of health care and education dramatically. Broadband offers every rural business access to regional national and international markets. It reduces barriers of time and distance, levels the playing field and makes rural communities better places to live, work and raise a family. Demand for the broadband loan program continues to be strong. USDA has provided financing for broadband deployment in excess of $2.1 billion under the Rural Broadband Access Loan and Loan Guarantee Program. The program provides loans, loan guarantees and grants for the construction, improvement and acquisition of facilities and equipment for broadband service in eligible rural communities. Additionally, all telecommunications facilities financed through the traditional telecommunications loan program must be broadband capable. Supplementing these two programs, the Distance Learning and Telemedicine Loan and Grant Program provides financing for advanced telecommunications services for health and education applications to hospitals, clinics, schools, universities and not-for-profit organizations across rural America.

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

In FY 2007, the programs invested more than $1.46 billion in direct and guaranteed loans and grants to help rural communities develop 1,275 water and waste disposal facilities. These facilities provided new or improved water and waste disposal services to 1,457,000 subscribers.

Selected Results in Research, Extension and Statistics

Extension Instrumental in the Recovery Effort from Hurricane Katrina. Since Hurricanes Katrina and Rita, USDA's Children, Youth, and Families at Risk Program (CYFAR) has been helping recovery efforts in Louisiana. Through CYFAR, the Department allocates funding to land-grant university extension services for community-based programs for at-risk children and their families. Focusing on helping families, the CYFAR team responded by adapting existing resources from CYFARnet and other extension services. Recovery fact sheets were developed and made available to field agents to distribute at shelters, businesses, schools, churches and disaster recovery centers. Hurricane recovery resource kits were developed for agents to reproduce as needed in their local parishes. Specially developed Storm Recovery Guides for homeowners and renters were distributed to families in need. Teachers across Louisiana were provided 15,000 "After the Storm" booklets and 10,000 "How Am I?" booklets for children impacted by the hurricanes. Hundreds of teachers were also provided additional "Hurricane Recovery Educator Resource Kits" to use with elementary school-aged children.

Analysis of Results

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

While the Section 502 Guaranteed Loan Program obligated more funding than last year, the actual number of new homeowners is less than anticipated. The lower number is attributed to escalating home prices and rising interest rates making housing less affordable for low- and moderate-income borrowers, who also have trouble qualifying for loans. Those who do qualify need larger loans to purchase their homes; thus, more funding was obligated than last year despite a lower number of new homeowners.

The President's 2008 Budget proposes the reallocation of resources from direct lending to guaranteed lending. The 502 guaranteed loan program will experience an increase in resource while direct lending will be eliminated. Rural Development is working to develop a subsidized 502

guaranteed program to benefit the very low income rural residents who traditionally look to USDA direct funding for assistance.

The water program far exceeded this year's goal because of various factors both internal and external to the agency. Demand was much stronger than expected. The loan-to-grant ratio also increased over last year. This increase allowed more loans to be made. Another reason the goal was exceeded was because USDA State offices funded more projects.

The community facilities program exceeded its goal to provide needed community facilities to rural Americans because of the division's emphasis on public safety and health care facilities. USDA staff has provided outreach at national, State and regional conferences, emphasizing its ability to provide facilities at reasonable rates and terms for rural Americans. The electric programs fully utilized its loan lending authority for FY 2007. Target performance measures were met or exceeded. The telecommunications program also exceeded its target for borrowers' subscribers receiving new or improved service. The telecommunications loan lending authority was utilized fully.

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

Exhibit 32: Improving Rural Quality of Life Through Homeownership Opportunities

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
3.2.1 Homeownership opportunities provided	37,578	43,900	Met

Exhibit 33: Trends in Rural Home Ownership

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
3.2.1 Homeownership opportunities provided	44,130	48,894	43,224	40,517	43,900

Exhibit 34: Improving Rural Quality of Life Through Water and Waste Disposal Facilities

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
3.2.2 Number of program borrowers/subscribers receiving new or improved service from Agency funded water facility	557,000	1,457,000	Exceeded

Exhibit 35: Trends in Water and Waste Disposal Service

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
3.2.2 Number of program borrowers/subscribers receiving new or improved service from Agency funded water facility	593,582	965,780	1,325,000	1,637,554	1,457,000

Exhibit 36: Improving Rural Quality of Life Through Community Facilities

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
3.2.3 Percentage of customers who are provided access to new and/or improved essential community health facilities	1.0%	4.25%	Exceeded
3.2.4 Percentage of customers who are provided access to new and/or improved essential community public safety services	1.3%	2.87%	Exceeded

Exhibit 37: Trends in Community Facilities

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
3.2.3 Percentage of customers who are provided access to new and/or improved essential community health facilities	NA	NA	3.5%	3.8%	4.25%
3.2.4 Percentage of customers who are provided access to new and/or improved essential community public safety services	NA	NA	4.1%	3.8%	2.87%

Exhibit 38: Improving Rural Quality of Life Through Electric Facilities

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
3.2.5	Number of program borrowers/subscribers receiving new or improved electric service	8,000,000	8,000,000	Met

Exhibit 39: Trends in Electric Facilities

Trends		Fiscal Year 2007				
		2003	2004	2005	2006	2007
3.2.5	Number of program borrowers/subscribers receiving new or improved electric service	3,745,559	4,325,559	2,360,477	8,183,649	8,000,000

Exhibit 40: Improving Rural Quality of Life Through Telecommunications Facilities

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
3.2.6	Number of program borrowers/subscribers receiving new or improved telecommunications service	250,000	1,205,000	Exceeded

Exhibit 41: Trends in Telecommunications Facilities

Trends		Fiscal Year 2007				
		2003	2004	2005	2006	2007
3.2.6	Number of program borrowers/subscribers receiving new or improved telecommunications service	382,229	373,813	240,000	297,027	1,205,000

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

USDA ensures a secure agricultural production system and healthy food supply to consumers. The Department accomplishes this task by protecting the food supply against pests and diseases, minimizing production losses, maintaining market viability and containing environmental damage. USDA also ensures that the commercial supply of meat, poultry and egg products moving in interstate commerce or exported to other countries is safe, wholesome and labeled and packaged correctly. Additionally, the Department ensures that meat, poultry and egg products imported from other countries are produced by a system equivalent to its own.

Ensuring the safety of America's meat, poultry and egg products requires a strong infrastructure. Thus, USDA has stationed public-health servants throughout the country and in laboratories, plants and import houses. The Department continues an enhanced, risk-based approach to inspection. Through these efforts, the Department reallocates its resources to focus more closely on food-safety systems and preventing public health problems before they occur. This initiative advances a coordinated national and international food safety, risk management system from farm to table. A significant contribution to the risk-based approach to

inspection is the development of a public health infrastructure. This infrastructure includes:

- Improvements to public health data analysis and information exchange;
- Advanced surveillance and detection systems;
- A well-trained workforce;
- Swift, secure and multi-directional communications; and
- Disaster preparedness and response capability.

Objective 4.1: Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.

Overview

Protecting the Nation's food supply is a formidable task and requires sound science. There is heightened apprehension that terrorists could target the Nation's food supply as well as the potential for new and emerging microbial hazards. Thus, the Department must assess and update its food safety systems continually. USDA continues to eliminate foodborne illness through testing, risk assessments, partnerships with its stakeholders and policy decisions based on sound science.

Key Outcome

Reduction in Foodborne Illness Associated with the Consumption of Meat, Poultry and Egg Products

USDA conducted approximately 1,300 Food Safety Assessments (FSA) in FY 2007. An FSA evaluates an establishment's sanitation controls and compliance with microbiological performance criteria. It also reviews the adequacy of slaughterhouse and processing plant Hazard Analysis and Critical Control Point (HACCP) systems. HACCP refers to the design and operation of an establishment's prerequisite programs, and its response to food-safety control deviations. Enforcement, investigation and analysis officers and public health veterinarians trained in FSA methodology conduct these assessments. Officials often conduct FSAs "for cause," such as in response to a pathogen-positive product sample or other events that indicate possible food safety concerns. FSAs are also conducted randomly or on a cyclical basis.

Challenges for the Future

Unfortunately, meat, poultry and egg products can become compromised after USDA inspection and prior to consumption. Thus, the Department is assessing how to limit or prevent accidental or intentional contamination.

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

USDA will continue to rely heavily on data to allow proactive decisions affecting food safety and public health. The Department will enhance data management and delivery via information technology to quickly respond to indications of risk to human health.

To ensure rapid and effective communication between Federal and State agencies in responding to emergency incidents, USDA is working with the U.S. Food and Drug Administration and other agencies to conduct vulnerability assessments on both legally and illegally imported foods. Protocols have been developed to respond to products that have entered the country illegally.

USDA trains newly hired inspection personnel, and provides refresher training to existing field inspection personnel through the Food Safety Regulatory Essentials (FSRE) program. FSRE outlines inspection responsibilities in relation to the HACCP/Pathogen Reduction regulation. The occupational groups receiving this training include food and consumer safety inspectors, public health veterinarians, program and import inspectors, and enforcement investigations and analysis officers.

In January, USDA began inspecting 4,458 small and very small meat and poultry slaughter and processing plants with Federal inspectors, based on its Performance-Based Inspection System (PBIS) records of 2007. PBIS schedules inspection procedures the same way in all processing plants, regardless of the particular food safety hazard associated with the products produced or processes performed at one plant versus another. The businesses that fall into this category have a particular need for current and frequent food safety information. They generally lack the resources to monitor food safety developments from the Department, academia or trade associations. To address this challenge, USDA has initiated efforts to work with these plants, including another 2,400 (approximately) under State inspections, to overcome these issues. The Department has implemented an action plan to deliver outreach assistance to promote risk-based food safety and food defense systems for small and very small plants. While the reaction to these initial steps has been positive, data show that additional effort is needed.

The Technical Service Center (TSC) serves as the agency's center for technical assistance, advice and guidance regarding the implementation of national food safety policies, programs, systems and procedures. The TSC created a customer-service guarantee which ensures that all plants that contact TSC receive uniform, consistent and prompt answers. It can be found at www.fsis.usda.gov/PDF/TSC_Response_to_Calls_&_EMails.pdf .

Selected Results in Research, Extension and Statistics

A Step in Reducing Foodborne Disease by Poultry. Campylobacteriosis is a leading foodborne disease in developed countries, including the U.S. While birds, primarily chickens and turkeys, are considered the primary reservoir of C. jejuni, transmission among poultry flocks and farms is poorly understood. C. jejuni is the pathogen that causes Campylobacteriosis and is the leading cause of food poisoning in the U.S. A USDA-sponsored study showed that house flies may be one risk factor in the pathogen's transmission among poultry. Other environmental factors, such as ventilation, water and litter are also important.

Rapid Detection of Biohazards. USDA-supported scientists have developed a cloth that has the potential to detect bacteria, viruses and other biohazards. The cloth evolved with the development of nanotechnology. It can be used as an easy-to-handle swab or wiper capable of picking up and identifying biohazards on surfaces or in liquids.

Portable Inspection Devices That Detect Food-Safety and Quality Problems. Portable inspection devices have the potential to significantly increase the accuracy and efficiency of food safety inspection in meat, poultry and perhaps eventually fruits and vegetables. USDA scientists have developed prototype portable inspection devices by adapting optical technology used for remote sensing of Earth. Prototypes include binoculars with lenses that detect fecal matter on meat, produce or processing equipment. The lenses can also detect diseases or quality defects.

Salmonella — USDA categorizes processing plants as Category 1, Category 2 or Category 3 based on their consistency in process control for Salmonella reduction, with Category 1 being the most consistent. USDA has exceeded the performance goal of increasing the percentage of industry in Category 1 from 46 percent in 2006 to 71 percent in 2007. The U.S. Department of Health and Human Services has incorporated the target of 6.8 cases of salmonellosis/100,000 persons into its Healthy People 2010 objectives. USDA recognizes these objectives as appropriate guidance for its strategy to strengthen public health protection. For these reasons, the Department decided to redirect its Salmonella verification sampling program to encourage establishments to reassess their food safety systems to achieve and maintain consistent process control.

As more establishments attain Category 1 status, USDA believes that fewer people will be exposed to *Salmonella* from raw classes of Department-regulated products. Consequently, as more establishments gain greater control over *Salmonella*, the goal of halving the number of people infected with *Salmonella* from all sources, including broilers, is more likely to be achieved. The Department is particularly focused on the boiler industry because of a three-year upward trend in the percentage of *Salmonella*-positive samples in its regulatory tests. Broilers are of particular interest

because of all the classes of carcasses (e.g., beef, hogs, broilers), the percentage of positive broiler samples is more than four times that of the next highest class (hog carcasses) based on the most recent calendar year data. To ensure that the broiler industry adequately increases its control for the presence of *Salmonella* by 2010, the Department further stated that the timeframe for broiler establishments to gain better control would be expedited.

The Department is establishing the baseline year as calendar year 2006, which is 46 percent of plants in Category 1. Each year thereafter, until 2010, an additional percentage (in the range of 10 percent) of establishments must achieve and maintain Category 1 status to reach at least 90 percent of all establishments in Category 1 by 2010.

Listeria monocytogenes—USDA has met the performance goal of decreasing the overall percent positive rate for *Listeria monocytogenes (Lm)* in ready-to-eat products in 2007. The annual target of 0.65 percent was significantly exceeded. The goal's purpose is to reduce the overall public exposure to *Lm* in ready-to-eat meat and poultry products, which reduces the incidence of foodborne *listeriosis.* The Healthy People goals for national health promotion and disease prevention called on Federal food safety agencies to reduce foodborne *listeriosis* to the level of 0.25 cases/100,000 by the year 2010. USDA contributes to this goal by:

- Issuing a *Listeria* interim final rule to control *Lm* in ready-to-eat meat and poultry products, *Lm* verification sampling and reporting;
- Conducting FSAs in establishments with product that tests positive for *Lm*;
- Issuing compliance guidelines to provide industry with guidance on steps to control *Lm*; and
- Reacting to product recalls to ensure that consumers are alerted and that product testing positive for *Lm* is removed from the marketplace.

USDA's risk-based verification program for *Lm* samples higher risk establishments more frequently than lower risk establishments. The Department doubled the number of ready-to-eat products sampled. It focused its sampling program on establishments that use sanitation only or sanitation combined with antimicrobial agents or processes as their primary methods to control for *Lm.* When positive *Lm* samples are found in the establishment, USDA investigates using the FSA. Testing of product, food contact and environmental surfaces is repeated until the establishment's products test negative. The Department has developed a checklist to determine the rigor of establishments' validation of their *Lm* control program; inspection personnel use the list every time they conduct an FSA. Results from the completed checklist will be included in the risk ranking of establishments.

Information about the causes of positive tests will be incorporated into compliance guidelines, which will be shared with industry through regulatory education sessions. USDA is issuing supplementary guidance to the industry on the application of antimicrobial programs. The Department will also issue guidance to inspection program personnel on evaluating these programs. USDA will continue its strategies to reduce the overall public exposure to *Lm* and reduce the incidence of foodborne illness related to ready-to-eat products.

E. coli O157:H7—USDA has met the performance goal of decreasing the overall positive rate for *E. coli O157:H7* on food products in 2007. The Healthy People 2010 goals for national health promotion and disease prevention called on Federal food safety agencies to reduce *E. coli O157:H7* illness to the level of 1.0 cases/100,000 by 2010. The Department began a microbiological testing program to detect *E. coli O157:H7* in raw ground beef. The program is also designed to stimulate industry action. Since the initiation of the USDA testing program, many grinders and suppliers of raw ground beef components have instituted programs to test for *E. coli O157:H7*.

The Department is also increasing sample size and adopting new and more sensitive testing methods. USDA also conducts FSAs in establishments with positive tests for *E. coli O157:H7*, issues compliance guidelines to industry and reacts to product recalls to ensure consumers are alerted and contaminated products are removed from the marketplace.

In FY 2007, USDA issued two notices to expand its *E. coli O157:H7* testing program: USDA Notice 17-07, Follow-Up Sampling of Certain Ground Beef Products After an FSIS Verification Sample Tests Positive for *E. coli O157:H7*, and USDA Notice 18-07, Routine Testing of Beef Manufacturing Trimmings Intended for Use in Raw Ground Beef. The Department is also reviewing information from recent recalls. USDA will conduct more follow-up sampling in response to positive test results.

Exhibit 42: Pathogen Reduction (Food Inspection)

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
4.1.1	Reduce overall public exposure to generic *Salmonella* from broiler carcasses using existing scientific standards	55% of industry in Category 1	71%	Exceeded
4.1.2	Decrease the percentage of ready-to-eat meat and poultry products testing positive for *Listeria Monocytogenes*	0.65%	0.31%	Exceeded
4.1.3	Reduce the prevalence of *E. coli O157:H7* on ground beef	0.20%	0.21%	Met

Exhibit 43: Trends in Pathogen Reduction (Food Inspection)

Trends		Fiscal Year 2007				
		2003	2004	2005	2006	2007
4.1.1	Reduce overall public exposure to generic *Salmonella* from broiler carcasses using existing scientific standards	NA	NA	NA	45% of industry in Category 1	71% of industry in Category 1
4.1.2	Decrease the percentage of ready-to-eat meat and poultry products testing positive for *Listeria Monocytogenes*	0.90%	0.89%	0.70%	0.60%	0.31%
4.1.3	Reduce the prevalence of *E. coli O157:H7* on ground beef	0.37%	0.19%	0.17%	0.16%	0.21%

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

Overview

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

Key Outcome

Improve Animal and Plant Diagnostic Laboratory Capabilities

Analysis of Results

The performance goal was met. Limited trend data are available since the effort began in FY 2003 (plant) and FY 2004 (animal). Detection criteria have been developed for *soybean rust, sudden oak death, Ralstonia stem rot, plum pox virus, pink hibiscus mealybug, potato wart* and *huanglongbing (citrus greening). Soybean rust* is a fungal disease that attacks the foliage of a soybean plant, causing its leaves to drop prematurely. *Sudden oak death* is a plant disease that attacks many types of plants and trees common to the Pacific Northwest. *Plum pox virus* browns the flesh and deforms stone fruit, making it unmarketable. *Pink hibiscus mealybug* is a serious insect threat to agricultural, ornamental and horticultural plants in tropical and sub-tropical areas. *Potato wart* creates ugly, warty outgrowths on potato plants. *Huanglongbing (citrus greening)* causes infected citrus trees to yellow, decline, and possibly die within a few years of infection.

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

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

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

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

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
4.2.1 The cumulative number of specific plant diseases labs are prepared to detect	7	7	Met
4.2.2 The cumulative number of specific animal diseases labs are prepared to detect	8	8	Met

Exhibit 45: Trends Improving the Capabilities of Diagnostic Laboratories

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
4.2.1 The cumulative number of specific plant diseases labs are prepared to detect	2	3	5	6	7
4.2.2 The cumulative number of specific animal diseases labs are prepared to detect	NA	6	7	8	8

NA = Not Available

Selected Results in Research, Extension and Statistics

Increasing a Plant's Resistance to Parasites. Root-knot nematodes, the world's most economically important group of plant-parasitic nematodes, attack nearly every food and fiber crop grown. USDA-supported scientists identified a gene in the root-knot nematode essential for it to infect crops. The researchers turned the nematode's biology against itself, creating a process that shuts down the specific gene when the nematode begins to feed on the plant's roots. It disrupts the nematode's ability to infect the plant. Thus, the modified plant becomes resistant to the nematode. The resistance gene is effective against the four most common species of root-knot nematodes.

A Rift Valley Fever Outbreak Successfully Predicted. In October 2006, USDA research predicted that Rift Valley fever would strike within three months in sub-Saharan Africa, the first such prediction. Rift Valley fever is transmitted by mosquitoes produced during periods of heavy rainfall. It causes disease and death in domestic animals and humans. A warning was sent to the United Nations Food and Agriculture and World Health Organizations, which passed the warning to Kenya, Ethiopia, Tanzania, Uganda and Somalia. The early warning allowed the countries most likely to be in harm's way to step up surveillance and control of insect vectors for the disease. The model can also predict outbreaks of other diseases of livestock and people, such as malaria and cholera.

Substance From Catnip Could Help Growers Guard Crops and Gardens Against Aphids and Mites. USDA scientists have developed a method to extract a key compound from catnip oil. The compound naturally attracts lacewings, a beneficial predator that eats destructive aphids and mites. The method offers an economical way to make large amounts of this insect "cologne." A commercial formulation of the compound could eliminate the need for farmers to repeatedly buy and release beneficial insect larvae.

Overview

USDA works to provide a secure agricultural production system and healthy food supply for U.S. consumers. This work is designed to reduce the number and severity of agricultural pest and disease outbreaks. It includes:

- Safeguarding animal and plant resources against the introduction of foreign agricultural pests and diseases, while meeting international trade obligations;
- Detecting and quickly responding to new invasive pests and diseases, and emerging agricultural health situations;
- Managing existing agricultural pests and diseases and wildlife damage effectively; and

- Developing and applying scientific methods that benefit agricultural producers and consumers, protect the health of animal and plant resources, and sustain agricultural ecosystems.

Key Outcome

A Secure Agricultural Production System and Healthy Food Supply

USDA's efforts in FY 2007 prevented the introduction of foreign animal diseases which could have spread beyond the original area of introduction or become established across the country. Such a spread could cause severe economic or environmental damage, threaten animal health or even compromise public health.

The Department's programs are designed to reduce the number and severity of pest and disease outbreaks in plants and animals. They also contribute to the good life Americans enjoy. Due in part to the protection afforded by these programs, U.S. consumers receive an abundance of food and fiber. Consumers also remain relatively free of diseases that may be transmitted by animals or other pests.

Protecting the Nation's plant and animal resources provides many Americans with employment in the agricultural sector. It also gives them a livelihood serving farmers with needed tools, supplies, technical knowledge and money. USDA's efforts help to ensure that such allied industries as the food-processing and pharmaceutical industries, and grocery distributors receive the raw materials they need to produce their products and services. Its efforts also help maintain public and private landholders' investments. By protecting U.S. plant and animal resources from pest and disease outbreaks, USDA ensures domestic agricultural resources can move in international trade. The North American ecosystem depends in part on USDA's efforts to reduce the number and severity of pest and disease outbreaks. The global ecosystem depends upon international efforts to minimize the movement of harmful species. USDA participates in these efforts as a world leader, benefiting citizens in many countries.

Challenges for the Future

USDA faces important challenges in its efforts to reduce the number of pest and disease outbreaks. One is to prevent harmful pests and diseases from entering the country. If such pests and diseases enter, USDA must know early enough to reduce their spread and eradicate them before they do damage. The Department creates and continually updates pest and disease information and monitors and conducts surveys in cooperation with States and industry. Survey data are essential for initiating and directing programs. They also result in better pest and disease management. USDA will continue monitoring and surveillance activities. This will include identifying potential pathways for animal and plant pests and diseases. In addition to early detection, the spread of animal and plant pests and diseases can be prevented by regulatory enforcement.

Once foreign pest or disease is reported, USDA responds immediately by investigating and taking emergency action, if necessary. Substantial costs are incurred, but USDA seeks to reduce these costs through enhanced, science-based, early-detection and rapid-response efforts.

USDA continues to enhance emergency-coordination efforts and emergency-response capabilities. USDA agencies are also participating with a Government-wide team created to develop and implement an *avian influenza (AI)* response plan. *AI* is a virus that infects wild birds (such as ducks, gulls and shorebirds) and domestic poultry (such as chickens, turkeys, ducks and geese).

A final challenge is to minimize the economic impact of specific harmful diseases and pests where eradication is either not feasible or will take many years to achieve. To address this challenge, USDA monitors endemic diseases and pests through surveys. The Department also conducts inspections to prevent

their spread into non-infested parts of the country. Additionally, USDA works to prevent the spread of diseases that can be passed by animals, such as rabies. It also protects American agriculture from detrimental predators through identification, demonstration and application of the most appropriate control methods.

USDA has several groups of programs that focus on reducing the number and severity of pest and disease outbreaks. As indicators of success in reducing the number and severity of these outbreaks, USDA has selected two key performance measures to represent the entire range of activities conducted by these programs (see the Annual Performance Goals and Indicators exhibit below).

The Animal Health Monitoring and Surveillance (AHMS) Program conducts monitoring and surveillance activities. These activities are designed to detect incursions of foreign and emerging diseases rapidly, evaluate and enhance surveillance for current disease control and eradication programs, monitor domestic and international disease trends and threats and provide timely and accurate animal health information.

The Emerging Plant Pest (EPP) Program maintains USDA's ability to respond quickly to any emerging plant pest problem. This program targeted a variety of pests and plant diseases during FY 2007, which will be discussed below.

Analysis of Results

USDA met the target related to animal disease outbreaks in FY 2007 because of the successful effort of AHMS program components. This continued a record of six years of success, broken only by the outbreak of *Exotic Newcastle Disease (END),* a contagious and fatal viral disease affecting all species of birds and which is considered one of the world's most infectious poultry diseases. By meeting these goals, the Department provided for a continually secure agricultural production system and healthy food supply for consumers, minimized production losses and maintained market viability for U.S. livestock.

An example of successful AHMS program efforts involve the discovery of contagious *equine metritis (CEM)* found in three Lipizzaner stallions. *CEM* is a highly contagious venereal disease of horses that results typically in aborted pregnancies. This finding marked the first U.S. detection of the disease outside a *CEM* quarantine facility in more than 20 years. State and USDA officials traced all possible exposed animals and high-risk materials. They successfully contained the outbreak and closed the case before the disease caused severe economic damage.

Another example of successful AHMS program efforts is seen in the National Animal Health Surveillance System (NAHSS). NAHSS strives to meet the requirements of the Animal Health Safeguarding Review and Homeland Security Presidential Directive 9 (HSPD-9). The Animal Health Safeguarding Review provides a foundation for USDA to build a national safeguarding system for the health of domestic animals. HSPD-9 establishes a national policy to defend the agriculture and food system against terrorist attacks, major disasters and other emergencies. In FY 2007, the Department continued to work with other Federal agencies and coordinate with States to prepare for a potential *AI* outbreak. USDA also continued to focus on developing efficient and effective targeted surveillance plans. Following these targeted plans allows Federal and State officials to document the health status of domestic livestock and poultry populations efficiently and effectively. As an example, USDA has completed a draft swine surveillance plan that, once finalized, will be used to modify future comprehensive swine surveillance programs implemented in cooperation with State and industry partners.

Exhibit 46: Strengthen the Effectiveness of Pest and Disease Surveillance and Detection Systems

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
4.2.3 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	0	0	Met
4.2.4 Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	1 of 5 programs	1 of 5 programs	Met

Exhibit 47: Trends in Strengthening the Effectiveness of Pest and Disease Surveillance and Detection Systems

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
4.2.3 Number of significant introductions of foreign animal diseases and pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals	0	0	1	0	0
4.2.4 Number of emerging plant pest (EPP) programs where an outbreak has not been contained within the quarantine area	4	3	2	3	1 of 5 programs

USDA continued to focus on the National Veterinary Accreditation Program (NVAP) and certifying private veterinary practitioners to work cooperatively with Federal veterinarians and State animal health officials. Accredited veterinarians greatly enhance Federal and State surveillance efforts, especially in identifying foreign or emerging animal diseases. Currently, the Department is finalizing a proposed rule on veterinary accreditation. The rule will provide the option of two categories of accreditation based on animal species expertise. It will also require an established amount of supplemental education to maintain accredited status. USDA has also been partnering with a variety of stakeholders in animal health surveillance, emergency response and public health to develop online training modules that will provide accredited veterinarians easily accessible information needed to maintain their accredited status.

The National Animal Identification System (NAIS) became a fully operational system in FY07. NAIS will allow USDA to work with States and the private sector to determine more quickly and effectively the scope of a disease or animal health event, and locate infected animals.

USDA also met its FY 2007 target related to EPP programs. These programs cover Asian Longhorned Beetle (ALB), Glassy-winged Sharpshooter (GWSS), the Citrus Health Response Plan (CHRP), *P. ramorum* and Emerald Ash Borer (EAB). The ALB, GWSS, CHRP, and *P. ramorum* programs prevented significant pest outbreaks beyond quarantine areas at the beginning of FY 2007. The EAB program did not meet its target.

ALB infests such hardwood tree species as maple, birch, horse chestnut, poplar, willow, elm and ash. The beetle can kill host tree species and, if left unchecked, will threaten North America's forests, parks, cities and trade. Overall, the Department's ALB program successfully contained and is moving towards eradicating infestations in Illinois, New Jersey and New York in FY 2007. In Illinois, ALB detections have not occurred in the Chicago area since November 2003. Additionally, none of the State is regulated for

the pest. While New Jersey has had no detections since August 2006, ALB detections took place in the Brooklyn, Queens, Prall's Island and Staten Island areas of New York City. The detections in Prall's Island and Staten Island occurred outside of previously quarantined areas. While they caused concern, the detections did not constitute a significant outbreak based on their size or economic and environmental impacts. USDA and cooperators took appropriate action to ease ALB's impact and spread, including additional surveys, tree removal, quarantines and treatments.

GWSS carries the bacterium *Xylella fastidios*. This bacterium causes a variety of plant diseases that affect such economically valuable crops as citrus and grapes. Recently, two GWSS adults were detected in a trap less than a mile outside of the quarantined area. While these detections raised concern, they did not cause a significant outbreak based on their size or economic and environmental impacts. In response, area-wide treatments were applied within the affected area. This treatment included a half-mile buffer beyond the detection sites to suppress GWSS populations. This treatment area covered approximately 2,064 acres of citrus. State-regulated inspections of nursery stock for GWSS continue to be conducted to prevent the artificial movement of the pest via host nursery plants. These inspections are conducted both in the county of the nursery stock's origin and in the destination county. Throughout FY 2007, GWSS interceptions among nursery shipments helped prevent the artificial spread of this pest and related diseases.

Citrus canker is a highly contagious bacterial disease of citrus trees. It has become so widespread throughout Florida that the entire State is quarantined for the disease. Despite the quarantine, USDA worked with State regulatory agencies and citrus scientists to develop CHRP. This program is designed to protect other citrus-producing States from the disease and all domestic production from other harmful citrus pests and diseases. CHRP coordinates multiple pest survey and detection programs within citrus-producing States. It promotes citrus-production practices that lower citrus pest and disease risks. In FY 2007, the administration of the CHRP and the Federal regulatory framework effectively prevented outbreaks of citrus pests and diseases in U.S. citrus-producing States outside of Florida. For example, CHRP funds were used to conduct citrus commodity surveys for several exotic citrus pests and diseases in Arizona, California, Hawaii, Louisiana and Texas. CHRP resources also were used to support diagnostic screenings for citrus greening in all U.S. citrus-producing States.

P. ramorum is a pathogen that causes sudden oak death in oak trees. It also causes diseases in a wide variety of other plant species. *P. ramorum* has killed oak trees in 14 California and 1 Oregon counties. Currently, all of these counties are under quarantine. *P. ramorum* also threatens many other plant species in California, Oregon and, within nursery venues, Washington. USDA establishes and implements domestic quarantines on counties upon disease detection. Thus far, these regulations have prevented the artificial establishment of *P. ramorum* and its occurrence outside the quarantined areas on the West Coast. An exception to this success occurred in early March 2007 when the Oregon Department of Agriculture identified an outbreak of *P. ramorum* approximately 1.5 miles north of the quarantine area in Curry County, Oregon. A State quarantine was established, covering a 24.25-square-mile area in Curry County. USDA and the State of Oregon are working together to eradicate the detection. This detection is not a significant outbreak based on its size or overall economic and environmental impact.

EAB is an exotic beetle that feeds on the inner bark of ash trees. The beetle disrupts the tree's ability to transport water and nutrients, which can kill it. EAB threatens U.S. ash tree resources, potentially impacting the Nation's nursery, landscaping, timber, recreation and tourism industries. EAB infests more than 175,000 square miles in the U.S. On June 26, 2007, USDA confirmed EAB detection in the Cranberry

Township of Butler County, Pennsylvania. Department personnel discovered it while inspecting for ash decline along Pennsylvania's Interstate 76 corridor in proximity to the Ohio border. This discovery followed the June 20, 2007, confirmed detection of EAB five miles into the Ohio side of the border. This is the first EAB detection to occur in Pennsylvania. EAB's extension beyond USDA's quarantine boundaries as of the beginning of FY 2007 is significant and continuing. USDA is working with Federal, State, local, Tribal and industry cooperators to enforce regulatory restrictions on the movement of EAB host wood products and materials, especially firewood. They also look to raise public awareness about their potential to spread the pest further.

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

USDA made strides in promoting access to a nutritious diet and healthy eating behaviors for everyone in the U.S. Through its leadership of Federal nutrition-assistance programs, the Department made a healthier diet available for millions of children and low-income families. The Center for Nutrition Policy and Promotion used interactive tools to motivate Americans to make positive dietary behavioral changes. These interactive tools were designed to help consumers establish and maintain healthy diets and lifestyles, consistent with the Dietary Guidelines for Americans and the President's HealthierUS initiative. Key 2007 accomplishments include:

- **Promoting Access to the Food Stamp Program (FSP)**—Food stamp benefits help low-income families and individuals purchase nutritious food. FSP also provides nutrition education to help influence healthy food choices and more active lives. It is the Nation's largest nutrition assistance program, serving more than 26 million people monthly in FY 2007.
- **Promoting the MyPyramid Food Guidance System**—MyPyramid offers the American public an individualized approach to nutritional well-being and active living. MyPyramid.gov's Web-based educational tools help Americans assess and personalize their diet and physical activity plans. Consumers continue to respond enthusiastically to this educational approach. To date, there have been more than 3.5 billion visits to MyPyramid.gov. Additionally, there have been more than 2.7 million registrations on the MyPyramid Tracker; and
- **Continuing to ensure that Food Stamp Benefits are Accurately Issued**—The FSP payment accuracy rate for FY 2006—the most recent year for which data is available—was 94.01 percent. This figure marks the third straight year the accuracy rate has been greater than 94 percent. This strong performance reflects effective partnerships with State administering agencies. It also shows the extensive use of policy options provided in the 2002 Farm Bill that streamline program administration while improving access for working families.

USDA continued to improve the quality of Americans' diets through research-based enhancements to the Nation's food supply. The Department also pushed for better knowledge and education to promote healthier food choices. Four of the top 10 causes of death in the U.S. (cardiovascular disease, cancer, stroke and diabetes) are associated with diet quality—those too high in calories, total fat, saturated fat and cholesterol, or too low in fruits and vegetables, whole grains and fiber. The Nation is experiencing an obesity epidemic due to a number of causes. These causes include a "more is better" mindset, a sedentary lifestyle and the ready availability of fat- and sugar-laden, high-calorie foods. Consumers are looking for foods that taste good, offer nutrition and other health benefits, and are convenient to prepare and consume. Science-based dietary guidance and promotion can help them integrate these choices into a diet that promotes long-term health. USDA pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the

information is available to support and encourage good nutrition choices.

The Department's success in promoting public health through good nutrition and the effectiveness of its nutrition programs relies heavily on research. The research reveals what consumers should eat to stay healthy and how the public can be educated in a manner that leads to dietary changes. Research also supports development of new food products.

Objective 5.1: Improve Access to Nutritious Food

Overview

USDA's nutrition assistance programs represent the Federal Government's core effort to reduce hunger and improve nutrition. These programs aided one in five people in the U.S. during FY 2007. They promote better health, support the transition to self-sufficiency for low-income working families and support children's readiness to learn in school. A well-nourished population is healthier, more productive and better able to fulfill its potential.

By working in partnership with States, USDA continues to implement effective nutrition assistance programs and deliver program benefits to eligible participants. The programs ensure access to a nutritious food for those with little income and few resources. For a variety of reasons, many individuals and families eligible to participate in these programs do not. In FY 2007, USDA focused on increasing the rate of participation among people eligible for food stamps and expanding access to the School Breakfast Program (SBP). SBP is not as widely available as the National School Lunch Program.

The Department continued to work with States to implement FSP provisions from the 2002 Farm Bill. These provisions provide States with options to simplify administration of the program. USDA also continued to implement outreach efforts to educate eligible low-income populations—especially seniors, legal immigrants and the working poor—about the benefits of food stamps. USDA continued a media campaign to inform low-income people of their potential eligibility. Additionally, the Department provided technical assistance, outreach and participation grants and guidance to faith- and community-based organizations to encourage FSP participation.

Under SBP, USDA continued to provide cash assistance to States to operate breakfast programs in schools and residential child care institutions. On an average school day, while more than 49 million children have access to school lunch and nearly 30 million children chose to eat a program lunch, only about 10 million children received a school breakfast. The Department identified opportunities to promote SBP by raising awareness of the program's availability with State and civic leaders, and supporting and celebrating National School Breakfast Week. Each year, USDA recognizes National School Breakfast Week to highlight SBP's benefits through events, posters and student activities that show the importance of a good breakfast—either at home or served through the program—in being ready for school.

The Department continued to serve those eligible for the Special Supplemental Nutrition Program for Women, Infants and Children Program (WIC) who wish to participate within authorized funding levels. WIC helps safeguard the health of low-income women, infants and children up to age 5 who are at nutritional risk. The program provides nutritious foods to supplement diets, information on healthy eating and referrals to health care. About 8.2 million pregnant women, new mothers and their young children benefited monthly from WIC.

USDA also continues to partner with a variety of faith-based and community organizations to deliver program benefits and services, and encourage access to the programs.

Selected Results in Research, Extension and Statistics

Healthier Food Research. Recent USDA-supported studies have linked greater soy intake with lower breast cancer risk for women. One interpretation has attributed this link to higher production of cancer-preventative substances when a woman consumes more soy. Conjugated inoleic acid is a fatty acid found in soy. It is anti-carcinogenic, or prevents or inhibits cancer, at far lower dosages than many other anti-carcinogens that occur naturally. The ultimate goal of this research is to improve human dietary patterns and reduce the risk of disease.

Using Orange Cauliflower to Make Other Food Crops More Nutritious. Scientists are using an unusual cauliflower to identify genes and define the molecular mechanisms that regulate nutrients in plant-based foods. A particular gene—dubbed Or for the color orange—induces high levels of beta-carotene in food crops. Beta-carotene is a pigment found in animal fat and some plants that humans convert into vitamin A. USDA scientists worked with Cornell University colleagues to isolate Or in the cauliflower. The research could potentially resolve the vitamin A deficiency reported to affect some 250 million children worldwide. In cauliflower, Or promotes high beta-carotene accumulation in various plant tissues that normally do not have the aforementioned pigment.

Watermelon an Excellent Source of the Amino Acid Citrulline. USDA scientists have shown that watermelon stores abundant and readily usable citrulline. The human body uses citrulline to make another important amino acid—arginine—which plays a key role in cell division, wound healing and the removal of ammonia from the body. Medical researchers are evaluating arginine as a possible treatment for high blood pressure, elevated glucose levels and the vascular complications associated with sickle-cell disease. Sickle-cell disease is a form of anemia found mostly in blacks.

Challenges for the Future

Studies and analyses show that there continue to be large numbers of eligible people who do not participate in Federal nutrition assistance programs. While recent changes in FSP have made more low-income people eligible, many may remain unaware of the opportunity to receive these benefits. USDA looks to improve access to and promote awareness of these programs with continued outreach and information strategies.

USDA's ability to achieve this objective depends partly on adequate legislative authority for policies and program initiatives. These initiatives would promote effective access to nutrition assistance and funding to support program participation for all eligible people who seek service. The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to Department efforts to reduce hunger and improve nutrition. Economic changes can affect both the number of people eligible and the ability of cooperators to provide services.

Key Outcome

Reduce hunger and improve nutrition

USDA is committed to providing access to nutritious food through the major nutrition assistance programs for all eligible people who wish to participate. Average FSP and WIC participation reached expected levels. While it was slightly lower than expected in the school meals programs, participation remained well within performance thresholds.

Analysis of Results

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

Food Stamp Program—The program served approximately 26 million participants monthly, a decrease of almost 1.5 percent from the FY 2006 average. Despite the decrease, it should be noted that the FY 2006 average was increased substantially by heavy participation early in the year due to the ongoing impact of Gulf hurricanes and disaster response. USDA efforts to support and encourage food stamp participation in FY 2007 included:

- Awarding food stamp outreach grants totaling $1 million to 14 community and faith-based organizations to implement and study effective food stamp outreach strategies;
- Continuing the national media campaign with English and Spanish radio ads in dozens of locations promoting the benefits of food stamps, and a Spanish television ad in 9 locations;
- Launching an effort to implement community-based food stamp outreach activities in Spanish and promote the use of Spanish public service announcements;
- Making materials and resources available to State and local cooperators to assist them in food stamp outreach. These materials include posters, brochures, copyright free photographs, radio and television public service announcements, and tool kits with easy-to–follow, step-by-step instructions, sample materials and templates to customize. Additionally, food stamp information materials in nearly 3 dozen languages continued to be available;
- Continuing to support a toll-free number which provides general information about food stamp benefits in English and Spanish;
- Maintaining a pre-screening tool in English and Spanish which allows users to obtain an estimate of their eligibility and benefit amount; and
- Supporting the Food Stamp Outreach Coalition which serves as a way to convene national, State and local leaders to share ideas. The coalition continued to support the annual Hunger Champions competition. This competition recognizes local food stamp offices that excel in customer service and outreach. The coalition also launched the Golden Grocer Program to recognize authorized retailers who engage in outreach.

USDA also measured the number of people eligible for the program to determine the rate at which eligible people are participating. The most recent data indicate that approximately 25 million of the 38 million individuals eligible for food stamp benefits in an average month in 2005 participated— a 65 percent participation rate (2005 is the most recent year for which such figures are available.).

National School Lunch Program (NSLP)—NSLP participation levels reached 30.6 million in FY 2007, up slightly from FY 2006 and continuing the trend of increases in recent years. NSLP provides nutritious meals to millions of children at school. Approximately 95,000 schools operated the program.

School Breakfast Program (SBP)—SBP participation levels reached 10.1 million in FY 2007, up 3 percent from a year ago and continuing a trend of recent increases. The program makes healthy, nutritious meals available to millions of children each school day. More than 80,000 institutions operated the program in FY 2007. USDA continued to support and encourage SBP participation in FY 2007 by:

- Promoting it through such activities as School Breakfast Week;
- Working with various organizations and partners to help develop strategies for program expansion;
- Developing school breakfast outreach materials for schools and parents; and
- Continuing to advance the implementation of the Child Nutrition/WIC Reauthorization Act of 2004. This act requires all schools participating in School Lunch and School Breakfast Programs to establish wellness policies. Such policies establish appropriate goals for nutrition education, physical activity and other school-based activities designed to promoted student wellness.

Trend data also indicate that the proportion of children enrolled in schools who participate in SBP has risen slowly but steadily in recent years. This growth reflects USDA's continuing efforts to encourage schools to operate the program.

Women, Infants and Children (WIC)—In FY 2007, approximately 8.2 million participants received WIC benefits. USDA addresses the health and nutritional

needs of at risk, low-income pregnant, breastfeeding and postpartum women, and those with infants and children up to 5 years old. The Department provides them with supplemental food packages, nutrition education and health and social services referrals. USDA continued to support and encourage WIC participation and improve benefits and services by:

- Continuing work on regulatory changes to amend the WIC food packages based on recommendations from the Institute of Medicine in its report, WIC Food Packages: Time For A Change. USDA analyzed more than 46,000 comments received in response to the proposed rule published in August 2006. The Department is working to develop an interim final rule that will be published in the fall of 2007;
- Providing training and technical assistance to States in implementing the Value-Enhanced Nutrition Assessment (VENA) initiative. VENA provides a process for completing a comprehensive WIC nutrition assessment, including the content of such an assessment and an outline of the necessary staff competencies. USDA initiated the development of a 6-hour, train-the trainer DVD and 3 on-line training modules;
- Continuing to support the State Agency Model (SAM), an initiative to develop model WIC information systems (IS) through multiple State agency consortia. SAM also transfers these models to other WIC State agencies to eliminate duplication and streamline the IS procurement process. SAM is consistent with USDA's 5-year technology plan to improve WIC system functionality by replacing automated legacy systems; and
- Providing technical assistance to State agencies in implementing cost containment strategies. Savings generated by actions such as competitive bidding, rebates, least-cost brands and use of economically-priced package sizes are used by State agencies to provide benefits to more participants using the same budget. Due to cost saving measures, average-per-person WIC food costs have grown much more slowly than general food inflation during the last 16 years—the average monthly food cost has increased by approximately 23 percent since FY 1990, while general food inflation as measured by the Thrifty Food Plan (TFP) has increased 53 percent. TFP serves as a national standard for a nutritious diet at minimal cost. It is intended as a guide to food shopping for low-income households.

Exhibit 48: Improve Access to Nutritious Food

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
5.1.1 Improve Access to Nutritious Food:			Met
▪ Food Stamp Program Avg. Monthly Participation (millions of people)	26.3	26.3	
▪ National School Lunch Program Avg. Daily Participation (millions of people)	31.0	30.6	
▪ School Breakfast Program Avg. Daily Participation (millions of people)	10.4	10.1*	
▪ Special Supplemental Nutrition Program for Women, Infants and Children (WIC) Monthly Participation (millions of people)	8.2	8.2	
*The performance threshold allows for a "met" finding in the 9.8 to 10.9 million range.			

Exhibit 49: Trends in Improving Access to Nutritious Food

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
5.1.1 Improve Access to Nutritious Food:					
▪ Food Stamp Program Avg. Monthly Participation (mil)	21.3	23.9	25.7	26.7	26.3
▪ National School Lunch Program Avg. Daily Participation	28.3	28.9	29.6	30.0	30.6
▪ School Breakfast Program Avg. Daily Participation (mil)	8.4	8.9	9.3	9.8	10.1
▪ WIC Program Monthly Participation (mil)	7.6	7.9	8.0	8.1	8.2

Objective 5.2: Promote Healthier Eating Habits and Lifestyles

Overview

Healthful eating is vital to reducing the risk of death or disability due to heart disease, certain cancers, diabetes, stroke, osteoporosis and other chronic illnesses. Despite this, a large gap remains between recommended dietary patterns and what people in the U.S. actually eat. USDA uses Federal nutrition policy and nutrition education, both for the general public and those served by the nutrition assistance programs, to provide scientifically based information about healthful diets and lifestyles. The Department uses, for example, the *Dietary Guidelines for Americans* and MyPyramid to help people in the U.S. make wise choices related to food and physical activity. The *Guidelines* provide advice about food choices that promote health and prevent disease. MyPyramid provides the educational tools to help Americans take the necessary "Steps to a Healthier You." These steps are part of a concept that offers a personalized eating plan with the foods and amounts that are right for a given individual.

Key Outcome

Promote More Healthful Eating and Physical Activity across the Nation

Diet-related health conditions such as being overweight or obese are serious risk factors for premature death and disability in the U.S. Improved diets can help with weight management and reduce the risk of chronic diseases including certain types of cancers and type 2 diabetes. Thus, USDA's efforts focus on updating nutrition policy, providing information and promoting behavioral changes that can help to prevent and, over time, reduce obesity and other diet-related health conditions.

Science has established strong links between diet and health. Researchers attribute about 300,000 premature deaths annually to poor diets. The total costs attributed to overweight and obesity are estimated to be nearly $120 billion annually. Even small improvements in the average diet would yield large health and economic benefits to individuals and society as a whole.

The Department will continue promoting diets and behaviors as a vital public-health issue. The *Dietary Guidelines for Americans* is the cornerstone of Federal nutrition guidance. USDA uses the 2005 *Dietary Guidelines* and MyPyramid, the Guidelines' educational tool, to continue its leadership role of providing advice people in the U.S. can follow to improve overall health through proper nutrition.

Challenges for the Future

While USDA's goal of reducing obesity levels begins with understanding what constitutes a healthy diet and the appropriate balance of exercise, success requires individuals to change their diets by modifying their

eating behavior. Crafting more effective messages and nutrition education programs to help people make better food choices requires understanding their current choices and the relationships between these choices and their attitudes, knowledge and awareness of diet/health links. Accomplishing this understanding requires data that link behavior and consumption decisions for diverse individuals. While data exist nationally, current survey sample sizes do not yield reliable information for population subgroups.

While updated Federal nutrition guidance is an important step in helping Americans develop and maintain healthier diets and lifestyles, using this guidance to motivate Americans to change remains challenging because of the limited resources available for nutrition promotion. USDA will continue to explore ways to devote significant long-term resources to develop consumer-friendly and cost-effective nutrition education materials. The Department will also use partnerships and "information multipliers" to maximize the reach and impact of these materials ("Information multipliers" are people used to share information, such as shopkeepers who post public service messages in their shops, or school teachers who tell their students important information they have learned about nutrition.). Promotional materials will be used both within Federal nutrition-assistance programs and with the general public.

More broadly, attaining performance outcomes in this area depends partly on the emphasis that the Nation places on healthier eating, including products and practices in the food marketplace. Additionally, physical activity and other lifestyle issues significantly impact body weight and health.

USDA promotes healthful eating through its comprehensive nutrition assistance research and education programs. Efforts are targeted to nutrition assistance program participants and the general public. For each target audience, the challenge is to find effective ways to translate research into working knowledge to understand what people eat, and to find effective strategies to reach target populations with promotional information and messages.

USDA tracks its annual performance in promoting healthful eating and physical activity by monitoring its annual distribution of nutrition education materials. Over the longer term, USDA assesses the effect of these efforts with the Healthy Eating Index (HEI), a summary measure of diet quality developed by USDA's Center for Nutrition Policy and Promotion. The Department sets targets for improvement in the HEI both for the U.S. population as a whole and among people with incomes at or below 130 percent of poverty.

Analysis of Results

To meet the needs of the general population, USDA continued its leadership role in the promotion of nutrition guidance through educational tools designed to motivate people to live healthier:

- Usage level of nutrition guidance tools was substantial, with more than 2 billion pieces of nutrition guidance materials distributed via the Web and print materials. Additionally, registrations continue to increase for the MyPyramid Tracker, an on-line diet and physical activity assessment tool. The tracker has logged 2.7 million registrations since 2005; and
- Consumers using the MyPyramid Food Guidance System personalize the information they receive via the electronic educational tools at MyPyramid.gov. For example, throughout the year, 61 to 77 percent of the consumers who responded to a satisfaction questionnaire at the site indicated that its information prompted them to take action regarding their health. These actions included changing their diet or their family's diet, monitoring what they ate, reducing unhealthful eating practices, obtaining a personalized eating plan or setting a physical activity goal.

Exhibit 50: Promoting Healthier Eating Habits and Lifestyles

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
5.2.1 Application and usage level of nutrition guidance tools pieces* of nutrition guidance distributed	2.0 billion pieces* of nutrition guidance distributed	2.6 billion	Exceeded

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

Exhibit 51: Trends to Promote Healthier Eating Habits and Lifestyles

Trends	Fiscal Year 2006				
	2003	2004	2005	2006	2007
5.2.1 Application and usage level of nutrition guidance tools	NA	NA	NA	1.5 billion	2.6 billion

Selected Results in Research, Extension and Statistics

Possible Implications for U.S. Agriculture From Adoption of Select Dietary Guidelines. To help Americans meet nutritional requirements while staying within caloric recommendations, USDA's 2005 Dietary Guidelines for Americans encourage consumption of fruits, vegetables, whole-grain products, and fat-free or low-fat milk or milk products. A November 2006 Department report provides one view of the potential implications for U.S. agriculture if Americans changed their current consumption patterns to meet some of those guidelines. For Americans to meet the fruit, vegetable and whole-grain recommendations, domestic crop acreage would need to increase by an estimated 7.4 million harvested acres, or 1.7 percent of total U.S. cropland in 2002. To meet the dairy guidelines, consumption of milk and milk products would have to increase by 66 percent. An increase of that magnitude likely would require an increase in the number of dairy cows, feed grains and, possibly, acreage devoted to dairy production.

Objective 5.3: Improve Food Program Management and Customer Service

Overview

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

Key Outcome

Maintain a High Level of Integrity in the Nutrition Assistance Programs

Challenges for the Future

Some improper payment risks are inherent to the legislatively mandated program structure. This structure is intended and designed to be easily accessible to people in special circumstances and settings. USDA must shape its management approach in light of the need to make services convenient and accessible to participants. State and local Governments also bear direct responsibility for delivering the programs. Thus, the Department must work with these groups to address improper payment problems through monitoring and technical assistance. This approach requires adequate numbers of trained staff supported by a modernized information technology

infrastructure to ensure full compliance with national program standards and prevent or minimize error, waste and abuse.

To meet the challenge of continued improvements in Food Stamp Program payment accuracy, USDA continues to dedicate resources to this area. Despite this strategy, two significant challenges will impact future success. Congressional action has changed the quality control process, lowering the risk of penalties for poor State agency performance. However, State agencies have, for the most part, risen to the challenge and continue to achieve a high level of payment accuracy. Additionally, State budgets have been and will continue to be extremely tight. This factor could hurt State performance in payment-accuracy. USDA will continue to provide technical assistance and support to maintain payment accuracy in the context of this changing program environment.

While 2007 data are not yet available, food stamp payment accuracy remained strong in 2006. This factor reflects State and Federal efforts helping to reduce errors significantly during the past several years. Even small changes in the food stamp error rate can save millions of dollars.

Selected Results in Research, Extension and Statistics

A New Economic Model of Monthly Income Dynamics. Reporting requirements and recertification periods are important tools for managing the Food Stamp Program (FSP) caseload. These tools provide access for eligible households while minimizing participation by ineligible households at a reasonable administrative cost. This project expands capabilities for examining month-to-month effects of policy options on reporting and recertification. It develops a new economic model that follows a panel of households over time. The project also examines their interaction with FSP to help assess tradeoffs between participation and administrative activities. The first output from the project, The MID-SIPP Model: A Simulation Approach for Projecting Impacts of Changes in the Food Stamp Program, introduces the Monthly Income Dynamics, Survey of Income and Program Participation (MID-SIPP) model. MID-SIPP was developed to simulate the effects of rule changes in FSP eligibility, participation and cost. The model also tracks administrative activity associated with certification and reporting requirements. The simulation indicated that total FSP benefits paid quarterly would be $17.1 billion, or $1 billion more than through monthly reporting. Quarterly reporting results in an estimated 37 percent reduction in the total number of administrative reports.

Analysis of Results

The FY 2007 Food Stamp Payment Accuracy Rate will become available in June 2008. It will be reported in the *FY 2008 Performance and Accountability Report*.

The FY 2006 Food Stamp Payment Accuracy Rate was 94.01 percent, the third consecutive year of a payment accuracy rate greater than 94 percent. Performance highlights include:

- Twenty-five States with a payment accuracy rate greater than 94 percent; and
  - The number of top-performing States and their performance level increased between 2005 and 2006:
  - In 2006, 13 States had payment accuracy rate greater than 96 percent—a more than 50 percent increase from 2005, when only 8 States reached that level; and
- The lowest State performance level that merited a performance bonus for best payment accuracy in FY 2006 was 96.6 percent. This figure is an increase from the FY 2005 "cutoff" level of 95.6 percent, reflecting a greater concentration of high-performing States at the very highest accuracy rates.

Such USDA efforts as an enhanced Partner Web (an Intranet for State Food Stamp agencies) and the National Payment Accuracy Work Group (consisting of representatives from USDA headquarters and regional offices) contributed significantly to this success. The group is comprised of program experts to ensure continued error reduction through increased monitoring and analysis of error rate data, improvements in State corrective actions, and

increased technical assistance to States. These efforts made timely and useful payment accuracy-related information and tools available across the country. Additionally, the Department continued to use an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary quality control (QC) data. Actions then are taken by regional offices to address these situations in the individual States.

USDA's close working relationship with its State partners during the last several years, along with program changes to simplify rules and reduce the potential for error, has resulted in consistent increases in the Food Stamp Payment Accuracy Rate. One of the most important factors in maintaining improved performance in this area is the need for State partners to continue and renew their leadership commitment to excellence in payment accuracy. To support State improvement, the Department will continue efforts with the National Payment Accuracy Work Group to share best-practice methods and strategies. USDA will also continue to resolve QC liabilities through settlements, which require States to invest in specific program improvements.

Exhibit 52: Increase Efficiency in Food Management

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
5.3.1 Improve Food Program Management and Customer Service			
▪ Increase Food Stamp Payment Accuracy Rate	94.2%	NA	Deferred*

*Food Stamp data will become available in June 2008. Results will be reported in the FY08PAR.

Exhibit 53: Trends in Increased Efficiency in Food Management

Trends	Fiscal Year 2007				
	2003	2004	2005	2006	2007
5.3.1 Increase Food Stamp Payment Accuracy Rate	93.4%	94.1%	94.2%	94.0%	NA*

*Food Stamp data will become available in June 2008. Results will be reported in the FY08PAR.

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

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

Overview

Agricultural land and forest land produce food, feed, fiber, forest products and energy necessary to supply the Nation's needs. Proper management of agricultural and forest land is important. Without proper management, water resources may become degraded. Application of conservation systems enables both productive use of natural resources and protection of natural resource quality.

Key Outcome

Clean and Abundant Water

Many production practices have the potential to cause damage if they are not well managed. For example, tilling the soil and leaving it without plant cover for extended periods can accelerate soil erosion. Residues of chemical fertilizers and pesticides may wash off the field into streams or leach through the soil into groundwater. Irrigation can move salt and other dissolved minerals to surface water. Livestock operations produce large amounts of manure which, if not managed properly, can threaten human health and contribute to excess nutrient problems in wells, streams, rivers, lakes, and estuaries. When pollutants impair water quality, ecosystems are degraded and costs are imposed on those who rely on water for drinking and household use, recreational opportunities and economic livelihoods. Individuals, communities and the environment bear the consequences and the costs for degraded water quality.

The quality of water resources can be protected by preventing the movement of sediments, nutrients and chemicals from agricultural lands. Conservation practices designed to prevent the transport of these materials from farmland can significantly reduce the movement of pollutants into groundwater, rivers, and lakes. These include conservation practices that reduce topsoil erosion, manage nutrients, and control runoff. In addition, vegetated buffers between farmland and water sources improve water quality and habitat for fish and wildlife populations by intercepting sediment, nitrogen and phosphorus in runoff before these pollutants enter lakes, ponds, wetlands, and waterways. Forested buffers also provide shade—thereby cooling streams and rivers—and provide conservation cover and improved wildlife habitats.

Good management of water by agricultural producers is important to water supply as well as water quality. Agricultural irrigation accounts for a third of the water withdrawn from surface water and groundwater. USDA helps agricultural producers develop environmentally sound management practices for irrigation water management. The assistance includes information on soil quality, water management and quality, plant materials, resource management and wildlife habitat. The Department provided assistance to producers to improve irrigation water management on over 2.0 million acres in FY 2007.

The Department provides technical and financial assistance to agricultural producers to promote good stewardship of agricultural land. In addition to assistance on working lands, financial assistance includes payments to agricultural producers for taking environmentally sensitive land out of production and planting it to long-term resource-conserving groundcover. Land owners and managers who receive technical assistance and cost-share or incentive payments are more likely to plan, apply and maintain conservation systems that support agricultural production and environmental quality as compatible goals.

In addition to assistance to producers, USDA helps communities work together to protect community natural resources. USDA assistance focuses on areas

where conservation is expected to have the greatest positive effect. Assistance includes advice on drought and flood control management, collection and dissemination of natural resource data, and cost-share and technical guidelines. The assistance provided to State and local government entities, Tribes and private-sector organizations helps them protect the environment and improve the standard of living and quality of life for the people they represent.

USDA provides a portfolio of services to help protect and enhance the Nation's water resources. The portfolio includes technical assistance in planning and applying conservation, technical information on water resources, and financial assistance to apply conservation practices.

In 2007, USDA conservation experts assisted people in writing or updating conservation plans on private land for more than 15.4 million acres of working cropland and 26.5 million acres of grazing lands. Conservation plans provide producers with information on the capability of their soil, condition of their grazing lands and woodlands, irrigation water management, wildlife habitat needs, and measures to improve or protect soil, water and air quality. These plans serve as a land-use management tool to support healthy soil, water, plant, animal, and human communities. The Department assisted agricultural producers with implementing planned practices on 15.9 million acres of cropland and 28.0 million acres of grazing lands. Of these acres, more than 32 million acres benefited from conservation practices selected to improve water quality.

Much of USDA's assistance for water quality is directed towards livestock producers to reduce the risk of nutrients entering waterways from animal operations. USDA worked with agricultural producers to develop comprehensive nutrient management plans (CNMPs) on more than 5,200 livestock operations and to complete implementation of plans on 4,400 livestock operations. These plans include considerations for the collection, storage, and handling of wastes; nutrient management; land treatment practices for erosion control; and vegetated buffers to protect water bodies.

The environmental benefits of USDA's efforts to protect watersheds by controlling and managing agricultural runoff include healthier streams, rivers, estuaries, and lakes. These benefits also lead to improved ecosystems and wildlife habitats. Studies about the benefits of water-pollution reduction suggest that the annual benefits from improving water quality could total tens of billions of dollars. According to a 2003 USDA report on agricultural resources and environmental indicators, water-quality benefits from erosion control on cropland alone could total more than $4 billion annually. Improved water resources reduce water treatment costs and mean safer drinking water supplies for communities.

During FY 2007, USDA provided assistance to local groups and governments to develop watershed and area-wide plans. These plans address a wide range of water resources concerns. The Department also helped local communities complete the installation of 200 flood-prevention or mitigation measures. In addition, the 13 dams determined to be at or nearing the end of their 50-year design life were rehabilitated or removed. Upgrading and removing these dams eliminated threats to life and property, mitigated flood damages, enhanced wetlands and wildlife, and created recreational benefits.

USDA also provided producers with financial assistance. These incentives helped offset the cost of installing conservation practices and riparian and grassland buffers and maintained sound conservation. Major programs providing financial assistance for water resources included:

- Environmental Quality Incentives Program (EQIP) provided nearly $453 million in cost-share and incentives for water conservation and water quality in FY 2007. EQIP assistance is provided for improving management on working land. In addition, EQIP funded grants to help partners

identify and solve regional, State and local natural resources concerns;

- Conservation Reserve Program (CRP) is the nation's largest private-lands conservation financial assistance program, with over 36 million acres enrolled. Producers enrolled in the program plant long-term, resource-conserving covers such as grasses and trees. In return, USDA provides participants with rental payments and cost-share assistance. Producers enter into 10-to-15-year contracts. The program gives equal consideration for soil erosion, water quality, and wildlife concerns, providing environmental and economic benefits both on and off the farm.

Reduced soil erosion and fertilizer applications on CRP enrolled acreage improve water quality. Permanent vegetative cover reduces runoff, while conservation buffers filter runoff. By reducing water runoff and filtering nutrients and sediment, CRP enrolled acreage protects groundwater and helps improve the condition of lakes, rivers, ponds and streams. A study by the Food and Agricultural Policy Research Institute estimated the impact of CRP enrollment on nitrogen, phosphorus and erosion leaving field edge and root zones and showed significant reductions. These reductions mean that fewer pollutants enter water resources. CRP also assists in reversing the loss of wetlands, grassland and wildlife habitat that has occurred historically as lands were converted to agricultural use.

A key USDA strategy for increasing conservation is facilitating the growth of market-based opportunities that encourage the private sector to invest in conservation on private lands. In FY 2007, USDA entered into a partnership agreement with the U.S. Environmental Protection Agency to establish and promote water quality credit trading markets through cooperative conservation. The agreement features a pilot project within the Chesapeake Bay basin to showcase the effectiveness of environmental markets. Water quality credit trading uses a market-based approach that offers incentives to farmers and ranchers who implement conservation practices that improve water quality.

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

USDA's Web-based energy awareness tools continue to attract farmers, ranchers, and others from across the U.S. and around the world. These tools are designed to help agricultural producers reduce energy costs and assist producers in identifying ways to manage their operations more efficiently. In FY 2007, USDA released the Energy Estimator for Animal Housing, which helps producers estimate energy savings for poultry, swine, and dairy operations. This new tool joins the Energy Estimator for Tillage, Energy Estimator for Nitrogen Fertilizer and Energy Estimator for Irrigation, which were released in FY 2006. These tools help protect water resources and reduce energy costs.

Selected Results in Research, Extension and Statistics

Diet Change in Animals Can Reduce Air and Water Pollution. Agriculture is the primary source of ammonia in the atmosphere in the U.S. Once in the atmosphere, ammonia can be converted to fine particulate matter, one of the six U.S. Environmental Protection Agency criteria pollutants. It can pollute bodies of water, as well. A study evaluated the effect on air emissions of feeding swine and broiler chickens reduced crude protein diets. The impact was a 40-to-50 percent reduction in ammonia emissions with no negative performance effects in either species.

Less Greenhouse Gas—and More Carbon Credits Per Pig. This achievement marks the latest environment-friendly benefits being credited to an innovative hog waste-management system invented by USDA scientists in South Carolina. The system turns hog waste into material for soil amendments and fertilizers. Simultaneously, the process removes almost all suspended solids, phosphorus and ammonia from wastewater. The researchers found that replacing conventional anaerobic lagoon practices with the new system reduced greenhouse gas emissions by 97 percent. In turn, this reduction cut annual emissions from 4,972 tons of carbon dioxide equivalents to just 153 tons. These numbers indicate that the system may assist the fledgling carbon dioxide trading market. Farmers then would be able to earn money based on how much carbon dioxide and other greenhouse gases they can prevent from entering the atmosphere using alternative technologies.

Online Cropland Data Layers (CDL). CDL combines remote sensing imagery and USDA survey data to produce supplemental acreage estimates for a given State's major commodities. The entire CDL inventory produced by the Department was posted on its GeoSpatial Gateway at https://datagateway.nrcs.usda.gov/GatewayHome.html. There, interested users will be able to browse, query and download the CDL inventory. In the past, the data have been used for watershed and water quality monitoring, grain transportation and storage planning, crop rotation pattern analysis across years, quality control for other Government or commercial land use categorizations, prairie water pothole monitoring, and agribusiness planning for processing plant location. Data users include commercial entities, such as crop insurance, seed, fertilizer and chemical and equipment companies. Educational institutions, Governmental agencies and not-for-profits also use the information.

Challenges for the Future

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

Analysis of Results

In FY 2007, USDA made significant progress towards protecting watershed health to ensure clean and abundant water.

In FY2007 targets were set for the Conservation Technical Assistance Program (CTA) and Environmental Quality Incentives Program (EQIP) for helping livestock producers apply comprehensive nutrient management plans (CNMPs). These systems include conservation practices implemented for waste collection and storage, nutrient management, land treatment practices for erosion control, and vegetated buffers to protect water bodies. These actions enable agriculture to meet long-term goals for clean water. USDA met its FY 2007 target for CTA, but did not meet its target for EQIP. CNMPs are complex systems that require substantial investment of technical assistance, financial resources, and management. As animal agriculture has become more concentrated, public concern has increased about the potential for damage to the environment. USDA has focused on helping producers comply with State and local regulations and minimize the potential that their operations might damage water or air resources. However, uncertainty over the Concentrated Animal Feeding Operation Rule may have had an impact on the implementation of CNMPs.

The long-term goal for USDA conservation programs is to protect and enhance the Nation's natural resources and environment to meet the needs of current and future generations. The USDA *Strategic Plan for FY 2005-2010* set a strategy of helping producers increase the number of riparian and grass

buffers on agricultural lands. These buffer areas intercept sediment and nutrients before they reach surface waters. As one indicator of its performance in achieving this strategy, USDA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. During the past five years, the number of acres set aside as buffer areas under the CRP program has increased steadily. However, the performance target of 2 million acres was missed by approximately .05 million acres this fiscal year. One main reason for the missed target was the dramatic increase in commodity prices in recent months. For example, in November 2006, prices for corn, wheat, and soybeans increased 96, 25, and 15 percent respectively. These higher values have increased what farmers can get for their crops and reduced the incentive to take their farmland out of production and enroll it into the CRP. Additionally, expected land rental rate adjustments are creating some market uncertainty leading eligible producers to delay enrollment in the program. Currently, producers have set aside approximately 1.95 million acres as CRP buffer areas. Total CRP enrollment now stands at 36.7 million acres. The last available data indicate that the program has assisted in reducing soil erosion by 454 million tons annually, reducing nitrogen, phosphorus and sediment leaving the field by more than 85 percent, and sequestering more than 48 million metric tons of carbon.

External factors present challenges to accomplishing the conservation goals set by USDA. If market prices are favorable, agricultural producers may choose to continue to crop environmentally sensitive land rather than establishing long-term conservation covers or buffers. High fuel prices affect farmers and ranchers by increasing overhead costs. Landowners may be more reluctant to participate in new programs, implement new conservation practices or adopt new technologies that could affect their bottom line. Natural disasters and prolonged drought conditions may also reduce producers' ability to participate in USDA's conservation programs.

Exhibit 54: Healthy Watersheds, High Quality Soils and Sustainable Ecosystems

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
6.1.1 Number of Comprehensive Nutrients Management Plans applied			
▪ Conservation Technical Assistance	1,900	1,911[1]	Met
▪ Environmental Quality Incentives Program	3,000	2,490 [2]	Unmet
6.1.2 Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	2.0 million acres[3]	1.95 million acres[3]	Unmet

[1] Data assessment metrics to meet the target allow for an actual number in the range 1,710 - 2,090.
[2] Data assessment metrics to meet the target allow for an actual number in the range 2,700 – 3,300.
[3] Cumulative.

Exhibit 55: Trends in Application of Comprehensive Nutrient Management Plans and CRP Riparian and Grass Buffers

Trends	Fiscal Year Actual				
	2003	2004	2005	2006	2007
6.1.1 Number of Comprehensive Nutrient Management Plans applied					
▪ Conservation Technical Assistance	2,132	2,372	2,420	2,269	1,911
▪ Environmental Quality Incentives Program	948	1,055	2,032	2,774	2,490
6.1.2 Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	1.45 million acres[1]	1.65 million acres[1]	1.75 million acres[1]	1.86 million acres[1]	1.95 million acres[1]

[1] Cumulative.

Objective 6.2: Enhance Soil Quality to Maintain Productive Working Cropland

Overview

High quality soils are the foundation of productive croplands, forest lands and grasslands. Soil quality management focuses on sustaining and enhancing soil condition to provide both agricultural and environmental benefits. Intensively used soils, such as those used for the production of annual crops, are most vulnerable to degradation.

Key Outcome

Enhanced Soil Quality

High quality soils are also the foundation of a healthy environment, benefiting water, air, plants and animals. In terms of water quality, soils provide for the efficient cycling of nutrients and breakdown of pesticides, preventing unwanted materials from entering surface and ground water. Healthy soils also sequester carbon. This process reduces atmospheric carbon dioxide levels that contribute to climate change. High quality soils also sustain plant and animal life through increased water holding capacity and improved filtration — reducing the negative impacts of drought, flood and disease.

Soil quality is affected by management—it can be degraded by poor management or maintained and even improved by good management. Conservation practices, such as residue-tillage management, cover crops, crop rotations, strip-cropping and irrigation-water management reduce soil erosion and compaction, increase soil organic matter and improve its water-holding capacity.

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

USDA helps producers plan and apply conservation practices to enhance soil health. The most widely applied practices were conservation crop rotations and residue-tillage management. These practices protect soil quality by reducing erosion and increasing organic matter and carbon.

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

High quality soils support the efficient production of crops for food, fiber and energy. Proper soil management maximizes agricultural production and improves the environment. By helping producers reduce erosion, minimize compaction and increase soil organic matter, USDA helps producers enhance the quality of cropland soils.

Information on soil properties is the essential basis for protecting and enhancing soil quality. In FY 2007, USDA mapped or updated soil surveys for 36.4 million acres. Additionally, 96 legacy surveys were published, covering about 52 million acres. The surveys are available at https://websoilsurvey.nrcs.usda.gov/app/WebSoilSurvey.aspx. A recent customer-satisfaction poll ranks the Web soil survey as a top Internet destination. The site boasts almost 24,000 visits per week. Soil surveys offer local information on the capabilities and conservation treatment needs of soils within a given region. They provide basic information for conservation planning. The surveys also represent the foundation to sound land use planning and agricultural production. USDA provides the scientific expertise to enable a uniform

system of mapping and assessing soil resources across the Nation. Historically, the Department has produced soil surveys along geo-political boundaries. Future efforts will be directed toward developing dynamic, seamless national soil survey coverage.

USDA helped producers develop or update conservation plans covering 15.4 million acres of cropland and 24.3 million acres of grazing land recorded in its national conservation plan database. Additionally, technical consultations helped land managers with other decisions not recorded as a final plan in the database. To develop plans for good stewardship of soil resources, Department conservation planners helped land managers work through a structured process to analyze and work with complex natural processes in definable and measurable terms. Conservation plans for individual fields and farms are designed in the context of the larger landscape. They enable the producer to meet economic and environmental goals.

USDA helps producers implement conservation practices on their land that meet established technical standards and specifications. Most quantitative performance measures that the Department has established for its conservation programs are for practices implemented. Implementation feeds directly into achieving long-term outcome goals. In FY 2007, USDA assisted in applying conservation practices on 14.2 million acres of cropland.

USDA provides financial assistance to encourage producers to adopt land treatment practices proven to provide significant public benefits. In FY 2007, financial assistance for practices applied primarily to address soil quality issues included $349 million in Environmental Quality Incentives Program (EQIP) cost-shares, or incentives for adopting structural measures or management practices to reduce erosion and protect cropland.

Analysis of Results

USDA met its targets for helping producers apply conservation practices to improve soil quality on cropland. This performance measure includes all cropland and hay land on which USDA-assisted producers apply conservation measures to maintain or enhance soil quality, and enable sustained production of safe, healthy and abundant food supply. Targets are set only for the Conservation Technical Assistance Program (CTA) and the Environmental Quality Incentives Program (EQIP). CTA provides assistance for the most widely-used, economically feasible practices such as residue-tillage management. USDA exceeded the target for assistance provided with CTA. EQIP provides cost shares for capital-intensive practices needed to solve difficult problems on environmentally sensitive land or comply with local or State regulations. Small acreages also are protected through other programs. Because conservation plans and practices may be applied with assistance from more than one program, some acres reported for one program also may be included in those reported for another program.

The Conservation Security Program (CSP) is a voluntary program that provides financial and technical assistance to promote conservation on working agricultural lands. The CSP supports ongoing natural resource stewardship by identifying and rewarding those farmers and ranchers meeting the very highest standards of conservation and creating powerful incentives for other producers to meet those same standards. CSP provides payments for enhancement activities, which are management measures that exceed the sustainability level for a given resource, concern, or go beyond the minimum requirements of a management practice. Performance measures for CSP reflect new conservation enhancement activities applied on cropland. In FY2007 USDA met its CSP targets.

Application of conservation practices that improve soil quality is considered the best indicator of accomplishments that link directly to the long-term

objective of increasing the acreage under soil-enhancing management. Farming is dynamic because producers frequently change crops, equipment and management practices. Thus, they need help in adjusting conservation systems even on land well protected through the previous system. The Department helped producers apply conservation practices in plans covering 15.9 million acres of cropland and 23.6 million acres of grazing land. The majority of this basic soil protection was planned through CTA and applied with assistance through the program and EQIP.

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

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

Exhibit 56: Enhanced Soil Quality

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
6.2.1	Cropland with conservation applied to improve soil quality, millions of acres			Met
	▪ Conservation Technical Assistance Program	6.0	7.3	
	▪ Environmental Quality Incentives Program	5.0	5.3	
	▪ Conservation Security Program	0.14	0.14	

Exhibit 57: Trends in Soil Quality Protection

Trends		Fiscal Year Actual				
		2003	2004	2005	2006	2007
6.2.1	Cropland with conservation applied to improve soil quality, millions of acres					
	▪ Conservation Technical Assistance	N/A[1]	N/A[1]	6.0	6.4	7.3
	▪ Environmental Quality Incentives Program	N/A[1]	N/A[1]	2.2	3.4	5.3
	▪ Conservation Security Program	N/A	1.3	7.2	1.4	0.14

[1]This measure is new for the Department in FY 2007, but relates to the prior year measure for Cropland Soils Protected from Excessive Erosion. The measure has been designed to provide a better indicator of soil quality and includes all cropland and hay land on which USDA assisted producers to apply conservation measures to maintain or enhance soil quality and enable sustained production of safe, healthy, and abundant food supply. Performance data for FY2006 and FY2005 have been provided to indicate the prior year performance had this measure been employed at that time.

Selected Results in Research, Extension and Statistics

Improving Wine Grapes by Measuring Soil Moisture. Thanks to a USDA-supported research project, ground-penetrating radar was used to map soil moisture down to a one-centimeter grid to varying depths in a commercial vineyard. This allows vineyard operators to refine their irrigation strategies to improve grape quality. Wine grapes are dependent on slight water stress. This new technology could increase both yield and quality, factors often inversely related in wine making, while also saving water.

Sustaining the Soil for Shallow-rooted Vegetable Crop Systems. Heavily fertilized crops with shallow roots, such as potatoes, that leave small amounts of crop residue are susceptible to erosion and nitrate leaching. Studies by USDA scientists determined that nitrate leaching was minimized and soil nitrogen recovery improved significantly when a shallow-rooted crop was followed with a deep-rooted winter cover crop like winter rye, malting barley or winter wheat.

OBJECTIVE 6.3: PROTECT FORESTS AND GRASSLANDS

Overview

Key Outcome

Sustainable Forest and Grassland Ecosystems

Healthy forests and grasslands are essential to our quality of life. Comprising half of the Nation's land, these areas provide timber and livestock forage. They also contribute to the health and well-being of the Nation's water supply, air and wildlife. To ensure these resources are protected, USDA looks to reduce fire danger, minimize the threat of invasive species and apply conservation practices that reduce erosion and improve water quality.

USDA serves as an active manager of 193 million acres of national forests and grasslands and a technical assistance provider on non-Federal forests and grasslands. The latter comprises almost half of the continental U.S. As an active manager of Federal lands, the Department protects and manages national forests and grasslands so they support multiple uses. Using technical and financial assistance, USDA also helps landowners and operators address the risks on privately owned land, using conservation practices. Conservation practices applied with Department assistance include prescribed grazing, integrated pest management, brush management, forest stand improvement and tree planting. These practices, alone and in combination, create and maintain productive and environmentally beneficial landscapes.

Four serious threats pose an increasing risk to the values, goods and services provided by public and private forestland and grassland. These threats include wildland fire, invasive species, loss of open space and unmanaged outdoor recreation. In many areas, especially in the West, most watersheds and landscapes include public land managed by several Federal agencies and private, State and Tribal lands. Protecting the natural resources in these areas requires cooperation among a large number of stakeholders, with a focus on the whole landscape.

USDA's forest protection performance measure focuses on reducing the risks of catastrophic wildland fire. Its performance measure for grazing land and non-Federal forestland focuses on increasing the amount of land under conservation management that will protect ecosystem health and reduce susceptibility to damage by drought, invasive species and wildfire.

Challenges for the Future

Challenges include ensuring public and firefighter safety while protecting public lands and assets still threatened by fire in forests dense with ever-increasing vegetation and fuel. Additional challenges are the continued drought conditions throughout much of the Nation and the expansion of communities into previously uninhabited wildlands. This expansion makes up what is known as the wildland urban interface. The historical trend shows increasing impact from wildland fire. As drought continues and communities expand into forested areas, the potential increases for even more deadly and damaging fires. Another challenge is the cost of containing wildfires.

The 2002 coarse scale assessment of wildland fuels determined that approximately 56 percent of all acres managed by USDA have missed 2 or more expected fire cycles and are at elevated risk from wildland fire. The finer scale data available from LANDFIRE is expected to show an even greater departure from expected conditions in the Nation's forests and woodlands. Commercial utilization of excess vegetation has been identified as one way to lower the cost of Government forest fuel-reduction and restoration treatments. A barrier to expanding forest biomass utilization is the limited market for this material because of reduced forest products processing capacity in many Western States. Much of this material is small diameter and non-traditional species. This factor presents a further barrier to utilization where forest products processing capacity remains. Title II of Healthy Forests Restoration Act of 2003 (HFRA) authorizes measures to further commercial use of biomass. A significant challenge for USDA and DOI is to expand the acreage of hazardous fuel and restoration treatments with available funding by increasing the commercial utilization of hazardous fuel. The Departments are developing a strategy to encourage greater biomass utilization, including as a domestic source of energy.

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

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

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

Reducing the Risk of Wildfire

More than 21 million acres of National Forest lands burned during the FY 2007 fire season. Nationwide, wildfires consumed more than 9 million acres of public and private land. USDA and the U.S. Department of the Interior (DOI) are using tools and authorities provided by the President's Healthy Forests Initiative (HFI) and the HFRA to promote project planning and implementation to reduce fire hazards and restore forests and grasslands. HFI was launched in 2002 to reduce administrative process delays. HFRA provides improved statutory processes for hazardous fuel reduction projects. It also provides other authorities direction to help reduce hazardous fuel and restore healthy forest and rangeland conditions on lands of all ownerships. The USDA-DOI projects largely consist of removing excess vegetation and prescribed burning (collectively, hazardous fuel reduction) to reduce the risk from wildfires.

Removing excess vegetation decreases fire hazards, which improves firefighter and public safety. USDA treated more than 3 million acres to remove excess vegetation. Approximately 1.7 million of these acres were treated specifically to reduce hazardous fuels. On an additional 0.8 million acres, hazardous fuel levels were reduced through watershed restoration and wildlife habitat rehabilitation treatments. The Department also achieved management objectives on more than 250,000 acres when naturally ignited fires met management prescriptions.

USDA's efforts to reduce the risks of wildfire are conducted in collaboration with Federal, State, tribal and local Governments, and non-Governmental organizations. USDA participated actively in Cooperative Conservation, promoting full partnership in the conservation of natural resources and the environment. Cooperative Conservation is a voluntary program established to foster conservation partnerships that focus technical and financial resources on conservation priorities in watersheds and airsheds of special significance. The Department is working with communities to develop Community Wildfire Protection Plans (CWPP). CWPPs identify wildland fire hazards in areas within and surrounding communities. They also identify high-priority hazardous fuels to treat for USDA. Additionally, CWPPs assist private citizens in understanding better the role fire plays in ecosystem health, interacting positively with Federal land managers and creating business opportunities.

In addition to working on CWPPs, the Department has updated the National Fire Plan's 10-year Comprehensive Strategy Implementation Plan, in cooperation with DOI, State and local Governments, and non-Governmental partners. This plan identifies a collaborative approach for reducing wildland fire risks to communities and the environment. Goals established in the original 10-Year Comprehensive Strategy Implementation Plan were met in FY 2006, just five years after the National Fire Plan's establishment.

Other 2007 accomplishments in addressing hazardous fuel conditions and reducing the impacts of wildfire include:

- Developing new fire and fuels performance measures to more effectively measure the impact of treatments on the landscape;
- Investing more than 60 percent of the dollars available for hazardous fuel treatments in the wildland urban interface near communities;
- Continuing development of LANDFIRE, an interagency landscape-scale fire, ecosystem and vegetation-mapping project, and completed mapping the western United States. LANDFIRE is designed to help land managers make informed decisions for treatments to reduce wildland fire risks across landscapes;
- Increasing wildland fire use (allowing natural ignitions to burn to meet resource objectives in areas designated in Fire Management Plans if they meet predetermined conditions) on more than 250,000 acres;
- Enhancing the Hazardous Fuel Prioritization and Allocation System to help USDA managers identify and display national priorities geographically. This system incorporates Geographic Information System data across a wide range of emphasis areas, from wildfire potential to wildland-urban interface areas at risk from catastrophic wildfires; and
- Developing a Fire Program Analysis prototype. This prototype incorporates initial response simulation and large fire statistical models with a decision support system to be used to assist managers allocate fire preparedness funding.

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

increase the Department's ability to protect communities and resources through active management of forests and rangelands.

Improving Grazing Land Condition

Non-Federal lands in forest and grassland ecosystems make up almost half of the continental United States. USDA helped landowners apply conservation practices on more than 27 million acres of privately managed grazing and forest lands. The practices protect soil quality, prevent soil erosion and provide sustainable forage and cover for livestock and wildlife.

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

- **Conservation Planning and Technical Consultation**—USDA helped producers develop or update conservation plans covering 26.5 million acres of grazing lands. The Department also provided technical advice to Tribes, communities and other Federal land management agencies;
- **Conservation Implementation**—USDA assisted in applying conservation practices on almost 28.0 million acres of non-Federal grazing lands. These lands included rangeland, pastureland, grazed forest and native pasture; and
- **Financial Assistance**—The Department provided financial assistance to encourage producers to adopt land treatment practices proven to benefit the public. Financial assistance for practices applied primarily to protect and enhance grazing land and forestland included $113 million in Environmental Quality Incentives Program (EQIP) cost-shares or incentives for adoption of structural measures or management practices. EQIP provide a voluntary conservation program for farmers and ranchers that promotes agricultural production and environmental quality as compatible national goals.

Selected Results in Research, Extension and Statistics

Protecting Grasslands and Pastures from Invasive Weeds. In Oregon, a conservative estimate of the economic impact of the State's 12 worst noxious weeds is $67 million annually. Through USDA-supported research, ragwort (Senecio jacobaea), a weed of roadsides, pastures and grasslands, has been successfully controlled by biological methods. Assuming that at least half of the benefits calculated for controlling ragwort at its peak can be attributed to this research, the annual benefits to Oregon growers and livestock producers amount to $3 million.

Plant Can Remove Cadmium and Other Heavy Metals from Contaminated Soils. USDA scientists have shown that a simple plant called alpine pennycress (Thlaspi caerulescens) can remove cadmium and other heavy metals from contaminated soils. This soil-remediation process is known as phytoextraction. The Department has led the way in using metal-accumulating plants to clean contaminated soil. Scientists demonstrated that the plant genus T. caerulescens can concentrate up to about 8,000 parts-per-million of toxic cadmium in its leaves. Harvesting the aboveground vegetation annually makes it possible to reduce the concentration of cadmium in soil to safe levels in 3 to 10 years. Phytoextraction costs about $250 to $1,000 per acre per year, while the alternative clean-up method—removal and replacement with clean soil—costs about $1 million per acre.

Analysis of Results

USDA exceeded its performance goals for protecting the health of the Nation's forests and grasslands against the risk of fire in all but one performance measure. Adjustments made in the third quarter of the fiscal year allowed managers to address potential shortfalls in many parts of the country due to resources redirected to wildfire suppression activities. In Florida and Georgia, for example, USDA support of suppression operations in the Okefenokee Swamp fire limited prescribed fire operations elsewhere in the region.

USDA tracked hazardous fuel treatment with a single performance measure for all treatment activities prior to FY 2001 and the National Fire Plan's launch. In FY 2003, an additional performance measure based on fire regime condition class was established to track treatment on forests more susceptible to catastrophic wildland fire because of excess vegetation resulting from fire exclusion.

Nationwide drought conditions, community expansion into previously uninhabited wildlands and densely vegetated forests increases the chances of more deadly and damaging wildfires. The 2002 coarse scale assessment of wildland fuels determined that approximately 56 percent of all acres managed by USDA have missed 2 or more expected fire cycles. It also showed that the acres are at elevated risk from wildland fire. The finer scale data available from LANDFIRE is expected to show an even greater departure from expected conditions in the Nation's forests and woodlands.

Another challenge is the cost of containing wildfires. Commercial utilization of excess vegetation has been identified as one way to lower the cost of Government forest fuel-reduction and restoration treatments. A barrier to expanding forest biomass utilization is the limited market for this material. This barrier is attributed to the reduced capacity of forest product processing in many western States. Even where processing capacity exists, utilization is limited because much of this material is of small diameter and is from non-traditional species. Title II of HFRA authorizes measures to further commercial use of biomass. USDA and DOI are developing a strategy to encourage greater biomass utilization, including as a domestic source of energy.

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

USDA exceeded its 2007 targets for CTA and EQIP for assisting in the protection and enhancement of non-Federal grazing land. USDA met its targets for the CSP. In 2000, an estimated 288 million acres of non-Federal grazing land were in minimal or degrading condition. The Department's long-term goal is to reduce that by 100 million acres by 2010. The measure of acres of grazing land treated is an indicator of progress toward the goal of improved condition. A surrogate annual measure is needed because improvement in condition resulting from improved management generally happens slowly.

Response to changed management is slow because the moisture available to support plant growth is limited in rangeland ecosystems. The measure includes all land on which producers applied a conservation practice in the fiscal year with USDA technical or financial assistance. The conservation applied includes a wide range of practices tailored to the resource conditions and producer's operation and goals on the specific site. The conservation practices applied help protect the resource base against on-site damage. They also prevent damage to off-site soil, water and air. High priority was given to activities to achieve the reduction of non-point source pollution in impaired watersheds, reduction of emissions to meet ambient air quality standards, reduction of soil erosion below the tolerable rate and the promotion of habitat for at-risk species. EQIP provided financial and technical assistance in implementing capital-intensive measures. Conservation Technical Assistance was provided for measures that producers financed entirely with their own funds or with assistance from non-USDA sources.

A key component of the assistance USDA provided was expertise to develop comprehensive site-specific conservation plans. These plans are designed to enable

producers to meet their economic and environmental goals. Department technical assistance for planning enables resource managers to focus on the natural systems and ecological processes that maintain the natural resource base. This comprehensive approach considers all of the aspects of a site and sees it as a part of a larger landscape. The approach is essential to the sustainable, productive use of natural resources.

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

With regard to private land, producers' willingness and ability to implement the conservation measures that would achieve this outcome are affected by economic conditions, drought and invasive species. USDA, in cooperation with other Federal, State, Tribal and local agencies and private organizations, will work to provide producers with information and other resources they need to adopt needed conservation measures.

Since much of USDA's activities on private forestland and rangeland occur in cooperation with State agencies, State-level budget constraints may hamper USDA efforts to meet the goal for non-Federal grazing land.

Exhibit 58: Hazardous Fuel Reduction

Annual Performance Goals and Indicators		Fiscal Year 2007		
		Target	Actual	Result
6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	1,400,000	1,139,000	Unmet*
6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II, or III outside the wildland-urban interface	350,000	528,000	Exceeded
6.3.3	Number of acres in Condition Class 2 or 3 in Fire Regimes I, II, or III treated by all land management activities that improve Condition Class	1,100,000	1,301,000	Exceeded

Actual accomplishments are as of the close of FY 2007 for these measures

Exhibit 59: Trends in Treatment of Hazardous Fuel

Trends		Fiscal Year Actual (thousand acres)				
		2003	2004	2005	2006	2007
6.3.1	Number of acres of hazardous fuel treated that are in the wildland urban interface	1,114	1,311	1,094	1,045	1,139
6.3.2	Number of acres of hazardous fuel treated that are in condition Classes 2 or 3 in Fire Regimes I, II, or III outside the wildland-urban interface	339	492	470	409	528
6.3.3	Number of acres in Condition Class 2 or 3 in Fire Regimes I, II, or III treated by all land management activities that improve Condition Class	N/A	758	1,058	1,093	1,301

Exhibit 60: Sustainable Forests and Grasslands

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
6.3.4 Grazing and forest land with conservation applied to protect and improve the resource base, millions of acres			Exceeded
▪ Conservation Technical Assistance	8.0	14.2	
▪ Environmental Quality Incentives Program	13.0	16.5	
▪ Conservation Security Program	0.06	0.07	

Exhibit 61: Trends in Protection of Non-federal Forests and Grasslands

Trends	Fiscal Year Actual				
	2003	2004	2005	2006	2007
6.3.4 Grazing lands and forestland with conservation applied to protect the resource base and environment, Conservation Technical Assistance, millions of acres					
▪ Conservation Technical Assistance	N/A[1]	N/A[1]	7.5	11.8	14.2
▪ Environmental Quality Incentives Program	N/A[1]	N/A[1]	8.0	12.2	16.5
▪ Conservation Security Program	N/A	0.40	2.30	1.30	0.07

[1]This measure has been re-defined and expanded in FY 2007 to include all private grazing or forest land on which the Department assisted producers to apply conservation measures to maintain or improve long-term vegetative condition and protect the resource base. Lands on which conservation measures may be applied include grazed range, grazed forest, native and naturalized pasture, and forest. Non-federal grazing and forest land accounts for the majority of the Nation's private lands. The conservation applied includes a wide range of practices tailored to the resource conditions and producer's operation and goals on the land unit. The conservation practices applied help to protect the resource base against damage on-site and prevent damage to soil, water, and air off-site. Performance data for FY2006 and FY2005 have been provided to indicate the prior year performance had this measure been employed at that time.

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

Overview

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

Key Outcome

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

USDA's efforts to improve habitat on private lands include providing technical and financial assistance to landowners and managers. This assistance helps them manage working lands and waters to sustain wildlife,

aquatic species and plant communities. The Department also acquires and manages easements to improve and restore grassland, rangeland and forest ecosystems, and wetlands and their associated upland buffers. These actions are designed to create productive, diverse and resilient habitat.

USDA assisted individuals and groups to apply management that will maintain or improve habitat on 14 million acres of non-Federal land. The land treated included 13.5 million acres of upland wildlife habitat management and more than 500,000 acres of wetland wildlife habitat management. Department conservationists provide on-site assistance to producers and other landowners in controlling invasive species, adopting practices to improve grassland or forest habitat and managing water levels in wetlands to control vegetation. These plans consider wildlife needs for shelter, access to water, food in proper amounts, locations and times to sustain wildlife populations that inhabit the area during a portion of their life cycle. Actions to sustain and enhance aquatic habitat include applying conservation practices that filter potential pollutants and moderate stream temperatures. USDA is supporting efforts to achieve the President's goal to restore, create, enhance and protect 3 million acres of wetlands by 2010. The Department assisted in creating, restoring or enhancing 285,000 wetland acres on non-Federal lands. Its goal is to address 1.5 million acres by 2010.

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

Improving watershed health for wildlife species also improves conditions for the human population. Humans will benefit from improved water and air quality, control of invasive species, reduced flood damage, more open space and an increased opportunity for educational recreation. Additionally, keeping wildlife populations healthy and sustainable minimizes the need for regulatory action to protect threatened and endangered species on privately owned land.

Challenges for the Future

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

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

Analysis of Results

USDA did not meet its target for the creation, restoration or enhancement of wetlands. The performance measure for wetlands includes land on which conservation practices were applied to Department standards with USDA assistance in FY 2007. It does not indicate the cumulative total of wetland acres enrolled in USDA programs contracts. For this performance measure, targets were set for USDA's Conservation Technical Assistance (CTA), Wetlands Reserve (WRP) and Conservation Reserve

(CRP) Programs. On wetlands where USDA provided technical assistance through CTA, no financial assistance was provided by Department programs. In some cases, financial assistance may have been provided through non-USDA sources.

WRP and CRP are voluntary conservation programs that offer landowners the means and opportunity to protect, restore and enhance wetlands on their property. WRP participants sign an easement or agreement with USDA. CRP protects wetlands using long-term rental agreements.

In 2003, there were 111 million wetland acres on non-Federal lands in the continental U.S. In 2004, the President set a national goal to go beyond no net loss – to restore, create, enhance and protect 3 million acres of wetlands by 2010. In support, USDA established a long-term goal of 1.5 million acres created, restored or enhanced by 2010. Reaching the target levels established for WRP, CRP, and CTA will contribute significantly toward meeting the long-term goal. When 2005-2007 results for this measure are combined, more than 903,000 acres of wetlands have been restored, representing 60 percent of the USDA goal.

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

In FY 2007, USDA entered into a partnership agreement with the U.S. Fish and Wildlife Service and the Association of Fish and Wildlife Agencies. The agreement is designed to establish and promote habitat credit trading markets through cooperative cooperation. It features developing uniform standards and establishing multiple pilot projects nationwide to showcase the effectiveness of these environmental markets. Habitat credit trading uses a market-based approach that offers incentives to farmers and ranchers who agree to set aside and maintain portions of their land for wildlife habitat.

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

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

Selected Results in Research, Extension and Statistics

Understanding the Importance of Species Diversity in Protecting the Nation's Forests and Wildlife. The species composition of the central hardwood forest in the Appalachian region is changing such that fewer species are regenerating naturally. This loss of species diversity influences the quality of wildlife habitat and decreases the economic values of the forest. USDA-funded researchers studied the changes and calculated species diversity indices before and after clear-cutting. The result of this research emphasizes the need for such pre-emptive treatments as cleaning to maintain species diversity. The research also shows that cleaning needs to occur at about 10 years post-harvest and not the previously standard 12-to-20 year time frame.

Exhibit 62: Improved Wildlife Habitat

Annual Performance Goals and Indicators	Fiscal Year 2007		
	Target	Actual	Result
6.4.1 Wetlands created, restored or enhanced, acres			
▪ Conservation Technical Assistance	51,300	62,092	Exceeded[1]
▪ Wetlands Reserve Program	156,000	149,326	Met[2]
▪ Conservation Reserve Program	58,500	68,834	Exceeded[3]

[1] Data assessment metrics to meet the target allow for an actual number in the range 46,170 – 56,430.
[2] Data assessment metrics to meet the target allow for an actual number in the range 140,400 – 171,600.
[3] Data assessment metrics to meet the target allow for an actual number in the range 52,650 – 64,350.

Exhibit 63: Trends in Wildlife Habitat Enhancement

Trends	Fiscal Year Actual				
	2003	2004	2005	2006	2007
6.4.1 Wetlands created, restored or enhanced, acres					
▪ Conservation Technical Assistance	43,525	59,293	53,498	65,345	62,092
▪ Wetlands Reserve Program	137,151	123,363	180,358	181,979	149,326
▪ Conservation Reserve Program	63,874	57,036	50,934	61,279	68,834

Program Assessment Rating Tool (PART) Evaluations

The Program Assessment Rating Tool (PART) was developed to assess and improve program performance so that the Federal government can achieve better results. The PART reviews of USDA programs help identify a program's strengths and weaknesses to inform funding and management decisions aimed at making the program more effective. The PART therefore looks at all factors that affect and reflect program performance including program purpose and design; performance measurement, evaluations, and strategic planning; program management; and program results. Because the PART includes a consistent series of analytical questions, it allows programs to show improvements over time, and allows comparisons between similar programs.

The summaries below represent programs PARTed in fiscal year 2007, including programs that were reassessed because the programs' previous ratings were unsatisfactory. The programs are summarized by Strategic Objective. Further detail on USDA's PARTed programs can be found at https://www.whitehouse.gov/omb/budget/fy2006/part.html.

Strategic Objective 2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers
Program Name	**Agricultural Marketing Loan Payments**
Current Rating	• Adequate
Lead Agency	• Farm Service Agency (FSA)
Major Findings/ Recommendations	• The Marketing Loan Program has been proven to successfully provide short-term financing, however, the program has a high percentage of improper payments. A large percentage of the improper payments were caused by noncompliance with administrative procedures. This may not have caused payments to be disbursed in error, though it is not possible to confirm whether payments are appropriate without proper documentation.
Actions Taken/Planned	• FSA is implementing policies to reduce improper payments while conducting more frequent external audits of program effectiveness. In addition, the agency is working to make the delivery of services to producers consistent across county offices.

Strategic Objective 3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth
Program Name	**Rural Development Broadband Loan and Loan Guarantee Program**
Current Rating	• Adequate
Lead Agency	• Rural Business-Cooperative Service (RBS)
Major Findings/ Recommendations	• The Broadband program has a clear purpose, to provide loans for broadband, and good program management. This results in increasing the provision of broadband services to rural residents. However, the program is flawed as seen by the under utilization of two loan types. Though there are still rural areas that do not have broadband, neither the 4 percent nor guaranteed loan types are utilized by borrowers.
Actions Taken/Planned	• RBS is reviewing program operations and community/constituent/borrower needs to identify program improvements to increase program efficiency and demand for under utilized loan types. In addition, RBS is implementing a process for conducting periodic independent reviews that assess the program's performance.

Strategic Objective 3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth
Program Name	**Rural Business Enterprise Grant Program**
Current Rating	• Adequate
Lead Agency	• Rural Business-Cooperative Service (RBS)
Major Findings/ Recommendations	• Though the program is well designed, it is not unique. The program targets businesses both by size and geography. However, the Economic Development Administration, Appalachian Regional Commission, and Small Business Administration all provide similar economic development grant programs or technical assistance to small businesses in urban and rural areas.
Actions Taken/Planned	• RBS is creating long term performance measures that will incorporate long term business or job stability. • USDA is Improving efficiencies within Rural Development administration, decreasing the amount of time it takes to get Notice of Funding Availability documents out and grants awarded • RBS is increasing the number of RBEG awards to communities that have high rates of poverty or unemployment.

Strategic Objective 3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities
Program Name	**Single Family Housing Loan Guarantees**
Current Rating	• Effective
Lead Agency	• Rural Housing Service (RHS)
Major Findings/ Recommendations	• The program is well targeted using both income and location for criteria. However, there is redundancy with other Federal guaranteed home loan programs. It is not considered extensive, and the Administration has proposed changes to this program's authorization to reduce the redundancy with the other Federal home loan guarantee programs in situations where the lender happens to offer them all. • The program is free of design flaws**.** In the past, lenders using the program threatened to not participate if the funding for the program ran out prior to the end of the fiscal year. The program has corrected this flaw by designing controls that will better ensure steady funding and access to the program throughout the fiscal year.
Actions Taken/Planned	• The Rural Housing Service is working with the Congress to change this program's authorization to help reduce any redundancy with other Federal home loan guarantee programs. • In addition, RHS is evaluating the controls that ensure steady funding and access to the program by the lenders to make sure they are adequate to retain lenders in the face of limited funding in any given year.

Strategic Objective 3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities
Program Name	**Rural Distance Learning and Telemedicine Loan and Grant Program**
Current Rating	• Adequate
Lead Agency	• Rural Utilities Service (RUS)
Major Findings/ Recommendations	• The program has a clear purpose, to provide loans and grants to improve rural telemedicine and distance learning service. This results in increased access to learning opportunities and improved medical care in rural areas. • Performance measures, baselines and targets have been established and progress in meeting performance goals was demonstrated. However, there are no periodic independent evaluations of the program's performance.
Actions Taken/Planned	• RUS is determining how and when to implement periodic independent reviews, focusing on how well the program is accomplishing its mission, and meeting its long-term goals. RUS is also collecting and reviewing grantee performance information in order to make adjustments to the assumptions used to develop budget estimates of loan program costs.

Strategic Objective 4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks
Program Name	**Animal Welfare**
Current Rating	• Moderately Effective
Lead Agency	• Animal and Plant Health Inspection Service (APHIS)
Major Findings/ Recommendations	• The program has a clearly stated purpose, which is to protect and promote the welfare of animals covered by the Animal Welfare Act (AWA) and the Horse Protection Act (HPA). It is also the only program that has authority over the interstate movement of animals that are subject to the AWA. APHIS is instituting several new performance measures, but currently does not have baseline data for those measures.
Actions Taken/Planned	• APHIS is collecting baseline data for new performance measures, and adjusting targets if appropriate. In addition, APHIS is customizing outreach activities provided to licensees and registrants to support the goal of ensuring the humane care and use of animals protected by the Animal Welfare Act.

Strategic Objective 4.2	Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks
Program Name	**Pesticide Data Program**
Current Rating	• Adequate
Lead Agency	• Agricultural Marketing Service (AMS)
Major Findings/ Recommendations	• The Pesticide Data Program supplies data to the Environmental Protection Agency (EPA) to reflect pesticide residues on fruits and vegetables in the U.S. food supply. This data is used by EPA to assist in regulatory decisions that affect agricultural production and in pesticide registration and re-registration process. The program should develop long-term outcome measures that demonstrate what outcome results from the use of this data.
Actions Taken/Planned	• AMS is evaluating the methodology used to establish program performance targets for long-term and annual measures. In addition, the agency is developing additional annual and long-term performance measures that demonstrate progress toward a long-term programmatic outcome.

Strategic Objective 5.2	Promote Healthier Eating Habits and Lifestyles
Program Name	**Food Stamp Program Nutrition Education**
Current Rating	• Results Not Demonstrated
Lead Agency	• Food and Nutrition Service (FNS)
Major Findings/ Recommendations	• There are no standardized performance measures across State programs to gauge progress. The scope of nutrition education efforts varies widely, making it difficult to establish meaningful outcome measures to capture the program's progress. While States collect some data on participation, the data collected is limited and ambiguous and varies across programs.
Actions Taken/Planned	• FNS is developing efficiency measures to assess program effectiveness related to its goals. • In addition, FNS is developing a plan to increase the use of evidence-based food and nutrition education initiatives across States.

Strategic Objective 6.1, 6.2, 6.3	Protect and Enhance the Nation's Natural Resource Base and Environment
Program Name	**Environmental Quality Incentives Program**
Current Rating	• Moderately Effective
Lead Agency	• Natural Resources Conservation Service (NRCS)
Major Findings/ Recommendations	• Budget requests are explicitly tied to the accomplishment of goals and objectives and NRCS has strengthened the program's budget and performance integration. NRCS will make further improvements by revising its state funding allocation formula to better reflect program priorities.
Actions Taken/Planned	• NRCS is working to improve financial management practices, particularly the timely resolution of open obligations and the consistency of contract modifications.

Strategic Objective 6.3	Protect Forests and Grasslands
Program Name	**National Forest Improvement and Maintenance**
Current Rating	• Results Not Demonstrated
Lead Agency	• Forest Service
Major Findings/ Recommendations	• The Forest Service has made strides in meeting program objectives, but cannot demonstrate overall program performance in key areas such as safety, condition sustainability and environmental suitability, utilization, and mission dependency. • The Forest Service is unable to accurately and completely determine the current condition of facilities, roads, and trails and the estimated cost to correct any deficiencies. In addition, the Forest Service lacks a strategy to prioritize program improvements, particularly in a 388,000-mile road system which continues to expand even as decommissioning is required to reduce large deferred maintenance backlogs.

Strategic Objective 6.3	Protect Forests and Grasslands
Program Name	**National Forest Improvement and Maintenance**
Actions Taken/Planned	• The Forest Service is working to improve overall data quality and ensure that accurate condition assessment surveys drive management decisions regarding construction, use, maintenance or decommissioning, and disposal of assets. • In addition, the Forest Service is developing a strategy to prioritize road, facility and trail improvements that reflect investment strategies as a common criteria for reducing the deferred maintenance backlog.

Program Evaluations

Objective	Title	Findings and Recommendations/Actions	Availability
1.4.1	OIG-05801-03-KC, Financial Management Controls over Reinsured Companies	Findings: Both OIG and GAO concluded that RMA had not identified the financial deficiencies of the failed reinsured company primarily because RMA emphasized past compliance and financial data, rather than future financial forecasts. OIG closed this review without recommendations because the problematic issues identified were raised in a December 3, 2003, memorandum to RMA prior to its 2005 SRA negotiations with reinsured companies, and that their findings overlapped those reported by GAO in their June 1, 2004, report. Actions: RMA completed actions necessary to address the issues identified in the above referenced documents.	Report is available at https://www.usda.gov/oig/ rptsa uditsrma.htm
	OIG-05601-13-Te, New Crop Products Submitted by Companies	Findings: RMA needs to establish written procedures to monitor and review the implementation and performance of section 508(h) products. Recommendations/Actions: RMA completed the actions recommended by OIG to address this matter.	Report is available at https://www.usda.gov/oig/ rptsa uditsrma.htm
	OIG-05099-11-SF, Prevented Planting Payments For Cotton Due to Failure of the Irrigation Water Supply in California and Arizona Crop Year 2003	Findings: OIG found none of the cotton producers in their sample improperly sold their water service rights, and nothing came to their attention to indicate that the pertinent controls were not operating as prescribed. However, four cotton producers in California did not meet program eligibility requirements. Actions: RMA is reviewing the four producers to determine whether loss payments were improperly paid to these individuals.	Report is available at https://www.usda.gov/oig/ rptsa uditsrma.htm
3.1.1	Business Programs Assessment Reviews (BPARs)	Findings: The BPAR evaluates the Fundamental Risk Component characteristics in each State through ongoing on-site and off-site monitoring and review activities. The reviews are completed with the assistance of the Farm Credit Administration, through a memorandum of understanding, which provides a commissioned bank examiner's evaluation and inherent risk. In FY 2007, 10 State office operations and portfolio management were reviewed. Actions: Findings, causes and recommendations vary widely State to State. Each State office undertakes corrective actions in response to the BPAR.	While banking information and borrower data are protected under Federal Bank Secrecy Laws, redacted reports are available to the public through the Freedom of Information Act.

Objective	Title	Findings and Recommendations/Actions	Availability
4.1	Automated Targeting System (ATS) evaluation	Findings: The FSIS Office of Program Evaluation, Enforcement, and Review (OPEER), Program Evaluation and Improvement Staff (PEIS) evaluated data from the ATS pilot conducted at the ports of Philadelphia and Houston to test the targeting and handling of FSIS regulated shipments potentially at high risk from intentional contamination. The final report, issued May 29, 2007, contains recommendations for improving the accuracy and efficiency of the ATS. Actions: FSIS continues to take action to improve the ATS.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review, Program Evaluation and Improvement Staff USDA-FSIS (202) 720-6735
4.1	Technical Service Center (TSC) Customer Service Evaluation	Findings: PEIS collected and analyzed data from FSIS employees and the general public regarding the technical assistance, advice, and guidance provided by the TSC and made recommendations for improving customer service. The final report, issued November 7, contains recommendations for improving TSC customer service. Actions: FSIS has taken action to address the findings.	Information may be requested from the USDA Food Safety Inspection Service—Office of Program Evaluation, Enforcement and Review, Program Evaluation and Improvement Staff USDA-FSIS (202) 720-6735
4.2.2	"Avian Influenza: USDA Has Taken Important Steps to Prepare for Outbreaks, but Better Planning Could Improve Response", GAO-07-652, US General Accountability Office, June, 2007	Findings: While USDA has made important strides, incomplete planning at the Federal and State levels, and several unresolved issues could slow response. First, USDA is not planning for the lead coordinating role that the Department of Homeland Security (DHS) would assume if an outbreak among poultry occurred that is sufficient in scope to warrant various Federal disaster declarations. GAO's prior work has shown that roles and responsibilities must be defined and understood clearly to facilitate rapid and effective decision making. Moreover, USDA response plans do not identify the capabilities needed to execute the critical tasks associated with an outbreak scenario—that is, the entities responsible for executing them, the resources needed and the provider of those resources. Additionally, some State plans lack important components that could facilitate rapid avian influenza (AI) containment. These omissions are problematic because States typically lead initial response efforts. Finally, there are several unresolved issues that, absent advance consideration, could hinder response. For example, controlling an outbreak among birds raised in backyards, such as for hobby, remains particularly difficult because Federal and State officials generally do not know the numbers and locations of these birds. USDA also has not estimated the amount of antiviral medication that it would need during an outbreak or resolved how to provide such supplies in a timely manner. According to Federal guidance, poultry workers responding to an outbreak of highly pathogenic AI should take antiviral medication to protect them from infection.	The report is available: https://www.gao.gov/ new.item s/d07652.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
		GAO recommended that USDA and DHS develop a memorandum of understanding to clarify their roles during certain emergencies. It added that USDA should take several steps to improve its planning and that of the States. Actions: USDA agreed with all recommendations except for the use of a memorandum of understanding to clarify roles. The Secretary wrote that, "The report is a comprehensive look at our HPAI efforts, but it does not take into account several aspects that we believe are critical components of successful foreign animal disease planning efforts that are the result of our extensive experience with animal disease eradication over the course of many decades." USDA believes GAO did not emphasize one of the most important aspects of AI surveillance—the veterinary infrastructure that is the foundation of USDA's foreign disease monitoring. The complete response can be found on p. 48 of the hard copy in the Web site.	
4.2.2	"Efforts to Forestall Onset Are Under Way; Identifying Countries at Highest Risk Entails Challenges" GAO-07-604, US General Accountability Office, June, 2007	Findings: Assessments by U.S. agencies and international organizations have identified widespread environmental and preparedness-related risks in many countries. While the U.S. has designated priority countries for assistance, gaps in available information limit the capacity for comprehensive, well-informed comparisons of risk levels by country. Actions: There were no recommendations for USDA. The Department found the report accurate in its description of its role and involvement in the global strategy.	The report is available at: https://www.gao.gov/ new.item s/d07604.pdf
4.2.2	"National Animal Identification System: USDA Needs to Resolve Several Key Implementation Issues to Achieve Rapid and Effective Disease Traceback" GAO-07-592, US General Accountability Office, June, 2007	Findings: USDA has taken some steps to address issues identified by livestock industry groups, market operators, State animal health officials and others. Nonetheless, the agency has not addressed effectively several issues that, if left unresolved, could undermine the program's ability to achieve the goal of rapid and effective animal disease traceback. GAO made several recommendations. Actions: While USDA concurred with most of GAO's recommendations, it also provided points of clarification to several and a discussion about parts of recommendations that conflict with established Departmental policies. Details are provided on pages 78 through 82 of the report available on the Web.	The report is available at: https://www.gao.gov/ new.item s/d07592.pdf
5.1	Food Stamp Participation Rates 2005	Findings: This report presents the latest in a series on participation rates based on Current Population Survey and national participation rates for FY 2005. The findings indicate that 65 percent of the individuals eligible for food stamp benefits choose to participate. The program provided 80 percent of the benefits that all eligible individuals could receive, suggesting that the Food Stamp Program (FSP) appears to be reaching the neediest eligible individuals. Actions: The report contained no recommendations for action by USDA.	Available on the FNS Web site at https://www.fns.usda.gov/ oan e/menu/Published/FSP/ FILE S/Participation/ Trends1999-2005Sum.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
	Reaching Those In Need: State Food Stamp Participation Rates in 2004	Findings: This report presents estimates of State participation rates for eligible low-income households. The data shows that the working poor have participated at rates substantially below those for all eligible people. Actions: The report contained no recommendations for action by USDA.	Available on the FNS Web site at: https://www.fns.usda.gov/oan e/menu/Published/FSP/FILE S/Participation/reaching2004 .pdf
	Food Stamp Program: Use of Alternative Methods to Apply for and Maintain Benefits Could Be Enhanced by Additional Evaluation and Information on Promising Practices	Findings: The report describes States' use of alternatives to the traditional face-to-face FSP application and re-certification process. These alternatives include mail-in procedures, call centers and on-line services. The Government Accountability Office (GAO) found that all States use mail and about half use, or have begun developing, on-line services and call centers to provide access to FSP. Despite these findings, insufficient information is available to determine the results of using alternative methods. Actions: GAO has recommended that FNS work with ERS to determine the effects of alternative FSP methods; analyze data from States that have implemented waivers or have conducted demonstration projects that waived the face-to-face interview; and disseminate and update information on promising practices States are using to implement alternative methods.	Available on the GAO Web site at: https://www.gao.gov/new.items/d07573.pdf
	Food Stamp Program: FNS Could Improve Guidance and Monitoring to Help Ensure Appropriate Use of Noncash Categorical Eligibility	Findings: In this review, GAO sought to estimate how the elimination of Temporary Assistance to Needy Families (TANF) noncash categorical eligibility might affect Food Stamp Program (FSP) participation, administration and State administrative costs. GAO's analysis shows that a vast majority of TANF noncash households potentially would remain eligible for food stamps because their income and/or assets levels are within FSP eligibility requirements. Actions: GAO has recommended that FNS provide guidance and technical assistance to States clarifying which TANF noncash services they must use to confer categorical eligibility for food stamps. States also should monitor their compliance with categorical eligibility requirements.	Available on the GAO Web site at: https://www.gao.gov/new.item s/d07219.pdf
5.2	Nutrition Education Research Summary: Message Framing, use of Interactive Technology to Tailor Messages and Intervention Intensity	Findings: This research review was intended to document how key features of nutrition messages and interventions influence the likelihood of promoting more healthful food choices as a guide to improve program-based nutrition education strategies. Actions: This report does not contain recommendations for action by USDA.	Nutrition Education Research Summary: Message Framing, use of Interactive Technology to Tailor Messages and Intervention Intensity
	Food Stamp Nutrition Education System Review: Summary	Findings: This report presents a comprehensive and systematic national description of food stamp nutrition education operations in FY 2004. Actions: This report does not contain recommendations for action by USDA.	Food Stamp Nutrition Education System Review: Summary

Objective	Title	Findings and Recommendations/Actions	Availability
	Middle School Lunch Consumption: Impact of National School Lunch Meal and Competitive Foods	Findings: This report documents the impact of the National School Lunch Program (NSLP) meal to middle school student's dietary consumption. It also supports findings reported in the first School Nutrition Dietary Assessment Study. This study confirmed that NSLP students consumed significantly more of the nutrients and food groups related to healthier choices. Actions: This report does not contain recommendations for action by USDA.	Middle School Lunch Consumption: Impact of National School Lunch Meal and Competitive Foods
5.3	The Effect of Simplified Reporting on Food Stamp Payment Accuracy	Findings: This analysis suggests that the simplified reporting policies adopted by States in 2004 could have lowered error rates by 1.2 to 1.5 percentage points. Thus, if all States adopted the policy of simplified reporting, the payment error rate might improve further. Actions: This report does not contain recommendations for action by USDA.	Available on the FNS Web site at: https://www.fns.usda.gov/oan e/MENU/Published/FSP/FIL ES/ProgramIntegrity/SimplifiedReporting.pdf
	Direct Verification Study: First Year Report	Findings: In the first year of the study, the process of direct verification with Medicaid data is technically feasible. School districts also may verify directly a substantial percentage of sampled NSLP applications. Actions: This report does not contain recommendations for action by USDA.	Available on the FNS Web site at: https://www.fns.usda.gov/oane/menu/Published/CNP/FILES/DirectVerificationYear1_Summary.pdf
	Food and Nutrition Service Financial Statements for Fiscal Years 2005 and 2006	Findings: The Office of the Inspector General (OIG) reviewed FNS' financial statements for FY 2005 and FY 2006. FNS' statements received an unqualified opinion. FNS' core financial management system was found to be in substantial compliance with the Federal Financial Management Improvement Act of 1996. Actions: The report contains no recommendations.	Available on the USDA/OIG Web site at: https://www.usda.gov/oig/web docs/27401-31-HY.pdf
	Hurricanes Katrina and Rita: Federal Actions Could Enhance Preparedness of Certain State-Administered Federal Support Programs	Findings: The report describes the disaster assistance provided by the Social Security, SSI, Food Stamp, UI and TANF programs because of Hurricanes Katrina and Rita. The report assesses the challenges faced, factors that helped or hindered programs' efforts, areas that warrant further attention, and actions that are being taken to improve programs' disaster response. Actions: The report does not contain recommendations for action by USDA.	Available on the GAO Web site at: https://www.gao.gov/new.item s/d07219.pdf
	Accuracy of SFA Processing of School Lunch Applications Regional Office Review of Applications 2006	Findings: The second of series of annual reports assessing administrative errors associated with School Food Authorities approval of applications for free and reduce-prices school meals. The percentage of students who apply for NSLP free or reduced-price meal benefits and are approved or denied incorrectly due to administrative errors remains relatively low. Actions: This report does not contain recommendations for action by USDA.	Available on the FNS Web site at: https://www.fns.usda.gov/oane/menu/Published/CNP/FILES/rora2006.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
	Food Stamp Trafficking: FNS Could Enhance Program Integrity by Better Targeting Stores Likely to Traffic and Increasing Penalties	Findings: The report states that, while FNS estimates suggest trafficking has declined to a low of 1.0 cent on the dollar (from 3.8) and use of electronic benefits transfer transaction data is improving efforts to identify and disqualify trafficking retailers, FSP remains vulnerable to trafficking. Actions: GAO has recommended that USDA take additional steps to target and monitor those stores most likely to traffic, increase penalties for trafficking, work with the OIG as needed and promote State efforts to pursue USDA benefit recipients suspected of trafficking.	Available on the GAO Web site at: https://www.gao.gov/new.items/d0753.pdf
	Special Supplemental Nutrition Program for Women, Infants, and Children—Puerto Rico	Findings: OIG found numerous problems with validation of food instruments, vendor monitoring, foods authorized, implementation of vendor cost containment requirements and use of in-store credit by vendors. While many of these problems had been identified in previous FNS management reviews, the Puerto Rico Health Department had not taken sufficient corrective action. Actions: OIG has recommended that FNS invoke its statutory authority to withhold funding if the audit findings are not corrected satisfactorily.	Available on the USDA/OIG website at: https://www.usda.gov/oig/web docs/27004-04-AT.pdf
6.3.1 6.3.2 6.3.3	OIG Audit, September 2006, GAO 08601-06-AT - FS Implementation of Healthy Forest Initiatives	Findings: Develop and implement specific national guidance for assessing the risks from wildland fires and determining the benefits of fuels treatment and restoration projects. These processes should be able to be applied on a consistent basis between regions, forests and districts, so the FS may be able to prioritize and fund the most beneficial and cost effective fuels reduction projects. Actions: Forest Service implemented all OIG audit recommendations pending final OIG close-out. Findings: Establish controls to ensure that the process and methodology to identify and prioritize the most effective fuels reduction projects can be utilized at all levels. Actions: Forest Service implemented all OIG audit recommendations pending final OIG close-out. Findings: Establish controls to ensure funds are distributed according to where the highest concentrations of priority projects are located nationally. Actions: Forest Service implemented all OIG audit recommendations pending final OIG close-out. Findings: Develop and implement a more meaningful and outcome-oriented performance measure for reporting metrics, such as acres with "risk reduced" or "area protected." FS should also direct that implementing effective integrated treatments is more important than solely meeting acreage targets. FS should also use annual targets assigned as a multi-year average rather than a firm fiscal year total. Actions: Forest Service implemented all OIG audit recommendations pending final OIG close-out.	Report is available at https://www.usda.gov/oig/webdocs/08601-6-AT.pdf

Objective	Title	Findings and Recommendations/Actions	Availability
		Findings: Improve accomplishment reporting by including more detailed information, such as breaking down accomplishments by region, noting changes in condition class, and differentiating between initial and maintenance treatments and multiple treatments on the same acres. Actions: Forest Service implemented all OIG audit recommendations.	
6.2 and 6.3	OIG Report, November 20, 2006, OIG/50601-10-Hq – Saving the Chesapeake Bay Watershed Requires Better Coordination of Environmental and Agricultural Resources	Findings: OIG recommends that EPA execute a new Memorandum of Agreement with USDA that identifies specifically tasks and timeframes for meeting mutually shared goals in the Bay cleanup process. Additionally, the two agencies should agree to a method to track progress. Also, EPA, USDA and the States, with assistance from land grant universities and agricultural organizations, should revisit State tributary strategies to ensure that an effective and cost-efficient combination of conservation practices is adopted and implemented. USDA should assign a senior-level official to coordinate with EPA's Chesapeake Bay Program and review the feasibility of targeting USDA funds geographically. Actions: USDA secretary has delegated Under Secretary for NRE as the USDA Leadership for Chesapeake Bay Coordination (signed February 18, 2007). Thus, the recommendation is closed.	Report is available at https://www.usda.gov/oig/rptsa udits.htm

III.

Financial Statements, Notes, Supplemental and Other Accompanying Information

Message from the Chief Financial Officer

USDA programs and activities affect every American, every day, by providing a safe and stable food supply, nutrition assistance, renewable energy, rural economic development, care for forest and conservation lands, and global opportunities for farm and forest products. To successfully accomplish its mission, USDA operates more than 300 programs worldwide through an extensive network of Federal, State, and local cooperators.

USDA is committed to the performance and accountability mandates put forward by the President and Congress and is keenly aware of the pivotal role of sound financial management —knowing how resources are spent, having the confidence that programs and services are operating in efficient ways, and possessing a clear sense of challenges.

This year, USDA's audit opinion refers to an issue concerning two of the credit models in Rural Development. The two credit models are for single family housing and the Federal Financing Bank. This year, these credit models, which produce the subsidy calculation, received an extensive overhaul that doubled the number of key input variables. In addition, the government-wide cash calculator for credit programs also received an extensive change. The release of these new, more complex models was delayed slightly from the original timeline. The additional complexity in the models, changes in the cash calculator, and sight delays created a myriad of events in which significant lines in the financial statement could not be fully audited to the complete satisfaction of the auditors. The Office of the Chief Financial Officer did a complete review of the reasonableness of the current year subsidy amount. This review entailed a five year normalized trend analysis and five year average of the subsidy amounts; we concluded that the amounts appear to be reasonable. In the same respect, the Office of the Chief Financial Officer understands that there may be other unique factors which may not be calculated into a credit subsidy. These include deflation in general home prices due to a slowdown in home sales or an increase in rural property values due to healthy commodity prices in the world market.

In all cases, we take the management of the eighth largest loan portfolio in the United States and the second largest loan portfolio in the Federal Government seriously and will take the steps necessary to have a complete evaluation and audit of the credit models in the next 90 days.

It is important that the audit opinion of the department does not overshadow the individual leadership and collaborative efforts of USDA managers, employees, business partners and other stakeholders. In 2007, we made significant strides in advancing the Department's record of excellence in financial management. Here are some highlights:

- Through the A-123 process, USDA reduced or eliminated material weaknesses in Financial Accounting/Reporting Accruals and USDA County Office Operations;
- Our A-123 process identified and started the remediation on a management declared material weakness in Unliquidated Obligations;
- Transfer of the government-wide financial systems to a new primary computing center from the Hurricane Katrina disaster recover site;
- Full evaluation and selection of a core financial system to replace USDA's nine general ledger systems, which have not been supported by their vendors for three years (the new system will provide the financial transactions to facilitate the programs);
- Reduction in total improper payments from $4.6 billion in FY 2006 to $4.4 billion in FY 2007 while adding to the measurement two additional nutrition assistance programs;
- Development and implementation of a Lean Six Sigma program to facilitate better service to the customer while reducing time and resources to execute formal business processes – estimated cost saving equal $13 million which is needed to meet the cost of inflation during stable budget years;
- Development and implementation of a "department-wide" Lean Six Sigma processes in the area of vendor transaction processing and grants;
- Improvement in financial system security;
- Improvement in controls in the County Offices;
- Review and removal of unobligated balances;
- Detailed analysis and revision of the department's travel policy to insure greater oversight of travel and conference expenditures;
- Increased security and efficiencies in the government-wide financial and information technology services located at USDA; and
- Once again reduced the number of open audits.

While we continue to make progress in financial management, we cannot yet give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act or the financial systems requirements of the Federal Financial Management Improvement Act. We continue to make this a focus in the coming year.

Our employees are dedicated to protecting and managing the substantial resources entrusted to them by Congress and the American people to perform the important work of this Department. We are proud of our accomplishments for FY2007 and the hard working employees at USDA. USDA is committed to providing sound management of the resources under our stewardship and to communicating the effectiveness of our efforts to all Americans through this Performance and Accountability Report.

Charles R. Christopherson
Chief Financial Officer
November 15, 2007

Report of the Office of Inspector General

USDA

U.S. Department of Agriculture

Office of Inspector General
Financial & IT Operations

Audit Report

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2007 and 2006

NOTICE - THIS REPORT IS RESTRICTED TO OFFICIAL USE ONLY.
This report is provided to Federal officials solely for their official use. Further distribution or release of this information is not authorized without OIG approval.

Report No. 50401-62-FM
November 2007

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

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REPLY TO
ATTN OF: 50401-62-FM

TO: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Kathy Donaldson
Audit Liaison Officer
Office of the Chief Financial Officer
Planning and Accountability Division

FROM: Phyllis K. Fong
Inspector General

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2007 and 2006

This report presents the results of our audits of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2007, and 2006. The report contains a qualified opinion and the results of our assessment of the Department's internal control over financial reporting and compliance with laws and regulations.

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

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

Executive Summary

U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2007 and 2006 (Audit Report No. 50401-62-FM)

Purpose

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

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

Results in Brief

During fiscal year 2007, Rural Development, a reporting component of USDA, made significant revisions to its credit reform processes related to the Single Family Housing Program cash flow model and subsidy reestimates. We were unable to obtain sufficient, appropriate evidence to support USDA's financial statement amounts as of September 30, 2007, for estimated allowances for subsidy costs associated with Direct Loans and Loan Guarantees, Net; Other Liabilities, Intragovernmental; and Cumulative Results of Operations reflected on the balance sheet and related note disclosures. We were also unable to obtain sufficient, appropriate evidence to support USDA's financial statement amounts for the fiscal year ended September 30, 2007, for loan subsidy expenses and earned revenue associated with Loan Cost Subsidies and Earned Revenues in the statement of net cost, and Transfers in/out without Reimbursement, Net Cost of Operations, Cumulative Results of Operations, and Net Position on the statement of changes in net position and the related note disclosures. In addition, we attempted to, but were unable to satisfy ourselves as to the amounts of these line items or related note disclosures by alternate auditing procedures.

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations.

For internal control over financial reporting, we identified three significant deficiencies as follows:

- improvements needed in overall financial management;
- improvements needed in information technology (IT) security and controls; and
- improvements needed in certain financial management practices and processes.

We believe that the first two deficiencies are material weaknesses. Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement Act, the Anti-Deficiency Act, and Managerial Cost Accounting practices.

As discussed in Notes 1, 29, and 30 to the consolidated financial statements, USDA changed its method of accounting and reporting for allocation transfers (parent-child relationships) and its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007 to adopt the provisions of OMB Circular No. A-136, *Financial Reporting Requirements*.

Key Recommendations

OCFO has immediate and long term plans to address most of the weaknesses discussed in the report. The key recommendations in this report were limited to additional improvements needed in financial management.

Abbreviations Used in This Report

ADA	Anti-Deficiency Act
C&A	certification and accreditation
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
DR	Departmental Regulation
FFIS	Foundation Financial Information System
FMFIA	Federal Managers' Financial Integrity Act of 1982
FFMI	Financial Management Modernization Initiative
FFMIA	Federal Financial Management Improvement Act of 1996
FFMSR	Federal Financial Management Systems Requirements
FISMA	Federal Information Security Management Act of 2002
FSA	Farm Service Agency
FS	Forest Service
GAO	U.S. Government Accountability Office
GSM	General Sales Manager
IT	information technology
MCA	Managerial Cost Accounting
NFC	National Finance Center
NITC	National Information Technology Center
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
PL	Public Law
POA&M	plan of action & milestones
RSI	Required Supplementary Information
RSSI	Required Supplemental Stewardship Information
SFFAS	Statement of Federal Financial Accounting Standard
SFH	Single Family Housing
SGL	U.S. Government Standard General Ledger
SoF	Statement of Financing
SV	Standard Voucher
WCF	Working Capital Fund
USDA	U.S. Department of Agriculture

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UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2007, and 2006, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The consolidated financial statements are the responsibility of USDA's management. Our responsibility is to express an opinion on the consolidated financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin No. 07-04 require that we plan and perform the audits to obtain reasonable assurance that the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

During fiscal year 2007, Rural Development, a reporting component of USDA, made significant revisions to its credit reform processes related to the Single Family Housing Program cash flow model and subsidy reestimates. We were unable to obtain sufficient, appropriate evidence to support USDA's financial statement amounts as of September 30, 2007, for estimated allowances for subsidy costs associated with Direct Loans and Loan Guarantees, Net; Other Liabilities, Intragovernmental; and Cumulative Results of Operations reflected on the balance sheet and related note disclosures. We were also unable to obtain sufficient, appropriate evidence to support USDA's financial statement amounts for the fiscal year ended September 30, 2007, for loan subsidy expenses and earned revenue associated with Loan Cost Subsidies and Earned Revenues in the statement of net cost, and Transfers in/out without Reimbursement, Net Cost of Operations, Cumulative Results of Operations, and Net Position on the statement of changes in net position and the related note disclosures. In addition, we attempted to, but were unable to satisfy ourselves as to the amounts of these line items or related note disclosures by alternate auditing procedures.

In our opinion, except for the effects of such adjustments, if any, as might have been necessary had we been able to assess the reasonableness of the consolidated balance sheet, statement of net cost, and statement of changes in net position, and all impacted financial statement line items and related note disclosures referred to in the preceding paragraph, the consolidated financial statements referred to in the first paragraph, present fairly, in all material respects, the financial position of USDA as of September 30, 2007, and 2006; and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1, 29, and 30 to the consolidated financial statements, USDA changed its method of accounting and reporting for allocation transfers (parent-child relationships) and its method of reporting the reconciliation of budgetary resources obligated to the net cost of operations in fiscal year 2007 to adopt the provisions of OMB Circular No. A-136, *Financial Reporting Requirements*.

Except for the sections containing the financial statements and related notes, the information in the Performance and Accountability Report is not a required part of the consolidated financial statements, but is supplemental information required by accounting principles generally accepted in the United States of America and OMB Circular No. A-136. We attempted to apply certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of this information. However, in fiscal year 2006, we were not provided the information in time to review and we noted in our current review that information was not always consistent with similar information from the prior year. We believe that the Required Supplementary Information related to heritage assets, stewardship land, and deferred maintenance may not be consistently prepared across all USDA and controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information. We did not audit this information and, accordingly, we express no opinion on it.

We have also issued reports on our consideration of USDA's internal control over financial reporting and its compliance with certain provisions of laws and regulations. These reports are an integral part of an audit performed in accordance with *Government Auditing Standards* and, in considering the results of the audit, should be read in conjunction with this report. For internal control over financial reporting, we identified three significant deficiencies as follows:

- improvements needed in overall financial management;
- improvements needed in information technology (IT) security and controls; and
- improvements needed in certain financial management practices and processes.

We believe that the first two deficiencies are material weaknesses.

Our report on compliance with laws and regulations discusses three instances of noncompliance relating to the Federal Financial Management Improvement Act of 1996, the Anti-Deficiency Act, and Managerial Cost Accounting practices.

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

Phyllis K. Fong
Inspector General

November 15, 2007

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General on Internal Control Over Financial Reporting

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2007, and 2006, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended and have issued our report thereon, dated November 15, 2007. Except as discussed in our opinion, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

In planning and performing our audits, we considered USDA's internal control over financial reporting by obtaining an understanding of the design effectiveness of internal controls, determining whether the internal controls had been placed in operation, assessing control risk, and performing tests of controls in order to determine our auditing procedures for the purpose of expressing our opinion on the consolidated financial statements. We limited our internal control testing to those controls necessary to achieve the objectives described in OMB Bulletin No. 07-04 and *Government Auditing Standards*. We did not test all internal controls as defined by the Federal Managers' Financial Integrity Act (FMFIA) of 1982. The objective of our audits was not to provide assurance on USDA's internal control. Consequently, we do not provide an opinion on internal control over financial reporting.

Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be significant deficiencies. Under standards issued by the American Institute of Certified Public Accountants significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect USDA's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected. Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the consolidated financial statements being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

We noted certain matters described in the "Findings and Recommendations" involving the internal control over financial reporting and its operation that we consider to be significant deficiencies as follows:

- improvements needed in overall financial management (Section 1);
- improvements needed in information technology (IT) security and controls (Section 1); and
- improvement needed in certain financial management practices and processes (Section 2).

We believe that the first two deficiencies are material weaknesses.

Additional Other Procedures

As required by OMB Bulletin No. 07-04, we considered USDA's internal controls over Required Supplementary Information (RSI) and Required Supplemental Stewardship Information (RSSI) by obtaining an understanding of the internal controls, determining whether these internal controls had been placed in operation, assessing control risk, and performing tests of controls. Our procedures were not designed to provide assurance on internal controls over such, RSI and RSSI; accordingly, we do not provide an opinion on such controls. As a result of such limited procedures, we believe that the RSI related to deferred maintenance, heritage assets, and stewardship land may not be consistently prepared across all USDA locations and controls have not been effectively designed to ensure the accuracy, completeness, and timeliness of the reported information.

As further required by OMB Bulletin No. 07-04, with respect to internal control related to performance measures determined by management to be key and reported in the Management's Discussion and Analysis section of the Performance and Accountability Report, we obtained an understanding of the design of significant internal controls relating to the existence and completeness assertions and determined whether they had been placed in operation. Our procedures were not designed to provide assurance on internal control over reported performance measures; accordingly, we do not provide an opinion on such controls.

We did not identify any material weaknesses that were not disclosed in USDA's FMFIA report.

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

Phyllis K. Fong
Inspector General

November 15, 2007

USDA/OIG-A/50401-62-FM Page 5

UNITED STATES DEPARTMENT OF AGRICULTURE
OFFICE OF INSPECTOR GENERAL
Washington, D.C. 20250

Report of the Office of Inspector General on Compliance With Laws and Regulations

To: Charles R. Christopherson, Jr.
Chief Financial Officer
Office of the Chief Financial Officer

We have audited the consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2007, and 2006, and the related consolidated statements of net cost; changes in net position; the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended and have issued our report thereon, dated November 15, 2007. Except as discussed in our opinion on the consolidated financial statements, we conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*.

The management of USDA is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws and regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including requirements referred to in the Federal Financial Management Improvement Act of 1996 (FFMIA), except for those that, in our judgment, were clearly inconsequential. We noted no reportable instances of noncompliance with these laws and regulations, except as disclosed in this report. We limited our tests of compliance to the provisions described in the preceding sentence and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed two instances of noncompliance with laws and regulations discussed in the second paragraph of this report, exclusive of FFMIA, that are required to be reported under *Government Auditing Standards* and OMB Bulletin No. 07-04. Specifically, we reported noncompliance with the Anti-Deficiency Act and Managerial Cost Accounting practices.

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

Phyllis K. Fong
Inspector General

November 15, 2007

Findings and Recommendations

Section 1. Internal Control Over Financial Reporting – Material Weaknesses

Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the consolidated financial statements being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. We believe that the findings discussed in this section are material internal control weaknesses.

Finding 1 — Improvements Needed in Overall Financial Management

Our review disclosed that improvements were needed in overall financial management processes across the Department. Information recorded in the general ledger was not always accurate and significant corrections were made after September 30, 2007, in order to correct the data. In some instances, the auditors performed the quality control reviews that financial managers should have performed. Some examples where quality control needs to be improved and/or established follow.

- We identified deficiencies in Rural Development's credit reform processes related to the revision of its cash flow models and the accuracy of the data used in the models. We attributed these deficiencies to a lack of management oversight and/or quality control of the processes. As a result, Rural Development revised its fiscal year 2007 reestimates as initially provided to the Office of Inspector General (OIG) for review by over $3.7 billion and recorded 5 quarters of Federal Financing Bank interest expense during fiscal year 2007 to include $281 million that was inappropriately excluded from the fourth quarter expenses of fiscal year 2006. The pervasiveness and the materiality of the errors throughout the cash flow data inputs used by Rural Development to perform the credit reform reestimates prevented us from relying on the internal controls over the reestimates. Further, we were not provided the revised Single Family Housing (SFH) model and reestimates until fiscal yearend. This prevented us from performing a comprehensive review of the model and adequately reviewing the underlying data associated with the model to ascertain the sufficiency and appropriateness of the evidence supporting the SFH reestimates.

Our qualified opinion was based on a scope limitation and, as such, we could not determine whether the financial statements' presentation of the related accounts identified in our opinion were free of material misstatement.

- During the audit of the Commodity Credit Corporation's (CCC) methodology for calculating the projected future cash flows, we continued to note functionality issues related to the calculation of the Public Law (PL) 480 program prepayments, default amounts, and offsetting entries. As a result, certain prepayment amounts were incorrectly calculated. In addition, we noted that the calculation year used in the model that drives the cash flow projections for the PL 480 program, was incorrectly based on the budget year (i.e., 2009) as opposed to the financial reporting year (i.e., 2007). This issue was not identified by CCC management in a timely manner. As a result, the cash flow output submitted for audit was incorrect, which required CCC to rerun the Consolidated Subsidy Calculator 2 tool and record a post-closing adjusting entry in the amount of $331 million. Further, CCC used the incorrect OMB default rates, which resulted in an unrecorded audit difference in the amount of $53 million. We also noted during our review of CCC's calculation of the PL 480 and General Sales Manager (GSM) liquidating fund reserves (i.e., pre-1992 Credit Reform programs), that a required discounting factor (i.e., the Treasury rate for securities with similar maturities) was not included as an assumption used to project future cash flows. The calculation errors were not identified by management's review of the model outputs or the related journal entries; nor were the errors identified during management's analytical review of the reasonableness of account balance amounts. As a result, the loan receivable balances initially recorded for the pre-Credit Reform PL 480 and GSM programs were overstated by $945 million and $40 million, respectively.

- Our audit at the Farm Service Agency (FSA) disclosed that pivot tables used to create cash flow reestimates were not always accurate. For the material guaranteed programs, the pivot tables contained errors exceeding $26 million. We received three revisions of the cash flow reestimates created by FSA. The revisions were a result of errors identified by OIG in the submissions dated October 5, 7, and 10, 2007. These errors and omissions were a direct result of FSA incorrectly interpreting and applying approved policy from the Office of Management and Budget (OMB).

In its fiscal year 2007 Federal Managers' Financial Integrity Act (FMFIA) of 1982 report, the Department noted that controls were lacking over credit reform. Specifically, the quality assurance process to ensure

that the cash flow models, data inputs, estimates, and reestimates for financial reporting were not subject to appropriate controls and management oversight. As a result, additional resources were needed to correct the credit reform information in the financial statements and related disclosures. The FMFIA report further stated that the U.S. Department of Agriculture (USDA) plans to perform and document independent quality assurance reviews of model changes, data extracts, and reestimates processes in the future before delivery to external parties.

- We again noted that obligations were not always valid because agencies were not effectively reviewing all unliquidated (open or active) obligations and taking appropriate actions (de-obligating).[1] Invalid obligations increase the risk that funds may be inappropriately diverted for purposes other than what Congress intended. The Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin No. 2007-08, *Yearend Closing*, dated July 17, 2007) requires an annual review of unliquidated obligations. Departmental Regulation (DR) 2230-1, *Reviews of Unliquidated Obligations,* dated August 22, 2006, requires annual reviews and certifications from agency Chief Financial Officers (CFO) that the annual reviews were performed and unliquidated obligations were valid based on the reviews.

    - Last year, we selected 61 unliquidated obligations from 11 agencies for which no activity had occurred for over 2 years. We noted that 32 of 61 (52 percent) of the obligations reviewed were invalid and agencies indicated the items would be de-obligated. This year, we selected a similar nonstatistical sample of 60 obligations from 11 agencies and found that 29 (48 percent) of the obligations reviewed were invalid and agencies planned to de-obligate the items. (Our sample was selected from activity as of May 31, 2007, and the annual certification was required to be complete by July 31, 2007. Therefore, we recognize that some of the items may have ultimately been resolved.)

    - During fiscal year 2007, the Natural Resources Conservation Service (NRCS) performed a comprehensive internal review of its unliquidated obligations. As a result, NRCS indicated it had de-obligated more than $560 million in obligations that were determined to be invalid.

[1] 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.

In its FMFIA report for 2007, USDA reported that it assessed the controls for reviewing unliquidated obligations and determined there was an overall lack of a comprehensive review of unliquidated obligations at several component agencies. As a result, accounts were not being de-obligated on a timely basis as required by Departmental regulations and procedures. The FMFIA report further noted that agencies need to implement effective and sustainable control procedures over the review and certification of unliquidated obligations.

Recommendation 1

Implement an effective quality control review process throughout the Department for credit reform processes that, at a minimum, includes independent quality assurance reviews of model changes, data extracts, and reestimates.

Finding 2 **Improvements Needed in Information Technology (IT) Security and Controls**

We performed an independent evaluation of the Department's IT security program and practices as required by the Federal Information Security Management Act of 2002 (FISMA). We also performed reviews of the general control structure of the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC) and the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC), located in Kansas City, Missouri, and New Orleans, Louisiana, respectively.[2]

We noted that the efforts of the USDA's OCIO and OIG in the past several years have heightened program management's awareness of the need to plan and implement effective IT security. For example, OCIO/NITC sustained its unqualified opinion on the general control environment and the OCFO/NFC sustained its unqualified opinion on the design of its general control structure. However, our opinion on the operating effectiveness of OCFO/NFC controls remained qualified. Our review disclosed OCFO/NFC controls had not operated effectively in the areas of access control, awareness and training, audit and accountability, configuration management, contingency planning, and personnel security.

The continuing material IT control weaknesses within the Department are due to the lack of an effective overall Departmentwide plan. The Department needs to coordinate with all of its agencies, determine the overall risks,

[2] See exhibit A for information regarding the cited reports.

prioritize the risks, and develop and implement a time-phased plan to systematically mitigate risks. With agency cooperation and acceptance improvements could be made.

The following summarizes the key matters.

- Agencies that had contractor systems attached to their networks could not provide documentation to validate that sufficient oversight and evaluation activities were in place to ensure information systems used or operated by a contractor of the agency, or other organization on behalf of the agency, met the requirements of FISMA, OMB, and the National Institute of Standards and Technology guidelines.

- While OCIO made significant improvements in its oversight of the Departmental inventory records, the process did not include tracking system interfaces or contractor systems.

- The Department made improvements in its plan of action and milestones (POA&M) recording, tracking, and closures. However, individual agencies were responsible for accurately inputting, tracking, and closing POA&Ms. Based upon our work during the fiscal year, we had limited assurance that agencies were appropriately entering, tracking, and closing POA&Ms.

- The Department did not always provide adequate oversight of system categorization. Without a proper risk level assignment, the agencies cannot design their security programs to ensure the appropriate security controls are in place to protect the confidentiality, integrity, and availability of their systems.

- We noted that the certification and accreditation (C&A) process within the Department was not adequate. While the Department had implemented a concurrency review (quality assurance program) of agency C&A submissions prior to accreditation, the reviews were not providing adequate oversight to ensure that agency controls were properly safeguarding agency systems and data.

- The Department's Privacy Information Act implementation needed improvements.

- An adequate Departmental configuration policy did not exist with checklists for each operating system. Agencies were not reporting accurate security postures in the scorecards and OCIO was not validating the information when received.

- OCIO made progress in tracking incident responses. However, we found policies and procedures for incident handling were not being followed and that incidents were not closed properly or timely, or were not reported to necessary authorities.

Due to the significance of these issues, IT security remained a material internal control weakness for the Department. The Department and its agencies are in the process of addressing the above weaknesses by implementing recommendations made in other audit reports. Therefore, we are making no additional recommendations in this report.

Section 2. Internal Control Over Financial Reporting – Significant Deficiency

Significant deficiencies are matters coming to our attention that, in our judgment, should be communicated because they represent deficiencies that adversely affect the organization's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement in relation to the consolidated financial statements being audited, that is more than inconsequential, will not be prevented or detected.

Finding 3 **Improvements Needed in Certain Financial Management Practices and Processes**

Our review disclosed additional areas where financial management practices and processes could be improved. These represent a significant deficiency. Details follow:

- The Foundation Financial Information System (FFIS) uses Standard Vouchers (SV) to process adjustments to the general ledger. SVs use predefined debits and credits based on business rules. We reviewed 142 SVs processed during fiscal year 2007 but prior to fiscal yearend close. Our review disclosed that the supporting documentation was inadequate for 41 SVs. We also noted that 21 of the SVs reviewed were needed due to a systemic weakness and 47 were processed to compensate for a control weakness (including correcting a previous SV). The types of problems that we found could have been avoided had the agencies effectively implemented the controls outlined in applicable FFIS Bulletins.[3]

  In addition, we reviewed 60 documents processed after September 30, 2007, as part of the closing process. These were needed to correct account balances for financial reporting. Many of the documents reviewed impacted cash and/or budgetary accounts. We noted that 37 of the documents were processed to (1) correct a prior adjustment, (2) compensate for a control weakness, and/or (3) correct a systemic weakness.

[3] FFIS Bulletins 06-03 and 06-04, *Internal Controls Over Standard Vouchers in the FFIS*, and *Internal Controls Over Balanced Vouchers*, issued August 1, 2006.

- Last year, we reported that agencies had not adequately monitored overrides of document errors.[4] We recommended that the Department ensure that agencies adequately monitor overrides of potential document errors by providing a standard method for monitoring and reviewing overrides and taking appropriate remedial action. During fiscal year 2007, the Department stated that, it had analyzed FFIS to determine any needed system software changes to better track and monitor overrides of document errors. It also developed a retrieval and report tool for agencies to use in order to perform monthly reviews of overrides of document errors.

- Our review disclosed that agencies were inappropriately posting activity to accounts specified as exempt from apportionment. We reviewed 25 Treasury symbols from 11 agencies with activity recorded as exempt from apportionment, as of June 30, 2007. We found that 12 (48 percent) of the Treasury symbols reviewed were subject to apportionment and agencies indicated the balances would be adjusted. Additionally, four agencies were unable to provide evidence to support the exempt status for five Treasury symbols with activity recorded as exempt from apportionment, totaling $42 million.

- We also noted that within USDA abnormal balances existed at yearend without being fully researched and corrected. As of fiscal yearend, over 26 abnormal account balances existed, totaling over $129 million. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error.

Recommendation 2

Ensure that agencies verify the exempt status of Treasury symbols prior to recording activity and maintain appropriate supporting documentation of the exemption.

[4] The FFIS system has edits for processing documents that can be overridden by authorized users. For example, funds control edits may give an error message if the obligation entered exceeds the amount allotted to that particular fund. An authorized user can override this error message to process the document.

Section 3. Compliance With Laws and Regulations

The management of USDA is responsible for complying with applicable laws and regulations. As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws, regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin No. 07-04, including requirements referred to in the Federal Financial Management Improvement Act (FFMIA), except for those that, in our judgment, were clearly inconsequential. We noted noncompliance with certain aspects of FFMIA, the Anti-Deficiency Act (ADA), and Managerial Cost Accounting (MCA) practices.

Finding 4 — Lack of Substantial Compliance With FFMIA Requirements

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

During fiscal year 2007, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not substantially compliant with FFMSR, the SGL at the transaction level, and FISMA requirements. As part of its financial systems strategy, USDA indicated that its agencies are working to meet FFMIA and FISMA objectives, and that the Department had made substantial progress in addressing its IT weaknesses. However, the Department noted that additional effort is needed to achieve substantial compliance. These noncompliances are discussed in detail in Section 1, "Internal Control Over Financial Reporting – Material Weaknesses," of this report.

The Department plans to continue its effort to achieve compliance with the FFMIA requirements. OCFO indicated that all scheduled completion dates have been targeted for completion by fiscal yearend 2009.

Improving Federal financial management systems is critical to increasing the accountability of financial program managers, providing better information for decision-making, and increasing the efficiency and effectiveness of services provided by the Federal Government.

Finding 5 **Anti-Deficiency Act Violations**

In our previous year's audit, we reported that USDA discussed two potential ADA violations in its statement of assurance. The Office of General Counsel (OGC) opined that the ADA violations had occurred and, since that time, the two violations were reported to the President, Congress, and OMB. Details follow:

- On September 24, 2007, Forest Service (FS) reported that OGC had determined that in fiscal year 2006, the FS had violated the section of the ADA pertaining to apportionments. FS explained that OMB appropriated funds with a footnote that stipulated that not more than $100 million was available for the acquisition of aviation resources. The OGC opinion concluded that exceeding the apportionment footnote in the amount of $18 million was an ADA violation. FS has also requested an opinion from the U.S. Government Accountability Office (GAO) as to whether exceeding a footnote limitation constitutes an ADA violation.

- On November 1, 2007, USDA reported an ADA violation in the amount of $8,170,875 occurred in fiscal year 2003 in connection with CCC managers authorizing the donation of 24.7 million pounds of non-fat dry milk to a private feed mill. At the agency's request, OIG had performed the audit which identified the violation. The three individuals named in the violation no longer work for the agency. USDA concluded that there was no willful or knowing violation of the ADA, so no administrative discipline was imposed. The agency implemented corrective actions to ensure proper disposition of CCC commodities in the future and implemented apportionment requirements for commodity transportation and handling costs.

Finding 6 **Managerial Cost Accounting (MCA) Practices**

The CFO Act of 1990[5] contains several provisions pertaining to MCA, one of which states that an agency's CFO should develop and maintain an integrated accounting and financial management system that provides for the development and reporting of cost information. Statement of Federal Financial Accounting Standards No. 4, *Managerial Cost Accounting Concepts and Standards* for the Federal Government, established accounting standards and system requirements for MCA information at Federal agencies. The FFMIA[6] built on this foundation and required, among other things, CFO Act agencies to comply substantially with Federal accounting standards and FFMSR.

GAO issued a report addressing USDA's MCA practices.[7] It found that USDA had not shown strong leadership to promote, guide, and monitor MCA implementation. It noted that USDA did not have a Departmentwide MCA system in place and, instead, had delegated responsibility for MCA implementation to the component agencies. Moreover, USDA did not have procedures in place to monitor component agency MCA initiatives and had only limited information on the status of MCA implementation at its component agencies.

USDA's current financial system, FFIS, was not designed to provide in-depth MCA information. FFIS analysis and reporting functions and its related data warehouses allow users to conduct inquiries and execute ad hoc reports on, for instance, the status of funds and open obligations. These analyses, however, do not integrate nonfinancial data with financial data to provide the cost of activities or outputs on an ongoing basis.

According to USDA officials, the Financial Management Modernization Initiative (FMMI) system is scheduled to replace FFIS by the end of fiscal year 2012. FMMI is expected to include a cost accounting module that officials said will incorporate MCA functionalities required by the Office of Federal Financial Management at OMB.

OCFO believed that USDA was using MCA practices to a great extent; however, it recognized that the Department needed to demonstrate how MCA processes were being used and understand what more can be done to increase and enhance its use. One of the first steps in responding to this recommendation was to survey all mission areas and agencies to determine the

[5] Public Law No. 101-576, 104 Stat. 2838 (November 15, 1990).
[6] Public Law No. 104-208, div. A., 101 (f), title VIII, 110 Stat. 3009, 3009-389 (September 30, 1996).
[7] GAO-06-1002R, *Managerial Cost Accounting Practices,* dated September 21, 2006.

current status of their MCA systems. OCFO would then evaluate what progress had been made and use the data as well as the data requested about financial and mixed systems cost to develop a plan of action to expand the Department's efforts in MCA practices. The data collected from the survey have not yet undergone a complete analysis.

In addition, the Working Capital Fund (WCF) employed standard reporting formats for activity centers to use in documenting business lines and associated cost recovery metrics. The standard reporting format served as a critical factor in reviewing and evaluating WCF activity center operating budget estimates, and will be a permanent requirement for budget formulation purposes. As a result of these efforts, we are making no further recommendation in this report.

Exhibit A – Audit Reports Related to the Fiscal Year 2007 Financial Statements

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
05401-16-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2007 and 2006	November 2007
06401-22-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2007 and 2006	November 2007
08401-8-FM	Forest Service's Financial Statement Audit for Fiscal Years 2007 and 2006	November 2007
11401-26-FM	Fiscal Year 2007 Review of the National Finance Center General Controls	September 2007
27401-32-HY	Food and Nutrition Service's Financial Statements for Fiscal Years 2007 and 2006	November 2007
50501-11-FM	Fiscal Year 2007 Federal Information Security Management Act Report	September 2007
85401-14-FM	Rural Development's Financial Statements for Fiscal Years 2007 & 2006	November 2007
88501-7-FM	General Controls Review – Fiscal Year 2006 Office of Chief Information Officer – Information Technology Services	March 2007
88501-10-FM	National Information Technology Center General Controls Review-Fiscal Year 2007	September 2007

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Exhibit B – Summary of Prior Year Recommendations

Exhibit Page 1 of 3

PRIOR YEAR OF RECOMMENDATION[8]

NUMBER	RECOMMENDATION	DEPARTMENTAL STATUS	OIG RESULTS
1	Ensure that agencies comply with FFIS Bulletin 02-12 by providing a standard and effective method of monitoring and reviewing overrides and taking remedial action to address inappropriate overrides or develop other compensating controls.	During fiscal year 2007, the Department analyzed FFIS to determine any needed system software changes to better track and monitor overrides of document errors. It also developed a retrieval and report tool for agencies to use in order to perform monthly reviews of overrides of document errors. Additionally, the Department drafted revisions to FFIS Bulletin 02-12, dated October 1, 2002, "Policy for Agencies to Implement a Monthly Review of the Override Logging Table to Track and Monitor Users Overriding Document Errors in FFIS". The Department plans for corrective actions to be completed by November 30, 2007.	As discussed in Finding 3, the Department's corrective actions were still in process as of the end of the fiscal year 2007.

[8] Recommendation was made in Audit Report No. 50401-59-FM, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2006 and 2005*, issued November 14, 2006.

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Exhibit B – Summary of Prior Year Recommendations

PRIOR YEAR RECOMMENDATIONS[9]

NUMBER	RECOMMENDATION	DEPARTMENTAL STATUS	OIG RESULTS
1	Finalize supporting documentation for any required manual adjustments to the Statement of Financing (SoF). The SoF compilation should be supported by transactions and account balances that are traceable to the general ledger.	The Department agreed to document the rationale used to prepare the SoF, (published November 15, 2005 for both the Department and FS) and noted that the compilation was supported by transactions and account balances traceable to the general ledger. Subsequently, sufficient, evidential matter was provided to the FS auditors to substantiate the fair presentation of certain line items within the FS fiscal year 2005 SoF. The FS audit report was then re-issued December 21, 2005, with a revised unqualified opinion. The Department considered corrective action completed with the re-issuance of the FS financial statement audit report.	OIG reviewed actions taken and resolved this recommendation during its audit of the fiscal year 2006 financial statements.
2	Provide additional training on the relationship of the SoF to the statements of budgetary resources and net cost.	The Department agreed and planned to conduct training sessions on the compilation process for the SoF for all USDA agencies. The training was conducted in May and June 2006. Thus, the Department indicated corrective action was completed June 30, 2006.	OIG reviewed actions taken and resolved this recommendation during its audit of the fiscal year 2006 financial statements.
3	Continue to assess the overall process used to compile the SoF in order to identify approaches and techniques that provide for a more efficient, accurate, and consistent compilation process. The compilation should be subjected to a secondary review by a trained manager who is independent of the financial statement preparation process. In addition to reviewing specific support for the compilation, the review should also include an analytical analysis of the relationships among balances.	The Department agreed and planned to take several actions: perform an independent review of crosswalk used to create the SoF, review of the crosswalk in conjunction with the audit of the FS financial statements (conducted by an independent public accounting firm), and re-convene the financial statement crosswalk committee (which includes all mission areas) to review, analyze and approve the mapping of current and future accounting entries affecting the SoF. The Department indicated that the final corrective action was completed September 1, 2006.	Last year we noted that CCC did not always follow applicable guidance in preparing its SoF and provided no evidence of a technical review by management of the compilation process. During fiscal year 2007, CCC prepared the SoF (now a footnote) appropriately.
4	Provide oversight to the lending agencies to ensure that cash flow models and data inputs as well as estimates and reestimates are subject to appropriate controls, including management oversight review.	The Department agreed and planned several actions to provide oversight through (1) monitoring agency progress via bi-weekly credit reform working group meetings; (2) issuance of guidance to standardize the methodology and internal controls over cash flow model development and changes; (3) completion of	As discussed in Finding 1 and the Department's FMFIA report, improvements are needed in the quality control review process related to cash flow models, data inputs, and estimates and

[9] Recommendations were made in Audit Report No. 50401-56-FM, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2005 and 2004*, issued November 15, 2005.

Exhibit B – Summary of Prior Year Recommendations

		fiscal year 2007 cash flow model changes in accordance with the new guidance; and (4) issuance of guidance to standardize the management oversight review process to be used for reestimates. The Department indicated these actions were completed as of August 9, 2006.	reestimates for financial reporting.
5	Ensure that agencies adhere to FFIS Bulletin No. 02-06, "Internal Controls Over SVs in the FFIS."	The Department agreed and planned to take the following three actions: (1) review all agencies' SV forms and approval process, (2) reduce the universe of available SVs (by removing inactive and noncompliant posting models from applicable FFIS tables), and (3) update and expand FFIS Bulletin No. 02-06. The Department advised us that these actions were completed August 4, 2006.	As discussed in Finding 3, our review of SVs in fiscal year 2007 disclosed that agencies did not consistently adhere to the requirements of applicable FFIS bulletins.
6	Ensure that agency approval of appropriate significant documents is required prior to processing.	The Department agreed that sensitive documents, as defined by OMB Circular No. A-123 should require secondary approval. The functionality for such approval is involved by table settings controlled by the agencies. The Department provided oversight to ensure that agencies set the approval flag correctly as part of a project to standardize table settings. The Department indicated the table settings for secondary approvals were implemented September 1, 2006.	OIG reviewed action taken and resolved this recommendation during its audit of the fiscal year 2006 financial statements.
7	Provide oversight to ensure that general ledgers reflect valid obligations and that agencies perform the required reviews of unliquidated obligations appropriately and effectively. Additionally, ensure that agencies maintain evidence of the reviews.	The Department agreed and revised DR-2230-01, "Improvement of Management Controls Over Unliquidated Obligations." Additionally, the Department developed a report to obtain information about each agency's unliquidated obligations without activity in the past two years and then use the new report to obtain justification for each unliquidated obligation or agency action to liquidate. In accordance with the revised policy, agency CFOs have certified that staff ran aged unliquidated obligation reports and de-obligated obligations as needed as of August 31, 2007.	As discussed in Finding 1, in both fiscal years 2007 and 2006, we continued to note invalid obligations during our reviews. (Our reviews were based on data as of May 31.) USDA's fiscal year 2007 FMFIA report notes that its agencies need to implement effective and sustainable control procedures over the review and certification of unliquidated obligations.

Exhibit C *– Performance and Accountability Report*

USDA Performance and Accountability Report for Fiscal Year 2007

(Prepared by USDA)

CONSOLIDATED BALANCE SHEET
As of September 30, 2007 and 2006
(in millions)

	2007	2006
Assets:		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 47,340	$ 42,191
Investments (Note 5)	94	81
Accounts Receivable, Net (Note 6)	364	246
Total Intragovernmental	47,798	42,518
Cash and Other Monetary Assets (Note 4)	218	224
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	8,854	8,635
Direct Loan and Loan Guarantees, Net (Note 7)	80,348	77,791
Inventory and Related Property, Net (Note 8)	185	55
General Property, Plant, and Equipment, Net (Note 9)	4,931	4,905
Other (Note 11)	151	98
Total Assets (Note 2)	142,488	134,229
Stewardship PP&E (Note 10)		
Liabilities:		
Intragovernmental:		
Accounts Payable	12	7
Debt (Note 13)	75,101	83,447
Other (Note 15)	13,753	14,080
Total Intragovernmental	88,866	97,534
Accounts Payable	4,360	4,170
Loan Guarantee Liability (Note 7)	1,258	1,296
Federal Employee and Veterans Benefits	775	808
Environmental and Disposal Liabilities (Note 14)	105	63
Other (Notes 15 & 16)	19,417	20,082
Total Liabilities (Note 12)	114,781	123,953
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Earmarked Funds (Note 18)	1,113	976
Unexpended Appropriations - Other Funds	29,824	25,409
Cumulative Results of Operations - Earmarked Funds (Note 18)	803	518
Cumulative Results of Operations - Other Funds	(4,033)	(16,627)
Total Net Position	27,707	10,276
Total Liabilities and Net Position	$ 142,488	$ 134,229

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF NET COST

For the Years Ended September 30, 2007 and 2006
(in millions)

	2007	2006
Enhance International Competitiveness of American Agriculture:		
Gross Cost	$ 2,099	$ 1,152
Less: Earned Revenue	615	748
Net Cost	1,484	404
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	21,424	30,689
Less: Earned Revenue	6,325	6,231
Net Cost	15,099	24,458
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	6,952	7,048
Less: Earned Revenue	4,750	3,980
Net Cost	2,202	3,068
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Cost	3,271	3,629
Less: Earned Revenue	762	649
Net Cost	2,509	2,980
Improve the Nation's Nutrition and Health:		
Gross Cost	53,991	53,064
Less: Earned Revenue	43	36
Net Cost	53,948	53,028
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	11,824	12,592
Less: Earned Revenue	745	1,104
Net Cost	11,079	11,488
Total Gross Costs	99,561	108,174
Less: Total Earned Revenues	13,240	12,748
Net Cost of Operations (Note 19)	$ 86,321	$ 95,426

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2007

(in millions)

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 518	$ (16,627)	$ -	$ (16,109)
Changes in Accounting Principles (Note 30)	(59)	1,020	-	961
Beginning Balance, as Adjusted	459	(15,607)	-	(15,148)
Budgetary Financing Sources:				
Appropriations Used	4,116	89,175	-	93,291
Non-exchange Revenue	-	12	-	12
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	882	3,504	-	4,386
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	-	(460)	-	(460)
Imputed Financing	52	3,480	(2,527)	1,005
Other	4	-	-	4
Total Financing Sources	5,055	95,711	(2,527)	98,239
Net Cost of Operations	(4,711)	(84,137)	2,527	(86,321)
Net Change	344	11,574	-	11,918
Cumulative Results of Operations, Ending	803	(4,033)	-	(3,230)
Unexpended Appropriations:				
Beginning Balances	976	25,409	-	26,385
Changes in Accounting Principles (Note 30)	-	(209)	-	(209)
Beginning Balance, as Adjusted	976	25,200	-	26,176
Budgetary Financing Sources:				
Appropriations Received	4,392	94,999	-	99,391
Appropriations Transferred In (Out)	(5)	15	-	10
Other Adjustments	(134)	(1,215)	-	(1,349)
Appropriations Used	(4,116)	(89,175)	-	(93,291)
Total Budgetary Financing Sources	137	4,624	-	4,761
Unexpended Appropriations, Ending	1,113	29,824	-	30,937
Net Position	$ 1,916	$ 25,791	$ -	$ 27,707

The accompanying notes are an integral part of these statements.

CONSOLIDATED STATEMENT OF CHANGES IN NET POSITION

For the Year Ended September 30, 2006
(in millions)

	Earmarked Funds	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 964	$ (20,476)	$ -	$ (19,512)
Budgetary Financing Sources:				
Appropriations Used	3,184	91,765	-	94,949
Non-exchange Revenue	-	2	-	2
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	915	2,694	-	3,609
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	-	(544)	-	(544)
Imputed Financing	43	3,113	(2,349)	807
Other	5	-	-	5
Total Financing Sources	4,148	97,030	(2,349)	98,829
Net Cost of Operations	(4,594)	(93,181)	2,349	(95,426)
Net Change	(446)	3,849	-	3,403
Cummulative Results of Operations, Ending	518	(16,627)	-	(16,109)
Unexpended Appropriations:				
Beginning Balances	923	20,567	-	21,490
Budgetary Financing Sources:				
Appropriations Received	3,308	97,832	-	101,140
Appropriations Transferred In (Out)	(5)	103	-	98
Other Adjustments	(66)	(1,328)	-	(1,394)
Appropriations Used	(3,184)	(91,765)	-	(94,949)
Total Budgetary Financing Sources	53	4,842	-	4,895
Unexpended Appropriations, Ending	976	25,409	-	26,385
Net Position	$ 1,494	$ 8,782	$ -	$ 10,276

The accompanying notes are an integral part of these statements.

COMBINED STATEMENT OF BUDGETARY RESOURCES

For the Years Ended September 30, 2007 and 2006
(in millions)

	2007		2006	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1	$ 21,282	$ 3,715	$ 19,170	$ 6,828
Recoveries of prior year unpaid obligations	3,175	1,445	9,071	941
Budget Authority -				
Appropriation	108,428	-	109,856	-
Borrowing Authority (Notes 22 & 23)	41,185	12,478	44,465	12,608
Earned -				
Collected	26,158	8,513	23,265	7,864
Change in receivables from Federal Sources	(1,069)	4	(129)	(29)
Change in unfilled customer orders -				
Advances received	(170)	-	299	-
Without advance from Federal Sources	96	8	70	11
Expenditure transfers from trust funds	934	-	1,050	-
Nonexpenditure transfers, net, anticipated and actual	(336)	-	(342)	-
Temporarily not available pursuant to Public Law	(36)	-	-	-
Permanently not available	(57,635)	(6,257)	(55,745)	(8,798)
Total Budgetary Resources	142,012	19,906	151,030	19,425
Status of Budgetary Resources:				
Obligations Incurred (Note 21) -				
Direct	83,743	14,698	87,185	15,710
Reimbursable	30,513	-	42,563	-
Unobligated Balance -				
Apportioned	8,794	1,917	7,818	1,625
Exempt from Apportionment	1,351	5	771	-
Unobligated balance not available	17,611	3,286	12,693	2,090
Total Status of Budgetary Resources	142,012	19,906	151,030	19,425
Change in Obligated Balances:				
Obligated Balance, net, brought forward October 1	26,537	18,900	26,555	18,202
Obligations incurred	114,256	14,698	129,748	15,710
Gross outlays	(113,118)	(14,034)	(120,756)	(14,089)
Recoveries of prior year unpaid	(3,175)	(1,445)	(9,071)	(941)
Change in uncollected payments from Federal Sources	973	(12)	59	18
Obligated balance, net, end of period -				
Unpaid obligations (Note 27)	26,844	18,940	28,881	19,722
Uncollected customer payments from Federal Sources	(1,372)	(833)	(2,344)	(822)
Obligated Balance, net, end of period	25,472	18,107	26,537	18,900
Net Outlays:				
Gross outlays	113,118	14,034	120,756	14,089
Offsetting collections	(26,921)	(8,514)	(24,612)	(7,864)
Distributed offsetting receipts	(1,303)	(464)	(1,708)	(987)
Net Outlays	$ 84,894	$ 5,056	$ 94,436	$ 5,238

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2007 and 2006
(in millions)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Department of Agriculture (USDA) provides a wide variety of services in the United States and around the world. USDA is organized into seven distinct mission areas and their agencies that execute these missions.

Listed below are the missions and the agencies within each mission including four Government corporations:

Farm and Foreign Agricultural Services (FFAS)

- Farm Service Agency (FSA)
  - Commodity Credit Corporation (CCC)
- Foreign Agricultural Service (FAS)
- Risk Management Agency (RMA)
  - Federal Crop Insurance Corporation (FCIC)

Food, Nutrition, and Consumer Services (FNCS)

- Food and Nutrition Service (FNS)

Food Safety

- Food Safety and Inspection Service (FSIS)

Marketing and Regulatory Programs (MRP)

- Agricultural Marketing Service (AMS)
- Animal and Plant Health Inspection Service (APHIS)
- Grain Inspection, Packers and Stockyards Administration (GIPSA)

Natural Resources and Environment (NRE)

- Forest Service (FS)
- Natural Resources Conservation Service (NRCS)

Research, Education, and Economics (REE)

- Agricultural Research Service (ARS)
- Cooperative State Research, Education, and Extension Service (CSREES)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

Rural Development

- Rural Development (RD)
  - Rural Telephone Bank (RTB) – a corporation
  - Alternative Agricultural Research and Commercialization Corporation (AARC)

With the passage of the 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, Public Law No. 109-97, the legal restriction on redeeming Government-owned Class A stock was removed for RTB. As a result of this change, the process of liquidation and dissolution of the RTB began. During FY 2008 RTB will be dissolved in its entirety and will no longer be a reportable entity.

Consolidation

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

Effective for FY 2007, the Statement of Financing will be presented as a note per Office of Management and Budget's (OMB) authority under Statement of Federal Financial Accounting Standards (SFFAS) 7 and will no longer be considered a Basic Statement. The Statement of Financing will now be a display in the

notes and referred to as "Reconciliation of Net Cost of Operations to Budget."

Reclassifications

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. The FY 2006 Statement of Net Cost was reclassified to reflect the six strategic goals outlined in USDA's Strategic Plan for FY 2005-2010. Earmarked funds with total assets less than $50 million were summarized as "other" in the earmarked fund note for FY 2006.

Use of Estimates

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

Revenue and Other Financing Sources

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

Investments

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

Accounts Receivable

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

Direct Loans and Loan Guarantees

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

Direct loans obligated and loan guarantees committed before fiscal 1992 are valued using the present-value method. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan

guarantees is the present value of expected net cash outflows due to the loan guarantees.

Inventories and Related Property

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

Property, Plant and Equipment

Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are $25,000 and $100,000 for internal use software. There are no restrictions on the use or convertibility of PP&E.

Pension and Other Retirement Benefits

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

Other Post-employment Benefits

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

Earmarked Funds

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, which became effective in FY 2006, the Department has reported the earmarked funds for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

Stewardship PP&E

SFFAS 29, Heritage Assets and Stewardship Land, was issued in July 2005. SFFAS 29 reclassified all heritage assets and stewardship land information as basic except for condition information, which is classified as RSI. The reclassification as basic is being phased in per SFFAS 29. Heritage assets and stewardship land information that was previously reported in RSSI will temporarily shift to RSI until it moves to a note on the balance sheet as basic information. The phase-in of disclosure requirements being reported as basic information provides that SFFAS 29 will be fully implemented for reporting periods beginning after September 30, 2008.

Contingencies

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

Allocation Transfers

The Department is a party to allocation transfers with other federal agencies as both a transferring (parent) entity and/or a receiving (child) entity. Allocation transfers are legal delegations by one department of its authority to obligate budget authority and outlay funds to another department. A separate fund account

(allocation account) is created in the U.S. Treasury as a subset of the parent fund account for tracking and reporting purposes. All allocation transfers of balances are credited to this account, and subsequent obligations and outlays incurred by the child entity are charged to this allocation account as they execute the delegated activity on behalf of the parent entity.

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

Limitations of the Financial Statements

The financial statements report the financial position and results of operations of the entity, pursuant to the requirements of 31 U.S.C. 3515(b).

While the statements have been prepared from the books and records of the entity in accordance with the formats prescribed by the OMB, they also are used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. Thus, liabilities cannot be liquidated without enabling legislation that provides resources to do so.

NOTE 2. NON-ENTITY ASSETS

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

	FY 2007	FY 2006
Intragovernmental:		
Fund balance with Treasury	$ 106	$ 37
Accounts Receivable	-	17
Subtotal Intragovernmental	106	54
With the Public:		
Cash and other monetary assets	109	98
Accounts receivable	47	32
Subtotal With the Public	156	130
Total non-entity assets	262	184
Total entity assets	142,226	134,045
Total Assets	$ 142,488	$ 134,229

NOTE 3. FUND BALANCE WITH TREASURY

Other Fund Types include deposit and clearing accounts. Clearing Account Balances, including suspense accounts are awaiting disposition or reclassification. Borrowing Authority not yet Converted to Fund Balance represents un-obligated and obligated amounts recorded at year-end that will be funded by future borrowings.

	FY 2007	FY 2006
Fund Balances:		
Trust Funds	$ 449	$ 551
Special Funds	1,498	1,352
Revolving Funds	6,395	5,227
General Funds	38,977	35,107
Other Fund Types	21	(46)
Total	47,340	42,191
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	12,067	10,213
Unavailable	20,897	14,652
Obligated Balance not yet Disbursed	43,471	44,451
Borrowing Authority not yet Converted to Fund Balance	(29,162)	(27,141)
Non-Budgetary Fund Balance with Treasury:		
Clearing Account Balances	67	16
Total	$ 47,340	$ 42,191

NOTE 4. CASH AND OTHER MONETARY ASSETS

In fiscal 2007 and 2006, cash includes Federal crop insurance escrow amounts of $79 million and $90 million, funds held in escrow for single family housing borrowers of $109 million and $98 million, and other receipts of $30 million and $36 million, respectively.

	FY 2007	FY 2006
Cash	$ 218	$ 224

NOTE 5. INVESTMENTS

FY 2007	Amortization Method	Cost	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental:					
Non-marketable					
Par value		$ 88	$ -	$ 88	$ -
Market-based	Straight Line	6	-	6	6
Total		$ 94	$ -	$ 94	$ 6
With the Public:					
AARC		$ 3	$ -	$ 3	$ 3
Total		$ 3	$ -	$ 3	$ 3

FY 2006	Amortization Method	Cost	Unamortized Premium/ (Discount)	Investments, Net	Market Value Disclosure
Intragovernmental:					
Non-marketable					
Par value		$ 76	$ -	$ 76	$ -
Market-based	Straight Line	5	-	5	5
Total		$ 81	$ -	$ 81	$ 5
With the Public:					
AARC		$ 3	$ -	$ 3	$ 3
Total		$ 3	$ -	$ 3	$ 3

NOTE 6. ACCOUNTS RECEIVABLE, NET

FY 2007

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 364	$ -	$ 364
With the Public	8,899	45	8,854
Total	$ 9,263	$ 45	$ 9,218

FY 2006

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 246	$ -	$ 246
With the Public	8,732	97	8,635
Total	$ 8,978	$ 97	$ 8,881

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

Direct Loans

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

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

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

Direct Loan and Loan Guarantees, Net at the end of FY 2007 was $80,348 million compared to $77,791 million at the end of FY 2006. Loans exempt from the Federal Credit Reform Act of 1990 represent $779 million of the total compared to $1,381 million in FY 2006. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2007 and 2006.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance moved from $5,090 million to $4,334 million during FY 2007, a decrease of $756 million.

Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2006 to FY 2007.

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 2007 was negative $32 million compared to $717 million in FY 2006. Table 3 illustrates the breakdown of total subsidy expense for FY 2007 and 2006 by program.

Direct loan volume decreased from $8,875 million in FY 2006 to $8,274 million in FY 2007. 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 2007 were $34,482 million in outstanding principal and $30,648 million in outstanding principal guaranteed, compared to $33,419 and $29,643 million, respectively at the end of FY 2006. Table 5 shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from $1,296 million to $1,258 million during FY 2007, a decrease of $38 million. The post-1991 liability moved from $1,294 million to $1,256 million, a decrease of $38 million. Table 7 shows the reconciliation of loan guarantee liability post-1991 balances and the total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2007 was negative $192 million compared to negative $64 million in FY 2006. Table 8 illustrates the breakdown of total subsidy expense for FY 2007 and 2006 by program.

Guaranteed loan volume increased from $7,394 million in FY 2006 to $7,434 million in FY 2007. Volume distribution between mission area and program is shown in Table 9.

Credit Program Discussion and Descriptions

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

The Farm and Foreign Agricultural Services Mission Area

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

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

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

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

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

Farm and Foreign Agricultural Service List of Programs

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

The Rural Development Mission Area

Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with State, local and Indian tribal Governments, as well as private and not-for-profit organizations and user-owned cooperatives.

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

The Rural Business Program goal is to promote a dynamic business environment in rural America. RD partners with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

The Rural Utilities Program helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. This program leverages scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD programs provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

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

Discussion of Administrative Expenses, Subsidy Costs and Subsidy Rates

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2007 and 2006 are shown in Table 10.

Reestimates, Default Analysis, and Subsidy Rates

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

RD's cash flow models are tailored for specific programs based on unique program characteristics. The models utilized are housing, guaranteed, electric underwriters, FFB modifications and a direct model that covers the remaining portfolio with similar characteristics. In FY 2007, reestimates using projected fiscal year activity were recorded in the current fiscal year. In prior years, several programs used an approximator method for financial statement purposes, which lagged one year behind actual budgetary reestimates.

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2007 reestimate process resulted in a $397 million reduction in the post 1991 estimated cost of the direct loan portfolio and a $379 million reduction in the post 1991 estimated cost of the guaranteed loan portfolio.

Table 3 discloses the direct loan subsidy expense including the $397 million decrease due to reestimates. The decrease was most affected by a $140 million decrease in the farm program, a $108 million decrease in the telecommunications program, and a $75 million decrease in the housing program.

Table 8 discloses the loan guarantee subsidy expenses including the $379 million reduction due to reestimate. The reduction was most impacted by the $389 million reduction in the export programs. After analyzing foreign credits governmentwide, OMB determined that actual performance on foreign credits was better than had been previously forecast and therefore mandated a change to the default calculation methodology. This is a major contributor to the downward subsidy reestimates for the export program.

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

The Inter-agency Country Risk Assessment System is a Federal interagency effort chaired by OMB under the authority of the Federal Credit Reform Act of 1990 as amended. The system provides standardized risk assessment and budget assumptions for all direct credits and credit guarantees provided by the Government, to foreign borrowers. Sovereign and non-sovereign lending risks are sorted into risk categories, each associated with a default estimate.

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

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2007 and 2006 cohorts. These rates cannot be applied

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

As a result of new guidance, CCC chose to reflect interest on downward reestimates in the Statement of Changes in Net Position as other financing sources for FY 2007 and 2006, respectively. The remainder of USDA credit programs chose to reflect downward reestimates in earned revenue on the Statement of Net Cost. Both methodologies are accepted alternatives that have been promulgated by Treasury.

Foreclosed Property

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

As of September 30, 2007 and 2006, foreclosed property consisted of 591 and 530 rural single-family housing dwellings, with an average holding period of 23 and 27 months, respectively. As of September 30, 2007 and 2006, FSA-Farm Loan Program properties consist primarily of 61 and 78 farms, respectively. The average holding period for these properties in inventory for FY 2007 and 2006 was 68 and 58 months, respectively. Certain properties can be leased to eligible individuals.

Non-performing Loans

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Loan Modifications

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

In FY 2007, RD modified several loan programs. The multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2007. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

In FY 2006, electric program direct loans were modified for two borrowers due to damage caused by the hurricanes which occurred during the 2005 calendar year. One borrower's loans were modified to defer principal payments for three years and to extend the loan term for three years. The other modification was made to defer principal and interest for five years and to extend the maturity by five years. One modification in the direct electric program occurred in FY 2007 related to the 2005 hurricanes.

In the Federal Financing Bank (FFB) electric program, loan extension modifications were granted for two borrowers in FY 2007. The maturity dates were extended up to 20 years on selected advances. Interest rates on the advances did not change. At the time of the modification, the liquidating fund was paid off and the advances were moved to the financing fund. The post-modification cash flows were discounted at the third quarter net present value discount factor from the FY 2007 President's Budget relative to the effective date of the loan extension modifications.

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

Interest Credit

Approximately $17,800 million and $17,900 million of Rural Housing Service (RHS) unpaid loan principal as of September 30, 2007, and 2006 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $1,000 million higher for FY 2007 and 2006.

Restructured Loans

At the end of FY 2007 and 2006, the RD portfolio contained approximately 76,500 and 81,000 restructured loans with an outstanding unpaid principal balance of $2,500 million. At the end of FY 2007 and 2006, the farm loan portfolio contained approximately 22,000 and 23,000 restructured loans with an outstanding unpaid principal balance of $1,200 million and $1,300 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2007 and 2006, were $3,400 million and $4,200 million, respectively.

Table 1. Direct Loan and Loan Guarantees, Net

FY 2007 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Farm	$ 1,679	$ 115	$ 10	$ (129)	$ 1,675
Export	-	-	-	-	-
Food Aid	5,204	31	-	(2,365)	2,870
Housing	11,014	118	21	(5,040)	6,113
Electric	10,045	88	-	(1,373)	8,760
Telecommunications	1,047	2	-	(24)	1,025
Water and Environmental	1,438	12	-	(182)	1,268
Business and Industry	-	-	-	-	-
Economic Development	44	-	-	(20)	24
Pre-1992 Total	30,471	366	31	(9,133)	21,735
Obligated Post-1991					
Farm	4,877	161	4	(440)	4,602
Export	-	-	-	-	-
Food Aid	2,414	33	-	(1,192)	1,255
Housing	16,023	81	24	(2,090)	14,038
Electric	26,006	170	-	(42)	26,134
Telecommunications	2,936	6	-	328	3,270
Water and Environmental	7,839	70	-	(638)	7,271
Business and Industry	51	-	-	(38)	13
Economic Development	509	2	-	(168)	343
Post-1991 Total	60,655	523	28	(4,280)	56,926
Total Direct Loan Program Receivables	91,126	889	59	(13,413)	78,661
Defaulted Guarantee Loans					
Pre-1992					
Farm	8	-	-	(5)	3
Export	349	5	-	(114)	240
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	3	1	-	-	4
Economic Development	-	-	-	-	-
Pre-1992 Total	360	6	-	(119)	247
Post-1991					
Farm	49	2	-	(32)	19
Export	630	16	-	(114)	532
Food Aid	-	-	-	-	-
Housing	23	-	-	(22)	1
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	118	3	-	(12)	109
Economic Development	-	-	-	-	-
Post-1991 Total	820	21	-	(180)	661
Total Defaulted Guarantee Loans	1,180	27	-	(299)	908
Loans Exempt from Credit Reform Act:					
Commodity Loans	744	15	-	-	759
Other Foreign Receivables	21	-	-	(1)	20
Total Loans Exempt	765	15	-	(1)	779
Total Direct Loan and Loan Guarantees, Net					$ 80,348

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

FY 2006 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Direct Loans
Obligated Pre-1992					
Farm	$ 1,981	$ 133	$ 13	$ (174)	$ 1,953
Export	-	-	-	-	-
Food Aid	5,600	68	-	(2,570)	3,098
Housing	11,666	101	16	(5,212)	6,571
Electric	11,969	25	-	(1,460)	10,534
Telecommunications	1,239	2	-	(79)	1,162
Water and Environmental	1,568	16	-	(216)	1,368
Business and Industry	1	1	-	(1)	1
Economic Development	44	-	-	(22)	22
Pre-1992 Total	34,068	346	29	(9,734)	24,709
Obligated Post-1991					
Farm	4,692	152	4	(642)	4,206
Export	-	-	-	-	-
Food Aid	2,548	34	-	(1,249)	1,333
Housing	15,145	87	16	(2,099)	13,149
Electric	22,237	3	-	(240)	22,000
Telecommunications	2,718	5	-	77	2,800
Water and Environmental	7,104	73	-	(663)	6,514
Business and Industry	70	-	-	(67)	3
Economic Development	488	2	-	(162)	328
Post-1991 Total	55,002	356	20	(5,045)	50,333
Total Direct Loan Program Receivables	89,070	702	49	(14,779)	75,042
Defaulted Guarantee Loans					
Pre-1992					
Farm	8	-	-	(6)	2
Export	516	7	-	(137)	386
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	4	-	-	-	4
Pre-1992 Total	528	7	-	(143)	392
Post-1991					
Farm	36	1	-	(22)	15
Export	1,189	20	-	(406)	803
Food Aid	-	-	-	-	-
Housing	17	-	-	(14)	3
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	162	2	-	(9)	155
Economic Development	-	-	-	-	-
Post-1991 Total	1,404	23	-	(451)	976
Total Defaulted Guarantee Loans	1,932	30	-	(594)	1,368
Loans Exempt from Credit Reform Act:					
Commodity Loans	1,493	-	-	(132)	1,361
Other Foreign Receivables	62	-	-	(42)	20
Total Loans Exempt	1,555	-	-	(174)	1,381
Total Direct Loan and Loan Guarantees, Net					$ 77,791

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

	FY 2007	FY 2006
Beginning balance of the subsidy cost allowance	$ 5,080	$ 4,674
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(56)	(119)
Default costs (net of recoveries)	142	120
Fees and other collections	(3)	(3)
Other subsidy costs	286	337
Total subsidy expense prior to adjustments and reestimates	369	335
Adjustments		
Loan modifications	(3)	27
Fees received	29	22
Loans written off	(274)	(276)
Subsidy allowance amortization	(467)	(78)
Other	(2)	32
Total subsidy cost allowance before reestimates	4,732	4,736
Add or subtract subsidy reestimates by component		
Interest rate reestimate	12	97
Technical/default reestimate	(410)	257
Total reestimates	(398)	354
Ending balance of the subsidy cost allowance	$ 4,334	$ 5,090

Table 3. Direct Loan Subsidy Expense by Program and Component

FY 2007

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ 23	$ 73	$ -	$ (6)	$ 90	$ -	$ (64)	$ (76)	$ (140)	$ (50)
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	4	1	-	-	5	-	(29)	(12)	(41)	(36)
Housing	(154)	61	(3)	306	210	1	(76)	1	(75)	136
Electric	(26)	5	-	(10)	(31)	(4)	122	(108)	14	(21)
Telecommunications	1	2	-	(1)	2	-	16	(124)	(108)	(106)
Water and Environmental	75	1	-	(4)	72	-	31	(66)	(35)	37
Business and Industry	-	-	-	-	-	-	-	(13)	(13)	(13)
Economic Development	20	-	-	-	20	-	12	(11)	1	21
Total Direct Loan Subsidy Expense	$ (57)	$ 143	$ (3)	$285	$ 368	$ (3)	$ 12	$ (409)	$ (397)	$ (32)

FY 2006

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ 12	$ 73	$ -	$ (4)	$ 81	$ -	$ 5	$ (18)	$ (13)	$ 68
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	18	4	-	-	22	26	-	(89)	(89)	(41)
Housing	(178)	31	(3)	360	210	-	337	461	798	1,008
Electric	(45)	9	-	(14)	(50)	1	(214)	(39)	(253)	(302)
Telecommunications	(1)	2	-	(1)	-	-	(6)	(43)	(49)	(49)
Water and Environmental	53	1	-	(3)	51	-	(29)	(4)	(33)	18
Business and Industry	-	-	-	-	-	-	3	(9)	(6)	(6)
Economic Development	23	-	-	-	23	-	-	(2)	(2)	21
Total Direct Loan Subsidy Expense	$ (118)	$ 120	$ (3)	$338	$ 337	$ 27	$ 96	$ 257	$ 353	$ 717

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

	FY 2007	FY 2006
Direct Loan Programs		
Farm	$ 1,069	$ 1,041
Export	-	-
Food Aid	9	16
Housing	1,856	1,790
Electric	3,814	4,802
Telecommunications	503	485
Water and Environmental	969	675
Business and Industry	-	-
Economic Development	54	66
Total Direct Loans Disbursed	$ 8,274	$ 8,875

Table 5. Loan Guarantees Outstanding

FY 2007	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	$ 66	$ 10,045	$ 10,111	$ 58	$ 9,027	$ 9,085
Export	-	2,371	2,371	-	2,312	2,312
Food Aid	-	-	-	-	-	-
Housing	8	17,872	17,880	7	16,075	16,082
Electric	184	218	402	184	218	402
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	37	37	-	30	30
Business and Industry	14	3,667	3,681	10	2,727	2,737
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 272	$ 34,210	$ 34,482	$ 259	$ 30,389	$ 30,648

FY 2006	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 86	$ 10,069	$ 10,155	$ 76	$ 9,046	$ 9,122
Export	-	3,022	3,022	-	2,925	2,925
Food Aid	-	-	-	-	-	-
Housing	12	15,889	15,901	10	14,286	14,296
Electric	167	222	389	167	222	389
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	34	34	-	28	28
Business and Industry	23	3,892	3,915	17	2,863	2,880
Economic Development	3	-	3	3	-	3
Total Guarantees Disbursed	$ 291	$ 33,128	$ 33,419	$ 273	$ 29,370	$ 29,643

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

FY 2007	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 1	$ 126	$ 127
Export	-	184	184
Food Aid	-	-	-
Housing	-	655	655
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	291	292
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 2	$ 1,256	$ 1,258

FY 2006	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ 1	$ 121	$ 122
Export	-	220	220
Food Aid	-	-	-
Housing	-	624	624
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	329	330
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 2	$ 1,294	$ 1,296

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2007	FY 2006
Beginning balance of the loan guarantee liability	$ 1,293	$ 1,209
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest rate differential costs	33	35
Default costs (net of recoveries)	280	290
Fees and other collections	(126)	(118)
Other subsidy costs	-	-
Total of the above subsidy expense components	187	207
Adjustments		
Loan modifications	-	-
Fees received	105	95
Interest supplements paid	(10)	(6)
Claim payments to lenders	(107)	(154)
Interest accumulation on the liability balance	(29)	127
Other	195	84
Ending balance of the subsidy cost allowance before reestimates	1,634	1,562
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	(64)	57
Technical/default reestimate	(315)	(326)
Total of the above reestimate components	(379)	(269)
Ending balance of the loan guarantee liability	$ 1,255	$ 1,293

Table 8. Guarantee Loan Subsidy Expense by Program and Component

FY 2007

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	$ 21	$ 51	$ (17)	$ -	$ 55	$ -	$ -	$ (37)	$ (37)	$ 18
Export	-	48	(7)	-	41	-	(95)	(294)	(389)	(348)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	12	126	(80)	-	58	-	12	(25)	(13)	45
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	(1)	1	-	-
Business and Industry	-	55	(22)	-	33	-	21	39	60	93
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 33	$ 280	$ (126)	$ -	$ 187	$ -	$ (63)	$ (316)	$ (379)	$ (192)

FY 2006

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 25	$ 58	$ (17)	$ -	$ 66	$ -	$ 1	$ 18	$ 19	$ 85
Export	-	78	(9)	-	69	-	23	(371)	(348)	(279)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	10	97	(68)	-	39	-	20	31	51	90
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	56	(25)	-	31	-	13	(4)	9	40
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 35	$ 289	$ (119)	$ -	$ 205	$ -	$ 57	$ (326)	$ (269)	$ (64)

Table 9. Guaranteed Loans Disbursed

	FY 2007		FY 2006	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,110	$ 1,896	$ 2,146	$ 1,928
Export	1,086	1,037	1,568	1,451
Food Aid	-	-	-	-
Housing	3,643	3,275	3,187	2,864
Electric	-	-	3	3
Telecommunications	-	-	-	-
Water and Environmental	7	6	1	1
Business and Industry	588	459	489	382
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 7,434	$ 6,673	$ 7,394	$ 6,629

Table 10. Administrative Expenses

	FY 2007	FY 2006
Direct Loan Programs	$ 527	$ 535
Guaranteed Loan Programs	230	253
Total Administrative Expenses	$ 757	$ 788

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	1.02	10.49	-	0.18	11.69
Indian Land Acquisition	5.49	15.66	-	-	21.15
Emergency Disaster	12.38	0.08	-	(0.69)	11.77
Boll Weevil Eradication	2.85	(0.95)	-	-	1.90
Farm Ownership	3.88	0.43	-	(0.12)	4.19
Farm Storage Facility Loan Program	0.03	7.27	(0.11)	(6.81)	0.38
Sugar Storage Facility Loan Program	0.63	7.40	-	(10.74)	(2.71)
Community Facility Loans	7.04	0.18	-	(0.81)	6.41
Water and Waste Disposal Loans	10.31	0.09	-	(0.44)	9.96
Distance Learning and Telemedicine Loans	(0.72)	1.35	-	-	0.63
Broadband Treasury Loans	-	2.19	-	(0.04)	2.15
Electric Hardship Loans	2.25	-	-	(0.11)	2.14
Municipal Electric Loans	1.26	-	-	0.25	1.51
FFB Electric Loans	(1.21)	0.02	-	-	(1.19)
Telecommunication Hardship Loans	0.36	0.01	-	-	0.37
FFB Telecommunications Loans	(1.21)	0.02	-	(0.30)	(1.49)
Treasury Telecommunication Loans	-	0.03	-	-	0.03
FFB Guaranteed Underwriting	(1.24)	0.80	-	-	(0.44)
Single-Family Housing Credit Sales	(16.88)	9.56	-	7.80	0.48
Multi-Family Housing Credit Sales	(19.19)	0.11	-	64.41	45.33
Section 502 Single-Family Housing	(14.99)	5.37	-	19.65	10.03
Section 504 Housing Repair	30.08	1.47	-	(2.00)	29.55
Section 515 Multi-Family Housing	(18.32)	0.07	-	63.92	45.67
Section 523 Self-Help Site Development	2.47	-	-	-	2.47
Section 524 Site Development	(2.59)	0.93	-	-	(1.66)
Section 514 Farm Labor Housing	45.52	0.21	-	2.22	47.95
Multi-Family Housing Relending Program	47.81	-	-	0.01	47.82
Intermediary Relending Program	44.93	-	-	(0.86)	44.07
Rural Economic Development Loans	23.45	0.18	-	(1.79)	21.84

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Operating	1.62	8.05	-	0.28	9.95
Indian Land Acquisition	5.87	(1.86)	-	-	4.01
Emergency Disaster	5.02	6.25	-	(0.33)	10.94
Boll Weevil Eradication	0.51	(18.74)	-	0.14	(18.09)
Farm Ownership	0.63	2.49	-	2.00	5.12
Farm Storage Facility Loan Program	0.04	6.76	(0.11)	(7.31)	(0.62)
Sugar Storage Facility Loan Program	0.36	0.90	-	-	1.26
Community Facility Loans	3.59	0.24	-	(0.48)	3.35
Water and Waste Disposal Loans	7.14	0.09	-	(0.32)	6.91
Distance Learning and Telemedicine Loans	-	1.63	-	(0.13)	1.50
Broadband 4% Loans	5.83	2.13	-	(0.01)	7.95
Broadband Treasury Loans	-	2.22	-	(0.07)	2.15
Electric Hardship Loans	0.69	0.02	-	0.21	0.92
Municipal Electric Loans	4.68	0.02	-	0.35	5.05
FFB Electric Loans	(0.49)	0.02	-	(0.01)	(0.48)
Treasury Electric Loans	-	0.02	-	(0.01)	0.01
Telecommunication Hardship Loans	(1.84)	0.02	-	0.02	(1.80)
FFB Telecommunications Loans	(1.03)	0.02	-	(0.56)	(1.57)
Treasury Telecommunication Loans	-	0.03	-	0.02	0.05
Single-Family Housing Credit Sales	(19.35)	1.16	-	3.66	(14.53)
Multi-Family Housing Credit Sales	(19.82)	0.12	-	65.10	45.40
Section 502 Single-Family Housing	(16.77)	2.32	-	25.84	11.39
Section 504 Housing Repair	27.00	2.45	-	(0.20)	29.25
Section 515 Multi-Family Housing	(17.86)	0.04	(0.05)	63.75	45.88
Section 523 Self-Help Site Development	1.03	-	-	-	1.03
Section 524 Site Development	(4.30)	0.79	-	-	(3.51)
Section 514 Farm Labor Housing	44.91	0.03	-	(0.35)	44.59
Intermediary Relending Program	43.84	-	-	(0.82)	43.02
Rural Economic Development Loans	21.40	0.07	-	1.50	22.97
Electric Underwriting	(2.09)	0.83	-	-	(1.26)
MFH Preservation	46.76	-	-	-	46.76
P. L. 480 Direct Credits	44.39	11.01	-	-	55.40

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2007	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	9.28	(1.35)	-	7.93
Farm Operating—Unsubsidized	-	3.37	(0.90)	-	2.47
Farm Operating—Subsidized	7.59	2.48	-	-	10.07
Farm Ownership—Unsubsidized	-	1.48	(0.90)	-	0.58
Community Facility Loans	-	4.52	(0.86)	-	3.66
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Section 502 Single-Family Housing Purchase	-	3.21	(2.00)	-	1.21
Section 502 Single-Family Housing Refinance	-	1.00	(0.50)	-	0.50
538 Multi-Family Housing-Subsidized	14.59	0.50	(7.35)	-	7.74
Renewable Energy	-	8.03	(1.54)	-	6.49

FY 2006	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	9.50	(0.57)	-	8.93
Farm Operating—Unsubsidized	-	3.93	(0.90)	-	3.03
Farm Operating—Subsidized	9.24	3.26	-	-	12.50
Farm Ownership—Unsubsidized	-	1.38	(0.90)	-	0.48
Business and Industry Loans	-	8.20	(3.41)	-	4.79
Guaranteed Business & Industry NadBank Loans	-	13.76	(3.28)	(0.01)	10.47
Community Facility Loans	-	1.21	(0.85)	-	0.36
Water and Waste Disposal Loans	-	-	(0.90)	-	(0.90)
Electric Guaranteed Loans	-	0.90	-	-	0.90
Guaranteed Broadband Loans (Discretionary)	-	3.82	-	-	3.82
Guaranteed Broadband Loans (Mandatory)	-	3.82	-	-	3.82
Section 502 Single-Family Housing Purchase	-	3.16	(2.00)	-	1.16
Section 502 Single-Family Housing Refinance	-	0.79	(0.50)	-	0.29
538 Multi-Family Housing-Subsidized	12.28	0.57	(7.44)	0.01	5.42
Renewable Energy	-	8.20	(1.75)	-	6.45

NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries and providing price support and stabilization. Commodity loan forfeitures during the fiscal years ended September 30, 2007 and 2006 were $77 million and $106 million, respectively. Estimated future commodity donations are expected to be $12 million.

	FY 2007		FY 2006	
Inventories		$ 1		$ 1
Commodities:	Volume (in millions)	Amount	Volume (in millions)	Amount
Corn (In Bushels):				
On hand at the beginning of the year	1	2	1	2
Acquired during the year	4	12	289	561
Disposed of during the year				
Sales	(4)	(12)	(288)	(558)
Donations	-	-	(1)	(3)
Other	-	-	-	-
On hand at the end of the year	1	2	1	2
Wheat (In Bushels):				
On hand at the beginning of the year	43	159	47	171
Acquired during the year	35	182	56	240
Disposed of during the year				
Sales	(30)	(179)	(28)	(134)
Donations	(7)	(12)	(32)	(118)
Other	(2)	(6)	-	-
On hand at the end of the year	39	144	43	159
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	49	40	104	94
Acquired during the year	-	-	62	50
Disposed of during the year				
Sales	(1)	(1)	(27)	(25)
Donations	(34)	(36)	(82)	(76)
Other	-	10	(8)	(3)
On hand at the end of the year	14	13	49	40
Other:				
On hand at the beginning of the year		24		37
Acquired during the year		5,274		5,140
Disposed of during the year				
Sales		(5,223)		(5,085)
Donations		(46)		(68)
Other		(4)		-
On hand at the end of the year		25		24
Allowance for losses		-		(171)
Total Commodities		184		54
Total Inventory and Related Property, Net		$ 185		$ 55

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

FY 2007 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ -	$ 77
Improvements to Land	10 - 50	5,028	2,823	2,205
Construction-in-Progress		884	-	884
Buildings, Improvements and Renovations	15 - 30	1,903	1,161	742
Other Structures and Facilities	15 - 50	1,685	1,248	437
Equipment	5 - 20	1,687	1,359	328
Assets Under Capital Lease	3 - 20	70	34	36
Leasehold Improvements	10	63	38	25
Internal-Use Software	5 - 8	482	311	171
Internal-Use Software in Development		23	1	22
Other General Property, Plant and Equipment	5 - 15	4	-	4
Total		$ 11,906	$ 6,975	$ 4,931

FY 2006 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 75	$ -	$ 75
Improvements to Land	10 - 50	4,986	2,711	2,275
Construction-in-Progress		828	-	828
Buildings, Improvements and Renovations	15 - 30	1,815	1,099	716
Other Structures and Facilities	15 - 50	1,604	1,194	410
Equipment	5 - 20	1,711	1,375	336
Assets Under Capital Lease	3 - 20	44	16	28
Leasehold Improvements	10	50	34	16
Internal-Use Software	5 - 8	442	263	179
Internal-Use Software in Development		38	-	38
Other General Property, Plant and Equipment	5 - 15	4	-	4
Total		$ 11,597	$ 6,692	$ 4,905

NOTE 10. STEWARDSHIP PP&E

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

Heritage assets are unique and are generally expected to be preserved indefinitely. Heritage assets may be unique because they have historical or natural significance, are of cultural, educational or artistic importance, or have significant architectural characteristics. The assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No amounts are shown on the balance sheet for heritage assets, except for multi-use heritage assets in which the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of multi-use heritage assets is capitalized as general PP&E and depreciated, with required supplementary information providing the physical quantity information for the multi-use heritage assets. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use is considered an expense in the period incurred when determining the net cost of operations. Heritage assets are held by the FS, NRCS, and ARS consisting mainly of buildings and structures.

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

NOTE 11. OTHER ASSETS

In fiscal 2007 and 2006, other assets include investments in trust for loan asset sales of $37 million.

	FY 2007	FY 2006
With the Public:		
Advances to Others	114	60
Prepayments	-	1
Other Assets	37	37
Total Other Assets	$ 151	$ 98

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In fiscal 2007 and 2006, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $162 million and $159 million, respectively, and contract disputes claims payable to Treasury's Judgment Fund of $15 million and $13 million, respectively.

In fiscal 2007 and 2006, other liabilities with the public not covered by budgetary resources include, accruals for rental payments under the Conservation Reserve Program (CRP) of $1,810 million and $1,779 million, unfunded leave of $592 million and $589 million, Payments to States $394 million and $398 million, and contingent liabilities of $48 million and $15 million, respectively. In fiscal 2007 and 2006, CCC reported a liability in the amount of $5,380 and $6,137 million under the Tobacco Transition Payment Program (TTPP), respectively. In fiscal 2006, other liabilities included future funded indemnity costs of $296 million.

	FY 2007	FY 2006
Intragovernmental:		
Other	$ 178	$ 173
Subtotal Intragovernmental	178	173
With the Public:		
Federal employee and veterans' benefits	775	808
Environmental and disposal liabilities	105	63
Other	8,222	9,216
Subtotal With the Public	9,102	10,087
Total liabilities not covered by budgetary resources	9,280	10,260
Total liabilities covered by budgetary resources	105,501	113,693
Total Liabilities	$ 114,781	$ 123,953

NOTE 13. DEBT

FY 2007	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 58,187	$ (8,990)	$ 49,197
Debt to the Federal Financing Bank	25,260	644	25,904
Total Intragovernmental	83,447	(8,346)	75,101
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 83,447	$ (8,346)	$ 75,101

FY 2006	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 60,708	$ (2,521)	$ 58,187
Debt to the Federal Financing Bank	22,807	2,453	25,260
Total Intragovernmental	83,515	(68)	83,447
Agency Debt:			
Held by the Public	1	(1)	-
Total Debt	$ 83,516	$ (69)	$ 83,447

NOTE 14. ENVIRONMENTAL AND DISPOSAL LIABILITIES

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. In FY 2007, the FS and CCC estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $97 million and $8 million respectively, $53 million for FS and $10 million for CCC in FY 2006, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced. This liability is not covered by budgetary resources.

NOTE 15. OTHER LIABILITIES

As of September 30, 2006, other intragovernmental liabilities include credit reform reestimates of $202 million.

In fiscal 2007, other liabilities with the public include estimated losses on crop insurance claims of $2,579 million, estimated underwriting gains on crop insurance of $1,509 million, crop insurance premium subsidy deficiency reserve of $565 million, Payments to States of $394 million, credit reform programs of $12 million, undistributed credits for insured loans of $11 million and estimated program delivery cost to reinsurer of $9 million.

In fiscal 2006, other liabilities with the public include estimated losses on crop insurance claims of $2,328 million, estimated underwriting gains on crop insurance of $652 million, crop insurance premium subsidy deficiency reserve of $431 million, Payments to States of $398 million, credit reform programs of $47 million, undistributed credits for insured loans of $16 million, peanut/tobacco programs of $10 million and estimated program delivery cost to reinsurer of $3 million.

FY 2007	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 15	$ 550	$ 565
Employer Contributions and Payroll Taxes	-	45	45
Unfunded FECA Liability	-	162	162
Advances from Others	-	35	35
Liability for Deposit Funds, Clearing Accounts	-	(29)	(29)
Resources Payable to Treasury	-	12,921	12,921
Custodial Liability	-	54	54
Subtotal Intragovernmental	15	13,738	13,753
With the Public:			
Other Accrued Liabilities	-	12,944	12,944
Accrued Funded Payroll and Leave	-	44	44
Unfunded Leave	-	550	550
Other Unfunded Employment Related Liability	-	41	41
Advances from Others	-	63	63
Deferred Credits	-	406	406
Liability for Deposit Funds, Clearing Accounts	-	205	205
Contingent Liabilities	11	37	48
Capital Lease Liability	32	4	36
Custodial Liability	-	2	2
Other Liabilities	20	5,058	5,078
Subtotal With the Public	63	19,354	19,417
Total Other Liabilities	$ 78	$ 33,092	$ 33,170

FY 2006	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 49	$ 549	$ 598
Employer Contributions and Payroll Taxes	1	44	45
Unfunded FECA Liability	-	159	159
Advances from Others	-	8	8
Liability for Deposit Funds, Clearing Accounts	-	(136)	(136)
Liability for Subsidy Related to Undisbursed Loans	-	9	9
Resources Payable to Treasury	-	13,158	13,158
Custodial Liability	-	37	37
Other Liabilities	-	202	202
Subtotal Intragovernmental	50	14,030	14,080
With the Public:			
Contract Holdbacks	-	-	-
Other Accrued Liabilities	23	14,869	14,892
Accrued Funded Payroll and Leave	2	43	45
Unfunded Leave	8	581	589
Other Unfunded Employment Related Liability	-	-	-
Advances from Others	-	58	58
Deferred Credits	-	311	311
Liability for Deposit Funds, Clearing Accounts	-	231	231
Contingent Liabilities	5	10	15
Capital Lease Liability	26	2	28
Custodial Liability	-	27	27
Other Liabilities	19	3,867	3,886
Subtotal With the Public	83	19,999	20,082
Total Other Liabilities	$ 133	$ 34,029	$ 34,162

NOTE 16. LEASES

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, South Building and Cotton Annex) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999.

At current market rate, the estimated yearly rental payment for the above mentioned space would be $57 million. This agreement is still in effect and as a result, USDA activities located in the Headquarter complex are not billed for rental costs.

Effective September 30, 2007, the Department released the Cotton Annex to GSA and no longer occupies the building.

FY 2007	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 68
Machinery and Equipment	2
Accumulated Amortization	34
Future Payments Due:	
	Land & Buildings
Fiscal Year	
2008	11
2009	10
2010	10
2011	10
2012	10
After 5 Years	65
Total Future Lease Payments	116
Less: Imputed Interest	55
Less: Executory Costs	25
Less: Lease Renewal Options	-
Net Capital Lease Liability	36
Lease liabilities covered by budgetary resources	36

Operating Leases:
Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2008	82	1	-	83
2009	73	-	-	73
2010	68	-	-	68
2011	62	-	-	62
2012	56	-	-	56
After 5 Years	441	1	-	442
Total Future Lease Payments	$ 782	$ 2	$ -	$ 784

FY 2006	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 41
Machinery and Equipment	3
Accumulated Amortization	16

Future Payments Due:

	Land & Buildings
Fiscal Year	
2007	7
2008	7
2009	7
2010	7
2011	7
After 5 Years	52
Total Future Lease Payments	87
Less: Imputed Interest	54
Less: Executory Costs	5
Less: Lease Renewal Options	-
Net Capital Lease Liability	28
Lease liabilities covered by budgetary resources	28

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2007	80	-	5	85
2008	75	-	4	79
2009	68	-	4	72
2010	61	-	4	65
2011	54	-	3	57
After 5 Years	368	-	42	410
Total Future Lease Payments	$ 706	$ -	$ 62	$ 768

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, $48 million and $15 million has been accrued in the financial statements as of September 30, 2007 and 2006, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $2,867 million to $2,969 million as of September 30, 2007, compared to $2,890 million to $2,900 million as of September 30, 2006.

CRP rental payments are estimated to be $1,900 million annually through FY 2016. Commitments to extend loan guarantees are estimated to be $2,719 million and $2,300 million in fiscal 2007 and 2006, respectively.

NOTE 18. EARMARKED FUNDS

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

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

Risk Management Agency

Federal Crop Insurance Corporation Fund (FCIC)

Resources for the FCIC Fund includes funds collected from the public for insurance premiums and other insurance related fees that are used with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program. Funds are available under 7 U.S.C. 1501-1519.

Agricultural Marketing Service

Funds for Strengthening Markets, Income, and Supply

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

Expenses and Refunds, Inspection and Grading of Farm Products

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

Animal Plant Health Inspection Service

Agricultural Quarantine Inspection User Fee Account

This fund is used to record and report expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services, and to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund their expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

Forest Service

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Land Acquisition

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

Payments to States, National Forest Fund

The Payments to States, National Forest Fund receives receipts from the National Forest Fund. These monies are generated from the sale of goods and services at the national forests. Annually, revenue-sharing payments are made to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Act of May 23, 1908, as amended (16 U.S.C. 500), authorized the Payments to States, National Forest Fund program.

Timber Salvage Sales

The Timber Salvage Sale Fund was established to facilitate the timely removal of timber damaged by fire, wind, insects, disease, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

Timber Roads, Purchaser Election

The Timber Roads fund receives deposits from small business timber purchasers who elect to pay the USDA Forest Service to construct or reconstruct any road or bridge required by their respective timber sale. These collections are used to finance only those forest development roads constructed or reconstructed under the terms and conditions of the timber sale contract(s) involved, and only to a standard necessary to harvest and remove the timber and other products covered by the particular sale(s). The Timber Roads, Purchaser Election program is authorized by 16 USC 472(I) (2).

Expenses, Brush Disposal

Deposits from timber purchasers are used to cover the cost required to dispose of slash, brush, and other debris resulting from timber cutting operations and for supplemental protection of the cutover areas in lieu of actual disposal. The Expenses, Brush Disposal program is authorized by 16 U.S.C. 490-498.

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

The Fiscal Year 2004 Department of Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of Treasury established a new special fund, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase, but not real property will be procured or constructed.

Recreation Fee Demonstration Program

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

Restoration of Forest Lands and Improvements

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

Acquisition of Lands to Complete Land Exchanges

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

Cooperative State Research Education and Extension Service

Native American Institutions Endowment Fund

The Native American Institutions Endowment Fund is authorized by Public Law 103-382 (7 U.S.C. 301 note). This program provides for an endowment for the 1994 land-grant institutions (31 Tribally controlled colleges) to strengthen the infrastructure of these institutions and develop Indian expertise for the food and agricultural sciences and businesses and their own communities. At the termination of each fiscal year, the Secretary shall withdraw the income from the endowment fund for the fiscal year, and after making adjustments for the cost of administering the fund, distribute the adjusted income on a formula basis to the 1994 land-grant institutions.

Other

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

Agricultural Marketing Service

Perishable Agricultural Commodities Act

Animal Plant Health Inspection Service

Miscellaneous Contributed Funds

Forest Service

Fees, Operations and Maintenance of Recreation Facilities

Federal Highway Trust Fund

Roads and Trails for States, National Forest Fund

National Forest Fund Receipts

Reforestation Trust Fund

Payments to Counties, National Grasslands

Timber Sales Pipeline Restoration Fund

Southern Nevada Public Lands Management

Operation and Maintenance of Forest Service Quarters

Agricultural Research Service

Miscellaneous Contributed Funds

Rural Development

Alternative Agricultural Research and Commercialization Revolving Fund

Earmarked Funds

	RMA	AMS	AMS	APHIS	FS	FS	FS	FS
Balance Sheet As of September 30, 2007	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
Fund Balance with Treasury	$ 2,344	$ 560	$ 48	$ 135	$ 338	$ 17	$ 146	$ 77
Investments	-	-	-	-	-	-	-	-
Other Assets	2,459	296	35	5	24	50	4	4
Total Assets	4,803	856	83	140	362	67	150	81
Other Liabilities	5,196	2	58	8	58	1	74	8
Total Liabilities	5,196	2	58	8	58	1	74	8
Unexpended Appropriations	642	302	-	129	-	-	-	-
Cumulative Results of Operations	(1,035)	552	25	3	304	66	76	73
Total Liabilities and Net Position	4,803	856	83	140	362	67	150	81
Statement of Net Cost For the Period Ended September 30, 2007								
Gross program costs	4,869	926	163	176	171	55	31	62
Less Earned Revenues	1,018	1	141	472	97	-	(21)	43
Net Cost of Operations	3,851	925	22	(296)	74	55	52	19
Statement of Changes in Net Position For the period Ended September 30, 2007								
Net Position Beginning of Period	(782)	682	15	123	378	89	128	92
Changes in Accounting Principles	-	-	-	-	-	-	-	-
Beginning Balance, as Adjusted	(782)	682	15	123	378	89	128	92
Non-Exchange Revenue	4,240	1,097	2	(287)	-	32	-	-
Other Financing Sources	-	-	30	-	-	-	-	-
Net Cost of Operations	(3,851)	(925)	(22)	296	(74)	(55)	(52)	(19)
Change in net Position	389	172	10	9	(74)	(23)	(52)	(19)
Net Position End of Period	$ (393)	$ 854	$ 25	$ 132	$ 304	$ 66	$ 76	$ 73

Earmarked Funds

Balance Sheet As of September 30, 2007	FS Timber Roads, Purchaser Elections	FS Expenses, Brush Disposal	FS State, Private, and International Forestry, Land and Water Conservation Fund	FS Recreation Fee Demonstration Program	FS Restoration of Forest Lands and Improvements	FS Acquisition of Lands to Complete Land Exchanges	CSREES Native American Institutions Endowment Fund	Other	Total
Fund Balance with Treasury	$ 29	$ 40	$ 101	$ 149	$ 41	$ 48	$ 9	$ 209	$ 4,291
Investments	-	-	-	-	-	-	88	9	97
Other Assets	2	1	2	5	10	17	1	58	2,973
Total Assets	31	41	103	154	51	65	98	276	7,361
Other Liabilities	-	1	3	3	-	1	-	32	5,445
Total Liabilities	-	1	3	3	-	1	-	32	5,445
Unexpended Appropriations	-	-	-	-	-	-	37	3	1,113
Cumulative Results of Operations	31	40	100	151	51	64	61	241	803
Total Liabilities and Net Position	31	41	103	154	51	65	98	276	7,361
Statement of Net Cost For the Period Ended September 30, 2007									
Gross program costs	2	13	41	57	(9)	5	3	205	6,770
Less Earned Revenues	7	10	-	60	16	20	5	190	2,059
Net Cost of Operations	(5)	3	41	(3)	(25)	(15)	(2)	15	4,711
Statement of Changes in Net Position For the period Ended September 30, 2007									
Net Position Beginning of Period	66	56	84	135	25	45	84	274	1,494
Changes in Accounting Principles	-	-	-	-	-	-	-	(59)	(59)
Beginning Balance, as Adjusted	66	56	84	135	25	45	84	215	1,435
Non-Exchange Revenue	(40)	(13)	57	13	1	4	12	18	5,136
Other Financing Sources	-	-	-	-	-	-	-	26	56
Net Cost of Operations	5	(3)	(41)	3	25	15	2	(15)	(4,711)
Change in net Position	(35)	(16)	16	16	26	19	14	29	481
Net Position End of Period	$ 31	$ 40	$ 100	$ 151	$ 51	$ 64	$ 98	$ 244	$ 1,916

Earmarked Funds

	RMA	AMS	AMS	APHIS	FS	FS	FS	FS
Balance Sheet As of September 30, 2006	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
Fund Balance with Treasury	$ 1,431	$ 202	$ 58	$ 122	$ 412	$ 40	$ 324	$ 95
Investments	-	-	-	-	-	-	-	-
Other Assets	1,714	483	19	10	22	50	5	4
Total Assets	3,145	685	77	132	434	90	329	99
Other Liabilities	3,927	3	61	9	57	1	201	7
Total Liabilities	3,927	3	61	9	57	1	201	7
Unexpended Appropriations	510	302	-	130	-	-	-	-
Cumulative Results of Operations	(1,292)	380	16	(7)	377	89	128	92
Total Liabilities and Net Position	3,145	685	77	132	434	90	329	99
Statement of Net Cost For the Period Ended September 30, 2006								
Gross program costs	4,584	1,087	171	162	173	83	245	76
Less Earned Revenues	1,100	1	132	424	116	1	271	68
Net Cost of Operations	3,484	1,086	39	(262)	57	82	(26)	8
Statement of Changes in Net Position For the period Ended September 30, 2006								
Net Position Beginning of Period	(529)	591	25	102	594	134	102	100
Non-Exchange Revenue	3,230	1,177	(3)	(240)	(159)	37	-	-
Other Financing Sources	-	-	31	-	-	-	-	-
Net Cost of Operations	(3,484)	(1,086)	(39)	262	(57)	(82)	26	(8)
Change in net Position	(254)	91	(11)	22	(216)	(45)	26	(8)
Net Position End of Period	$ (783)	$ 682	$ 14	$ 124	$ 378	$ 89	$ 128	$ 92

	FS	FS	FS	FS	FS	FS	CSREES		
Balance Sheet As of September 30, 2006	Timber Roads, Purchaser Elections	Expenses, Brush Disposal	State, Private, and International Forestry, Land and Water Conservation Fund	Recreation Fee Demonstration Program	Restoration of Forest Lands and Improvements	Acquisition of Lands to Complete Land Exchanges	Native American Institutions Endowment Fund	Other	Total
Fund Balance with Treasury	$ 64	$ 55	$ 85	$ 132	$ 21	$ 35	$ 8	$ 254	$ 3,338
Investments	-	-	-	-	-	-	76	8	84
Other Assets	2	1	2	7	4	11	-	61	2,395
Total Assets	66	56	87	139	25	46	84	323	5,817
Other Liabilities	-	-	3	4	-	1	-	49	4,323
Total Liabilities	-	-	3	4	-	1	-	49	4,323
Unexpended Appropriations	-	-	-	-	-	-	24	10	976
Cumulative Results of Operations	66	56	84	135	25	45	60	264	518
Total Liabilities and Net Position	66	56	87	139	25	46	84	323	5,817
Statement of Net Cost For the Period Ended September 30, 2006									
Gross program costs	1	13	47	50	10	3	2	244	6,951
Less Earned Revenues	7	12	-	54	15	25	3	128	2,357
Net Cost of Operations	(6)	1	47	(4)	(5)	(22)	(1)	116	4,594
Statement of Changes in Net Position For the period Ended September 30, 2006									
Net Position Beginning of Period	70	58	74	131	20	13	70	332	1,887
Non-Exchange Revenue	(10)	-	57	-	-	10	13	41	4,153
Other Financing Sources	-	-	-	-	-	-	-	17	48
Net Cost of Operations	6	(1)	(47)	4	5	22	1	(116)	(4,594)
Change in net Position	(4)	(1)	10	4	5	32	14	(58)	(393)
Net Position End of Period	$ 66	$ 57	$ 84	$ 135	$ 25	$ 45	$ 84	$ 274	$ 1,494

NOTE 19. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

FY 2007	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 176	$ 1,537	$ 67	$ 290
Less: Earned Revenue	-	-	320	232	106	(44)
Net Cost	-	-	(144)	1,305	(39)	334
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	918	1,423	1,482	11,313	-	-
Less: Earned Revenue	220	485	13	4,402	-	-
Net Cost	698	938	1,469	6,911	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	-	-	-	-
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	245	1,913	-	-
Less: Earned Revenue	-	-	-	1	-	-
Net Cost	-	-	245	1,912	-	-
Total Gross Costs	918	1,423	1,903	14,763	67	290
Less: Total Earned Revenues	220	485	333	4,635	106	(44)
Net Cost of Operations	$ 698	$ 938	$ 1,570	$ 10,128	$ (39)	$ 334

FY 2007	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	54	4,904	-	-	-	-
Less: Earned Revenue	1	1,017	-	-	-	-
Net Cost	53	3,887	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	275	790
Less: Earned Revenue	-	-	-	-	2	148
Net Cost	-	-	-	-	273	642
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	838	53,509	-	-
Less: Earned Revenue	-	-	2	22	-	-
Net Cost	-	-	836	53,487	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	54	4,904	838	53,509	275	790
Less: Total Earned Revenues	1	1,017	2	22	2	148
Net Cost of Operations	$ 53	$ 3,887	$ 836	$ 53,487	$ 273	$ 642

FY 2007	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ 18	$ 32
Less: Earned Revenue	-	-	-	-	-	20
Net Cost	-	-	-	-	18	12
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	195	1,046	-	-	17	30
Less: Earned Revenue	9	194	-	-	-	19
Net Cost	186	852	-	-	17	11
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	309	1,132	-	-
Less: Earned Revenue	-	-	131	555	-	-
Net Cost	-	-	178	577	-	-
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	195	1,046	309	1,132	35	62
Less: Total Earned Revenues	9	194	131	555	-	39
Net Cost of Operations	$ 186	$ 852	$ 178	$ 577	$ 35	$ 23

FY 2007	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	-	-	85	397
Less: Earned Revenue	-	-	-	-	29	12
Net Cost	-	-	-	-	56	385
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	82	386
Less: Earned Revenue	-	-	-	-	28	11
Net Cost	-	-	-	-	54	375
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	18	88
Less: Earned Revenue	-	-	-	-	6	3
Net Cost	-	-	-	-	12	85
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	1,203	5,112	515	2,636	49	232
Less: Earned Revenue	143	455	60	93	17	7
Net Cost	1,060	4,657	455	2,543	32	225
Total Gross Costs	1,203	5,112	515	2,636	234	1,103
Less: Total Earned Revenues	143	455	60	93	80	33
Net Cost of Operations	$ 1,060	$ 4,657	$ 455	$ 2,543	$ 154	$ 1,070

FY 2007	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ 5	$ 6	$ 10	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	5	6	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	12	541	11	18	37	93
Less: Earned Revenue	12	-	-	-	15	3
Net Cost	-	541	11	18	22	90
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	5	231	2	4	13	33
Less: Earned Revenue	6	-	-	-	5	1
Net Cost	(1)	231	2	4	8	32
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	6	276	2	3	1	2
Gross Cost	7	-	-	-	-	-
Less: Earned Revenue	(1)	276	2	3	1	2
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	4	182	7	12	-	-
Less: Earned Revenue	5	-	-	-	-	-
Net Cost	(1)	182	7	12	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	5	248	3	5	1	4
Less: Earned Revenue	6	-	-	-	1	-
Net Cost	(1)	248	3	5	-	4
Total Gross Costs	32	1,483	31	52	52	132
Less: Total Earned Revenues	36	-	-	-	21	4
Net Cost of Operations	$ (4)	$ 1,483	$ 31	$ 52	$ 31	$ 128

FY 2007	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 14	$ 24	$ 281	$ 1,898
Less: Earned Revenue	-	-	20	-	446	208
Net Cost	-	-	(6)	24	(165)	1,690
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	152	278	2,963	20,043
Less: Earned Revenue	-	-	213	3	512	6,135
Net Cost	-	-	(61)	275	2,451	13,908
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	4,120	2,561	50	93	4,190	2,922
Less: Earned Revenue	314	4,431	71	1	396	4,433
Net Cost	3,806	(1,870)	(21)	92	3,794	(1,511)
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	-	-	70	128	745	2,717
Gross Cost	-	-	98	1	266	715
Less: Earned Revenue	-	-	(28)	127	479	2,002
Net Cost						
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	48	88	915	53,879
Less: Earned Revenue	-	-	69	-	82	25
Net Cost	-	-	(21)	88	833	53,854
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	88	162	2,109	10,312
Less: Earned Revenue	-	-	123	2	350	558
Net Cost	-	-	(35)	160	1,759	9,754
Total Gross Costs	4,120	2,561	422	773	11,203	91,771
Less: Total Earned Revenues	314	4,431	594	7	2,052	12,074
Net Cost of Operations	$ 3,806	$ (1,870)	$ (172)	$ 766	$ 9,151	$ 79,697

FY 2007	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Cost	$ (80)	$ 2,099
Less: Earned Revenue	(39)	615
Net Cost	(41)	1,484
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	(1,582)	21,424
Less: Earned Revenue	(322)	6,325
Net Cost	(1,260)	15,099
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	(160)	6,952
Less: Earned Revenue	(79)	4,750
Net Cost	(81)	2,202
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:	(191)	3,271
Gross Cost	(219)	762
Less: Earned Revenue	28	2,509
Net Cost		
Improve the Nation's Nutrition and Health:		
Gross Cost	(803)	53,991
Less: Earned Revenue	(64)	43
Net Cost	(739)	53,948
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	(597)	11,824
Less: Earned Revenue	(163)	745
Net Cost	(434)	11,079
Total Gross Costs	(3,413)	99,561
Less: Total Earned Revenues	(886)	13,240
Net Cost of Operations	$ (2,527)	$ 86,321

FY 2006	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 197	$ 654	$ 64	$ 252
Less: Earned Revenue	-	-	237	433	75	14
Net Cost	-	-	(40)	221	(11)	238
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	901	1,266	1,604	21,222	-	-
Less: Earned Revenue	314	378	9	4,316	-	-
Net Cost	587	888	1,595	16,906	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	284	2,082	-	-
Less: Earned Revenue	-	-	-	35	-	-
Net Cost	-	-	284	2,047	-	-
Total Gross Costs	901	1,266	2,085	23,958	64	252
Less: Total Earned Revenues	314	378	246	4,784	75	14
Net Cost of Operations	$ 587	$ 888	$ 1,839	$ 19,174	$ (11)	$ 238

FY 2006	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	45	4,626	-	-	-	-
Less: Earned Revenue	-	1,100	-	-	-	-
Net Cost	45	3,526	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	273	801
Less: Earned Revenue	-	-	-	-	3	125
Net Cost	-	-	-	-	270	676
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	785	52,666	-	-
Less: Earned Revenue	-	-	3	18	-	-
Net Cost	-	-	782	52,648	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	45	4,626	785	52,666	273	801
Less: Total Earned Revenues	-	1,100	3	18	3	125
Net Cost of Operations	$ 45	$ 3,526	$ 782	$ 52,648	$ 270	$ 676

FY 2006	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ 15	$ 29
Less: Earned Revenue	-	-	-	-	1	20
Net Cost	-	-	-	-	14	9
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	467	929	-	-	14	27
Less: Earned Revenue	9	190	-	-	-	19
Net Cost	458	739	-	-	14	8
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	271	1,483	-	-
Less: Earned Revenue	-	-	400	471	-	-
Net Cost	-	-	(129)	1,012	-	-
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Total Gross Costs	467	929	271	1,483	29	56
Less: Total Earned Revenues	9	190	400	471	1	39
Net Cost of Operations	$ 458	$ 739	$ (129)	$ 1,012	$ 28	$ 17

FY 2006	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	-	-	84	403
Less: Earned Revenue	-	-	-	-	24	10
Net Cost	-	-	-	-	60	393
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	-	-	84	403
Less: Earned Revenue	-	-	-	-	24	10
Net Cost	-	-	-	-	60	393
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	-	-	16	78
Less: Earned Revenue	-	-	-	-	5	2
Net Cost	-	-	-	-	11	76
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	1,106	5,831	540	2,472	49	235
Less: Earned Revenue	386	649	119	(15)	14	6
Net Cost	720	5,182	421	2,487	35	229
Total Gross Costs	1,106	5,831	540	2,472	233	1,119
Less: Total Earned Revenues	386	649	119	(15)	67	28
Net Cost of Operations	$ 720	$ 5,182	$ 421	$ 2,487	$ 166	$ 1,091

FY 2006	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ 4	$ 5	$ 10	$ -	$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Cost	-	4	5	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	11	367	13	22	35	100
Less: Earned Revenue	9	-	1	(1)	11	3
Net Cost	2	367	12	23	24	97
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	5	160	3	5	10	27
Less: Earned Revenue	4	-	-	-	3	1
Net Cost	1	160	3	5	7	26
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	8	268	2	3	1	3
Less: Earned Revenue	7	-	-	-	-	-
Net Cost	1	268	2	3	1	3
Improve the Nation's Nutrition and Health:						
Gross Cost	4	123	4	7	-	-
Less: Earned Revenue	3	-	-	-	-	-
Net Cost	1	123	4	7	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	6	189	4	7	1	4
Less: Earned Revenue	5	-	-	-	-	-
Net Cost	1	189	4	7	1	4
Total Gross Costs	34	1,111	31	54	47	134
Less: Total Earned Revenues	28	-	1	(1)	14	4
Net Cost of Operations	$ 6	$ 1,111	$ 30	$ 55	$ 33	$ 130

FY 2006	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Cost	$ -	$ -	$ 10	$ 16	$ 291	$ 965
Less: Earned Revenue	-	-	12	-	325	467
Net Cost	-	-	(2)	16	(34)	498
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Cost	-	-	171	286	3,345	29,248
Less: Earned Revenue	-	-	201	6	578	6,021
Net Cost	-	-	(30)	280	2,767	23,227
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Cost	3,133	3,709	58	94	3,209	3,995
Less: Earned Revenue	348	3,632	69	1	424	3,634
Net Cost	2,785	77	(11)	93	2,785	361
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Cost	-	-	86	140	725	3,101
Less: Earned Revenue	-	-	103	3	537	609
Net Cost	-	-	(17)	137	188	2,492
Improve the Nation's Nutrition and Health:						
Gross Cost	-	-	49	79	858	52,953
Less: Earned Revenue	-	-	57	1	68	21
Net Cost	-	-	(8)	78	790	52,932
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Cost	-	-	112	181	2,102	11,001
Less: Earned Revenue	-	-	135	1	659	676
Net Cost	-	-	(23)	180	1,443	10,325
Total Gross Costs	3,133	3,709	486	796	10,530	101,263
Less: Total Earned Revenues	348	3,632	577	12	2,591	11,428
Net Cost of Operations	$ 2,785	$ 77	$ (91)	$ 784	$ 7,939	$ 89,835

FY 2006	Intradepartmental Eliminations	GRAND TOTAL
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Cost	$ (104)	$ 1,152
Less: Earned Revenue	(44)	748
Net Cost	(60)	404
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Cost	(1,904)	30,689
Less: Earned Revenue	(368)	6,231
Net Cost	(1,536)	24,458
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Cost	(156)	7,048
Less: Earned Revenue	(78)	3,980
Net Cost	(78)	3,068
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Cost	(197)	3,629
Less: Earned Revenue	(497)	649
Net Cost	300	2,980
Improve the Nation's Nutrition and Health:		
Gross Cost	(747)	53,064
Less: Earned Revenue	(53)	36
Net Cost	(694)	53,028
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Cost	(511)	12,592
Less: Earned Revenue	(231)	1,104
Net Cost	(280)	11,488
Total Gross Costs	(3,619)	108,174
Less: Total Earned Revenues	(1,271)	12,748
Net Cost of Operations	$ (2,348)	$ 95,426

NOTE 20. COST OF STEWARDSHIP PP&E

The acquisition cost of stewardship land in FY 2007 and FY 2006 was $236 million and $291 million, respectively.

NOTE 21. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

FY 2007

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 69,018	$ 932	$ 69,950
Apportionment for Special Activities	28,400	29,573	57,973
Exempt from Apportionment	1,023	8	1,031
Total Obligations Incurred	$ 98,441	$ 30,513	$ 128,954

FY 2006

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 70,503	$ 1,336	$ 71,839
Apportionment for Special Activities	30,857	41,166	72,023
Exempt from Apportionment	1,535	61	1,596
Total Obligations Incurred	$ 102,895	$ 42,563	$ 145,458

NOTE 22. AVAILABLE BORROWING AUTHORITY, END OF PERIOD

Available borrowing authority at September 30, 2007 and 2006 was $44,200 million and $29,700 million, respectively.

NOTE 23. TERMS OF BORROWING AUTHORITY USED

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

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with the Federal Credit Reform Act of 1990 as amended, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of

repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

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

FFB's CBO's are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

Prepayments can be made on Treasury borrowings without a penalty; however, they cannot be made on FFB CBO's, without a penalty.

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

NOTE 24. PERMANENT INDEFINITE APPROPRIATIONS

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, (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 25. Legal Arrangements Affecting Use of Unobligated Balances

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

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

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

The differences between the fiscal 2006 Statement of Budgetary Resources and the fiscal 2006 actual numbers presented in the fiscal 2008 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations. Adjustments were made subsequent to the Budget submission as follows:

NRCS –Correction of errors on intra departmental entries for recording the wrong fiscal year on a transfer document and making a duplicate entry for an un-obligated balance transfer.

CCC – Difference in the net outlays is a result of a timing difference of a Parent-child relationship with another governmental agency.

AMS – A recovery of prior year unpaid obligations was incorrectly recorded as a de-obligation of a prior year obligation.

Unavailable collections for the Native American Institution Endowment Fund were included as budgetary resources in the Statement of Budgetary Resources.

The Budget includes the Milk Market Orders Assessment Fund since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available for use by the Department.

Other items mainly consist of balances in suspense accounts and differences due to rounding that are excluded from the Budget.

A comparison between the fiscal 2007 Statement of Budgetary Resources and the fiscal 2007 actual numbers presented in the fiscal 2009 Budget cannot be performed as the fiscal 2009 Budget is not yet available. The fiscal 2009 Budget is expected to be published in February 2008 and will be available from the Government Printing Office.

FY 2006

	Budgetary Resources	Obligations incurred	Distributed offsetting receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 170,455	$ 145,458	$ 2,695	$ 99,674
Reconciling items:				
Expired accounts	(7,911)	(3,007)	-	-
Adjustment - NRCS	-	70	-	-
Adjustment - CCC	-	-	-	47
Adjustment - AMS	60	60	-	-
Native American Institutions	(29)	(4)	-	(2)
Milk Market Orders Fund	72	72	-	27
Other	8	(1)	5	(5)
Budget of the United States Government	$ 162,655	$ 142,648	$ 2,700	$ 99,741

NOTE 27. UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered orders as of September 30, 2007 and 2006 was $34,878 million and $35,204 million, respectively.

NOTE 28. INCIDENTAL CUSTODIAL COLLECTIONS

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

Revenue Activity:	FY 2007	FY 2006
Sources of Collections:		
Miscellaneous	$ 75	$ 65
Total Cash Collections	75	65
Accrual Adjustments	(4)	(11)
Total Custodial Revenue	71	54
Disposition of Collections:		
Transferred to Others:		
Treasury	(63)	(46)
(Increase)/Decrease in Amounts Yet to be Transferred	(8)	(8)
Net Custodial Activity	$ -	$ -

NOTE 29. RECONCILIATION OF NET COST OF OPERATIONS (PROPRIETARY) TO BUDGET (FORMERLY THE STATEMENT OF FINANCING)

	2007	2006
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 128,954	$ 145,458
Less: Spending authority from offsetting collections and recoveries	39,094	42,413
Obligations net of offsetting collections and recoveries	89,860	103,045
Less: Offsetting receipts	1,767	2,695
Net Obligations	88,093	100,350
Other Resources -		
Transfers in(out) without reimbursement	(460)	(544)
Imputed financing from costs absorbed by others	1,005	807
Other	4	5
Net other resources used to finance activities	549	268
Total resources used to finance activities	88,642	100,618
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	501	(840)
Resources that fund expenses recognized in prior periods	(649)	(812)
Budgetary offsetting collections and receipts that do not affect net cost of operations -		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	13,534	12,067
Change in Unfilled Customer Orders	967	320
Decrease in exchange revenue receivable from public	6,810	6,866
Other	(287)	625
Resources that finance the acquisition of assets	(27,000)	(28,444)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(1,412)	(1,860)
Total resources used to finance items not part of the net cost of operations	(7,536)	(12,078)
Total resources used to finance the net cost of operations	81,106	88,540
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods -		
Increase in annual leave liability	3	43
Increase in environmental and disposal liability	44	35
Upward/Downward reestimates of credit subsidy expense	(293)	650
Increase in exchange revenue receivable from the public	-	(377)
Other	926	95
Total components of Net Cost of Operations that will require or generate resources in future periods	680	446
Components not Requiring or Generating Resources -		
Depreciation and amortization	433	375
Revaluation of assets or liabilities	(176)	(53)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(1,256)	(495)
Cost of Goods Sold	5,413	5,340
Other	121	1,273
Total components of Net Cost of Operations that will not require or generate resources	4,535	6,440
Total components of Net Cost of Operations that will not require or generate resources in the current period	5,215	6,886
Net Cost of Operations	$ 86,321	$ 95,426

NOTE 30. CHANGES IN ACCOUNTING PRINCIPLES

Effective for FY 2007, OMB Circular A-136, requires the parent to report all budgetary and proprietary allocation transfer activity in its financial statements, whether material to the child, or not. The cumulative effect of the change on prior periods should be reported as a "change in accounting principle", consistent with SFFAS 21 *Reporting Corrections of Errors and Changes in Accounting Principles*.

Adjustments of $961 million to the beginning balance of Cumulative Results of Operations and negative $209 million to the beginning balance of Unexpended Appropriations reflected in the Statement of Changes in Net Position were made to comply with reporting requirements for allocation transfers.

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS

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

Stewardship Investments (in millions)

	FY 2007 Expense	FY 2006 Expense	FY 2005 Expense	FY 2004 Expense	FY 2003 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Food Stamp Program	$ 20	$ 21	$ 22	$ 36	$ 39
Special Supplemental Nutrition Program	15	12	17	8	16
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	17	17	17	15	15
Total Non-Federal Property	$ 52	$ 50	$ 56	$ 59	$ 70
Human Capital:					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	$ 524	$ 525	$ 507	$ 502	$ 511
Food and Nutrition Service					
Food Stamp Program	51	66	49	75	99
Agricultural Research Service					
National Agricultural Library	22	22	21	21	21
Risk Management Agency					
Risk Management Education	11	10	10	7	4
Total Human Capital	$ 608	$ 623	$ 587	$ 605	$ 635
Research and Development:					
Agricultural Research Service					
Plant Sciences	$ -	$ -	$ -	$ -	$ 394
Commodity Conversion and Delivery	-	-	-	-	185
Animal Sciences	-	-	-	-	194
Soil, Water, and Air Sciences	-	-	-	-	110
Human Nutrition	86	85	84	83	78
Integration of Agricultural Systems	-	-	-	-	43
Collaborative Research Program	3	7	6	5	6
Product Quality/Value Added	106	107	105	104	-
Livestock Production	85	85	84	82	-
Crop Production	202	201	197	194	-
Food Safety	105	105	103	96	-
Livestock Protection	83	90	78	64	-
Crop Protection	198	199	193	183	-
Environmental Stewardship	224	223	219	216	-
Homeland Security	-	-	-	21	-
Cooperative State Research, Education, and Extension Service					
Land-grant University System	661	661	645	610	601
Forest Service	261	318	295	312	233
Economic Research Service					
Economic and Social Science	75	75	74	71	69
National Agricultural Statistics Service					
Statistical	6	5	5	5	5
Total Research and Development	$ 2,095	$ 2,161	$ 2,088	$ 2,046	$ 1,918

Non-Federal Physical Property

Food and Nutrition Service

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

Cooperative State Research, Education and Extension Service

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities.

Human Capital

Cooperative State Research, Education and Extension Service

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, a resident instruction grant program for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. CSREES also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. CSREES supported the Outreach and Assistance for Disadvantaged Farmers Program for the first time in fiscal 2003. The purpose is to enhance the ability of minority and small farmers and ranchers to operate farming or ranching enterprises independently to assure adequate income and maintain reasonable lifestyles.

Food and Nutrition Service

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

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 703,927 work registrants subject to the 3 - month Food Stamp Program participant limit and 1,152,744 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system,

coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of over 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the Federal Agricultural Improvement and Reform Act of 1996, the FCIC has formed new partnerships with the CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation since 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal years 2007 and 2006, the RME worked toward the goals by funding risk management sessions, most of which targeted producers directly. The number of producers reached through these sessions is approximately 49,000 in fiscal year 2007 and 48,000 in fiscal year 2006. Additionally, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately $11 million for fiscal year 2007 and $10 million for fiscal year 2006. The following table summarizes the RME initiatives since fiscal year 2003:

(dollars in millions)		2007	2006	2005	2004	2003
RME Obligations	$	11	10	9.4	10	9
Number of producers attending RME sessions		49,000	48,000	47,000	46,000	62,000

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

Research and Development

Agricultural Research Service

The ARS mission is to conduct research to develop and transfer solutions to agricultural problems of high national priority and provide information access and dissemination to: ensure high quality, safe food, and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole.

ARS is in the process of revising its Strategic Plan to align it with the Department's new Strategic Plan. ARS' major program areas are being aligned as follows:

GOAL: Enhance the Competitiveness and Sustainability of Rural and Farm Economies.

- **Product Quality/Value Added**—Many agricultural products are marketed as low value commodities; harvested commodities often suffer losses due to spoilage or damage during shipping, storage, and handling. Biobased products represent a small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products. Healthy foods are often not convenient and/or are not widely accepted by many consumers. Currently, the agency has active research programs designed to address these new product/product quality issues and concerns.
- **Livestock Production**—Producers need new scientific information and technologies to increase production efficiency; safeguard the environment; improve animal well-being; reduce production risks and product losses; and understand the relationships between nutrients, reproduction, growth, and conversion to and marketability of animal products. In addition, new research is needed to identify genes that are responsible for economically important traits; to maintain and develop improved germplasm and use genetic resources to optimize and safeguard genetic diversity; to understand biological mechanisms; and to promote viable, vigorous production systems. Currently, ARS has active research programs designed to address these livestock production issues and concerns.
- **Crop Production**—Producers need new scientific information and technologies to increase production efficiency; safeguard the environment; reduce production risks and product losses; and understand the relationships between nutrients, reproduction, growth, and conversion to and marketability of plant products. In addition, new research is needed to identify genes that are responsible for economically important traits; to maintain and develop improved germplasm and use genetic resources to optimize and safeguard genetic diversity; to understand biological mechanisms; and to promote viable, vigorous production systems. Currently, ARS has active research programs designed to address these crop production issues and concerns.

GOAL: Enhance Protection and Safety of the Nation's Agriculture and Food Supply.

- **Food Safety**—For the Nation to have affordable and safe food, the food system must be protected at each step from production to consumption. The production and distribution system for food

in the United States has been a diverse, extensive, and easily accessible system. This open system is vulnerable to the introduction of pathogens and toxins through natural processes, global commerce, and by intentional means. The food supply must be protected during production, processing, and preparation from pathogens, toxins, and chemical contamination that cause diseases in humans. Currently, the agency has active research programs designed to develop new on-farm preharvest systems, practices, and products to reduce pathogen and toxin contamination of animal and plant derived foods; and to develop and transfer to Federal and State agencies and the private sector technologies that rapidly and accurately detect, identify, and differentiate the most critical and economically important foodborne pathogenic bacteria and viruses.

- **Livestock Protection**—Economic sustainability of livestock production systems in domestic and global markets is limited by the disease status of the animals. Many factors affect the likelihood of diseases in livestock. These include globalization and international commerce, presence of pathogen vectors, industrialization of agriculture, availability of vaccines and protection systems, movements of animals during production, emergence of new diseases, genetic resistance, and the availability of trained animal health specialists. Livestock production systems are in transition from open and extensive systems to more closely monitored intensive management systems which remain vulnerable to accidental and intentional exposure to pathogens. Many of these pathogens are zoonotic and impact public health. Currently, the agency has active research programs designed to protect animals from pests and infectious diseases; identify, develop, and release to the U.S. agricultural community genetic markers, genetic lines, breeds, or germplasm that result in food animals with improved pest and disease resistance traits; and to provide producers of agriculturally important animals, scientific information and technologies to control, monitor, and manage invasive insects and pathogens.
- **Crop Production**—Economic sustainability of agricultural crop production in domestic and global markets is limited by the disease status of crops. Many factors affect the likelihood of diseases to crops including, globalization and international commerce, presence of pathogen vectors, availability of protection systems, emergence of new diseases, genetic resistance, and the availability of trained plant health specialists. Crop systems have limited diversity and remain more vulnerable to intentional exposure to pathogens. Currently, the agency has active research programs designed to protect plants from pests (including weeds) and diseases; identify, develop, and release to the U.S. agricultural community genetic markers, genetic lines, or germplasm that result in plants with improved pest and disease resistance traits; to provide producers of agriculturally important plants, scientific information and technologies to control, monitor, and manage invasive insects, weeds, and pathogens; and to conduct biologically-based integrated and area-wide management of key invasive species.

GOAL: Improve the Nation's Nutrition and Health.

- **Human Nutrition**—Improving the Nation's health requires enhancing the quality of the American diet. The United States is experiencing an obesity epidemic resulting from multifaceted causes including a "more is better" mindset, a sedentary lifestyle, and the selection of readily available high calorie foods. Four of the top ten causes of death in the United States – cardiovascular disease, cancer, stroke, and diabetes – are associated with the quality of our diets, diets too high in calories,

total fat, saturated fat, cholesterol, or too low in fiber. Americans want fresh foods that taste good, are convenient to prepare and consume, and yet, offer nutrition and health benefits. Building a strong connection between agriculture and human health is an important step to providing a nutritionally enhanced food supply. Promoting healthier food choices and educating Americans to balance caloric intake with sufficient daily physical activity are vital steps to preventing obesity and decreasing risk for chronic disease.
Currently, the agency has active research programs designed to address food consumption patterns; and dietary intervention strategies and programs to prevent obesity and promote healthy dietary behavior. Research is being conducted to implement the combined "What We Eat in America" dietary survey; and to update and revise Dietary Reference Intake and the National Nutrient Database of nutrient content of foods. Research is also being conducted to provide information, technology, services, and data from the National Nutrient Database, and from the "What We Eat in America" survey to USDA agencies and the private sector to support revision of the Dietary Guidelines.

GOAL: Protect and Enhance the Nation's Natural Resource Base and Environment.

- **Environmental Stewardship**— Agriculture relies on a natural resource base whose sustainability depends on sound, science-based production practices. The management of the Nation's renewable natural resources often seems to be a continuous balancing of conflicting and competing goals and concerns. While this is often the case, particularly in the short-term, longer-term management strategies combined with adequate knowledge of the complex natural systems can yield maximum sustainable benefits from the country's resources that can satisfy most competing concerns. ARS research in the broad area of environmental stewardship is designed to address specific issues relating to agriculture's impact on the environment and the environment's impact on agriculture. EPA estimates that only 70 percent of the rivers, 68 percent of the estuaries, and 60 percent of the lakes now meet legislatively mandated goals. Dust emissions from agricultural operations and ammonia emissions from animal feeding operations pose a threat to environmental quality and human health. Approximately half of the rangelands have been significantly degraded by fire, invasive weeds, environmental changes, and poor grazing management. Approximately 500 million acres of cropland and grazing land have been degraded by various causes, including erosion, loss of organic matter, compaction, salinity, and soil acidification. Increases in the atmospheric concentration of greenhouse gases and related increases in weather variability affect the physiology and ecology of plants on croplands and rangelands in often unpredictable ways. Currently, ARS has active research programs designed to respond to these environmental issues and concerns.

Management Initiative: Provide Agricultural Library and Information Services to USDA and the Nation via the National Agricultural Library.

The National Agricultural Library (NAL), the world's primary agricultural library, has two legislative mandates, to serve the Nation as one of four national libraries of the United States, and to be USDA's library. NAL, whose vision statement is "advancing access to global information for agriculture," serves its customers by identifying, collecting, providing access to, and preserving agricultural information. NAL's collections, programs, and services support USDA agencies as well as multiple client audiences which include scientists, researchers, practitioners, policymakers, teachers, and students.

Management Initiative: Provide Adequate Federal Facilities Required to Support the Research Mission of ARS.

ARS has over 100 laboratories, primarily located throughout the United States. ARS' facilities program is designed to meet the needs of its scientists and support personnel to accomplish the agency's mission

Cooperative State Research, Education, and Extension Service Program

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

Forest Service

FS Research and Development (R&D) provides reliable, science-based information that is incorporated into natural resource decision making. Responsibilities include developing new technology and then adapting and transferring this technology to facilitate more effective resource management. Some major research areas include the following:

- Fire
- Invasives
- Recreation
- Research Management and Use
- Water and Air
- Fish and Wildlife
- Research Data and Analysis
- Research staff is involved in all areas of the FS, supporting agency goals by providing more efficient and effective methods where applicable.

A representative summary of FY 2007 accomplishments include the following:

- 41 new interagency agreements and contracts
- 17 interagency agreements and contracts continued
- 1,336 articles published in journals
- 1,846 articles published in all other publications
- 3 patents granted

Economic Research Service

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

National Agricultural Statistics Service

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

Required Supplementary Information

STEWARDSHIP PROPERTY, PLANT AND EQUIPMENT

Heritage Assets

Forest Service

The Forest Service estimates that more than 350,000 heritage assets are on land that it manages. Some of these assets are listed on the National Register of Historic Places, and some are designated as National Historic Landmarks. Collection assets held at museums and universities are managed by those entities, and not the Forest Service.

The historic structures are works consciously created to serve some human purpose, such as buildings, monuments, logging and mining camps, and ruins.

Heritage assets designated as National Historic Landmarks are sites, buildings, or structures that possess exceptional value in commemorating or illustrating the history of the United States, and exceptional value or quality in illustrating and interpreting the heritage of the United States. The Secretary of the Interior is the official designator of National Historic Landmarks.

Heritage assets listed in the National Register of Historic Places include properties, buildings, and structures that are significant in U.S. history, architecture, and archaeology, and in the cultural foundation of the Nation. Sites formally determined as eligible for the National Register by the Keeper of the National Register, or documented through consultation with State Historic Preservation Offices, are considered potentially eligible for the National Register.

The Forest Service heritage resource specialists on the 155 national forests maintain separate inventories of heritage assets. Most assets not used for administrative or public purposes receive no annual maintenance. A long-term methodology to better assess the extent and condition of these assets is being formulated to comply with Executive Order 13287, Preserve America. Most heritage asset data is captured and managed in INFRA's heritage module, before being used for management decisions on heritage assets. A smaller number of heritage assets are reported through FRPP or are in the INFRA buildings module.

Recent changes in accounting standards for heritage assets have altered the reporting timeline from that of calendar yearend—as mandated by the annual DOI report to Congress—to fiscal yearend.

In the past Performance and Accountability Reports, the Forest Service reported the previous calendar year's additions, withdrawals, and total assets. For FY 2006 the agency reported a calendar year 2005 total. In FY 2007, the column labeled, "2006 Final Sites" is actually the 2005 total, with additions and withdrawals occurring in FYs 2006 and 2007. Major FS heritage assets by category and condition for FY 2007 are shown below:

Category	2006 Final Sites	Additions	Withdrawals	FY 2007 Ending Balance	Condition
Total heritage assets	342,361	6,591	0	348,952	Poor – Fair
Eligible for the National Register of Historic Places	53,962	603	0	54,565	Poor – Fair
Listed on the National Register	3,478	5	0	3,483	Fair
Sites with structures listed on the National Register	1,956	0	0	1,956	Poor – Fair
National Historic Landmarks	20	0	0	20	Fair – Good

The Forest Service generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets can be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities, where previously undocumented sites are discovered and added to the total. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of "additions."

Natural Resources Conservation Service

NRCS currently owns one heritage asset, the Tucson Plant Materials Center (TPMC). It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. It provides technical assistance to NRCS field offices, RC& D groups, Conservation districts, federal, state, and tribal agencies, and private landowners throughout the greater Southwest.

Agricultural Research Service

ARS has approximately 60 heritage assets at three locations under its custody and control. These locations include: (1) the U.S. National Arboretum, Washington, D.C.; (2) the Grazinglands Research Laboratory (GRL), El Reno, Oklahoma; and (3) the Fort Keogh Livestock and Range Research Laboratory, Miles City, Montana.

Established in 1927 by an Act of Congress, the mission of the U.S. National Arboretum is to serve the public need for scientific research, education, and gardens that conserve and showcase plants to enhance the environment.

GLR was established by Public Law 80-494, 62 Stat. 197 on April 21, 1948, and includes 6,737-acres of withdrawn public land. The mission of the GRL is to provide new technologies and management strategies which increase the profitability of forage and livestock production, reduce risks associated with management decisions, promote sustainability, and conserve the productivity of grazing land resources of the Great Plains.

The Fort Keogh Livestock and Range Research Laboratory was established by an Act of Congress in 1924 and includes 55,767 acres within the original area of the Fort Keogh Military Reservation just west of Miles City, Montana. The mission of the Fort Keogh Livestock and Range Research Laboratory is to research and develop ecologically and economically sustainable range animal management systems that ultimately meet consumers' needs. The Fort Keogh Military Reservation, which was established by an Act of Congress in 1876, was placed on the National Register of Historic Places in March of 1978.

The National Agricultural Library (NAL) is the largest collection of materials devoted to agriculture in the world. NAL houses and provides access to over 3.5 million volumes of books and periodicals. The overwhelming number of these items were published more than 25 years ago and almost all of them are out-of-print and unavailable for purchase.

Special Collections of the NAL collects, preserves and provides access to manuscripts, rare books, photographs, posters, oral histories and other unique materials. The collection includes approximately 15,000 rare books and over 340 manuscript collections.

Stewardship Land

Description	FY 2007 Balance	Additions (+)	Withdrawals (-)	FY 2006 Balance
National Forest System Land (In acres):				
National Forests	143,933,175	-	(123,140)	144,056,315
National Forests Wilderness Areas	34,872,673	56,445	-	34,816,228
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	931,314	-	-	931,314
National Recreation Areas	2,912,762	186	-	2,912,576
National Scenic–Research Areas	265,840	128,354	-	137,486
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,834,106	65	-	3,834,041
National Grasslands	3,843,037	5,167	-	3,837,870
Purchase Units	374,593	-	(156)	374,749
Land Utilization Projects	1,876	-	-	1,876
Other Areas	453,436	-	(59,061)	512,497
Total National Forest System Land	192,794,673	190,217	(182,357)	192,786,813
Conservation Easements (In acres):				
Natural Resources Conservation Service				
Wetlands Reserve Program	1,680,374	149,189	-	1,531,185
Grassland Reserve Program	88,853	45,951	-	42,902
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Wetlands Reserve Program	120,242	25,843	-	94,399
Farm and Ranch Land Protection Program	24,882	24,882	-	-
Total Conservation Easements	2,006,510	245,865	-	1,760,645

Description	FY 2006 Balance	Additions (+)	Withdrawals (-)	FY 2005 Balance
National Forest System Land (In acres):				
National Forests	144,056,315	-	(403,999)	144,460,314
National Forests Wilderness Areas	34,816,228	-	(140,850)	34,957,078
National Forests Primitive Areas	173,762	-	-	173,762
National Wild and Scenic River Areas	931,314	681	-	930,633
National Recreation Areas	2,912,576	94,308	-	2,818,268
National Scenic–Research Areas	137,486	196	-	137,290
National Game Refuges and Wildlife Preserve Areas	1,198,099	-	-	1,198,099
National Monument Areas	3,834,041	-	-	3,834,041
National Grasslands	3,837,870	-	(296)	3,838,166
Purchase Units	374,749	4,718	-	370,031
Land Utilization Projects	1,876	-	-	1,876
Other Areas	512,497	2,640	-	509,857
Total National Forest System Land	192,786,813	102,543	(545,145)	193,229,415
Conservation Easements (In acres):				
Natural Resources Conservation Service				
Wetlands Reserve Program	1,531,185	135,486	-	1,395,699
Grassland Reserve Program	42,902	29,190	-	13,712
Emergency Wetlands Reserve Program	92,159	-	-	92,159
Emergency Watershed Protection Program	94,399	50	-	94,349
Total Conservation Easements	1,760,645	164,726	-	1,595,919

National Forest System

The FS manages an estimated 193 million acres of public land, most of which are classified as stewardship assets. These stewardship assets are valued for the following reasons:

- Environmental resources;
- Recreational and scenic values;
- Cultural and paleontological resources;
- Vast open spaces; and
- Resource commodities and revenue they provide to the Federal Government, States, and counties.

The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the National Forest System of the Forest Service. 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 LMPs and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

The Forest Legacy program also protects environmentally sensitive forestlands, but such lands remain in private ownership.

National Forests

The national forests are formally established and permanently set aside and reserved for national forest purposes. The following categories of NFS lands have been set aside for specific purposes in designated areas:

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

structures, and other objects for historic or scientific interest, declared by Presidential proclamation or Congress.

National Grasslands

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

Purchase Units

Purchase units are land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition. The law authorizes the Federal Government to purchase lands for stream flow protection and maintain the acquired lands as national forests.

Land Utilization Projects

Land utilization projects are reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Research and Experimental Areas

Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation.

Other Areas

There are areas administered by the FS that are not included in one of the above groups.

Condition of NFS Lands

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

The FIA program conducts annual inventories of forest status and trends. FIA has historic inventory data in all 50 States and is currently collecting annual inventory data in 46 States, including 38 of the 41 States containing NFS land. Active throughout all 50 States, FHM provides surveys and evaluations of forest health conditions and trends.

Although most of the estimated 193 million acres of NFS forest lands continue to produce valuable benefits (i.e., clean air, clean water, habitat for wildlife, and products for human use), significant portions are at risk to pest outbreaks or catastrophic fires. There are 25 million acres of NFS forestlands at risk to future mortality from insects and diseases, based on the 2007 Insect and Disease Risk Map. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. The FS completed insect and disease prevention and suppression treatments on over 43,300 acres of NFS lands in FY 2007.

By 2009, a map of fire fuels conditions across the United States will be provided by LANDFIRE. LANDFIRE is a set of over 20 digital layers of vegetation, fuels and departure from historic conditions covering all ownerships at a 30-meter pixel resolution. LANDFIRE creates standardized comprehensive products across the United States as it integrates relational databases, remote sensing, systems ecology, gradient modeling, and landscape simulation. Products will be delivered incrementally through 2009, although layers are currently available for the 11 western States, Florida, North Carolina, Alabama, Mississippi and parts of Texas. The project is on schedule and within budget for completion of the continental United States in FY 2008, with Alaska and Hawaii completed in FY 2009.

Conservation Easements

The Natural Resources Conservation Service (NRCS) agency mission statement is "Helping people help the land". This mission statement reflects that NRCS' products and services enable people to be better stewards of the Nation's soil, water and related natural resources. NRCS provides cost share and monetary incentives to encourage the adoption of new and cost prohibitive land treatment practices that have been proven to provide significant public benefits. Financial

assistance is awarded to participants who voluntarily enter into easements to conserve natural resources. NRCS easement purchase programs include Wetlands Reserve Program, Emergency Wetlands Reserve Program, Emergency Watershed Protection Program – Floodplain Easements, Grassland Reserve Program, Farm and Ranch Land Protection Program, and Healthy Forest Reserve Program. NRCS is recorded on the deed for the purchase of these easements. For financial statement reporting purposes, the acres represent acres perfected.

Wetlands Reserve Program

The Wetlands Reserve Program (WRP) is authorized under Section 1237 of the Food Security Act of 1985 (P.L. 99-198), as amended, by the Food, Agriculture, Conservation and Trade Act of 1990 (P.L. 101-624), the Federal Agriculture Improvement and Reform Act of 1996 (P.L. 104-127), and the Farm Security and Rural Investment Act of 2002 (P.L. 107-171) ("2002 Farm Bill"). The Secretary of Agriculture delegated the authority for WRP to the Chief of the Natural Resources Conservation Service (NRCS), who is a vice president of the Commodity Credit Corporation (CCC). WRP is a voluntary program offering landowners the opportunity to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement with CCC/NRCS in order to restore and protect wetlands. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land-and may lease the land- for hunting, fishing, and other undeveloped recreational activities. Easements can be either permanent or 30-year duration. Once enrolled, the land is monitored to ensure compliance with program requirements. At any time, a landowner may request the evaluation of additional activities (such as cutting hay, grazing livestock, or harvesting wood products) to determine if there are other compatible uses for the site. Compatible uses are allowed if it is fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

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

Grassland Reserve Program

The Grassland Reserve Program (GRP) is authorized by Section 1238n or Title XII, of Food Security Act of 1985, as amended by section 2401 of the 2002 Farm Bill. The Secretary of Agriculture delegated the authority for GRP to the Chief of the Natural Resources Conservation Service (NRCS), who is a vice president of the Commodity Credit Corporation (CCC). GRP assists landowners in restoring and protecting grassland; including rangeland, pastureland, and certain other lands, while maintaining the lands suitability for grazing. The emphasis of the program is to support grazing operations, plant and animal biodiversity, and grassland and land containing shrubs or forbs under the greatest threat of conversion.

Land is eligible if it is privately owned or tribal land and it is: 1) grassland that contains forbs or shrubs (including rangeland and pastureland); or 2) located in an area that has been historically dominated by grassland, forbs, or shrubs; and has potential to provide habitat for animal or plant populations of significant ecological value if the land is retained in the current use; or restored to a natural condition. Incidental lands may be included to allow for the efficient administration of an agreement or easement.

NRCS develops a conservation plan with the landowners eligible for the program. The plan specifies the management options available on the grasslands with the goal of maintaining the viability for the grassland's resources. Easements can be permanent, 30-year, or the maximum duration permitted based on State or Tribal law. NRCS continues to provide assistance to the landowner after the acres are enrolled. GRP easements prohibit the production of crops (other than hay), fruit trees, and vineyards that require breaking the soil surface and other activity that would permanently disturb the surface of the land, except for appropriate land management activities included in the grassland conservation plan. Withdrawals from the program are not permitted.

Emergency Wetlands Reserve Program

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

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

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

Emergency Watershed Protection Program – Floodplain Easements

The Emergency Watershed Protection Program (EWP) Floodplain Easements is authorized by the Federal Agriculture Improvement and Reform Act of 1996, (P.L. 104-127) and administered by NRCS. Floodplain easements restore, protect, manage, maintain, and enhance the functions and values of the floodplains for runoff retardation and soil erosion prevention. The purpose of the easements is to conserve natural values including fish and wildlife habitat, water quality, flood water retention, ground water recharge, and open space; and safeguard lives and property from floods, drought, and products of erosion. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and achieve greater environmental benefits where the situation warrants when the affected landowner is willing to participate in the easement approach.

Farm and Ranch Land Protection Program

Farm and Ranch Land Protection Program (FRPP) is authorized by the Food Security Act of 1985, and reauthorized by Section 2503 of the 2002 Farm Bill. The Secretary of Agriculture delegated the authority for FRPP to the Chief of the Natural Resources Conservation Service (NRCS), who is a vice president of the Commodity Credit Corporation (CCC). FRPP is a voluntary program that helps farmers and ranchers keep their land in agriculture and prevents conversion of agricultural land to non-agricultural uses.

The CCC, through NRCS, requests proposals from federally recognized Indian Tribes, States, units of local government, and non governmental organizations to cooperate in acquisition of conservation easements on farms and ranches. Once the entity is selected NRCS enters into a cooperative agreement with and

obligates the money to the entity. The entity works with the landowner, processes the easement acquisition, and holds, manages, and enforces the easement. Beginning in FY 2006 NRCS is now included on the easement deed. In prior years, FRPP was not reported as Stewardship Land because NRCS did not hold the easements with the landowners.

NRCS establishes partnerships with State, Tribal, or local governments or non-governmental organizations to leverage their purchase of development rights by providing matching funds not to exceed 50 percent of the appraised fair market value. They may apply for the FRPP funds if they have a farmland protection program that purchases conservation easements for the purpose of protecting topsoil by limiting conversion to nonagricultural uses of land, and if they have pending offers to potential landowners. Potential participating entities must provide written evidence of: Participants' commitment to long-term conservation of agricultural lands through the use of legal instruments (i.e., right-to-farm laws, agricultural districts, zoning, or land use plans); the use of voluntary approaches to protect farmland from conversion to nonagricultural uses; the capability to acquire, manage, and enforce easement rights or other interests in land; and funds availability. The participating entity must provide a minimum of 25 percent, in cash, of the appraised fair market value, or 50 percent of the conservation easement's purchase price. Withdrawals from the program are not permitted.

Healthy Forest Reserve Program

The Healthy Forest Reserve Program (HFRP) is authorized by Title V of the Healthy Forests Restoration Act of 2003 (P.L. 108-148). HFRP is a voluntary program established to assist landowners in restoring and enhancing forest ecosystems to promote the recovery of threatened and endangered species, improve biodiversity, and enhance carbon sequestration. The program contributes positively to the economy of our nation, providing biodiversity of plant and animal populations, and improves environmental quality.

To be eligible to enroll an easement in the HFRP, a person must be the landowner of eligible private land for which enrollment is sought and also agree to provide such information to the Natural Resources Conservation Service (NRCS) as the agency deems necessary or desirable to assist in its determination of eligibility for program benefits and for other program implementation purposes.

NRCS in coordination with the Fish and Wildlife Service (FWS) and/or the National Marine Fisheries Service (MNFS), shall determine whether land is eligible for enrollment and whether, once found eligible, the lands may be included in the program based on the likelihood of successful restoration, enhancement, and protection of forest ecosystem functions and values when considering the cost of acquiring the easement and the restoration, protection, enhancement, maintenance, and management costs.

Land shall be considered eligible for enrollment in the HFRP only if NRCS determines that such private land is capable of supporting habitat for a selected species listed under Section 4 of the Endangered Species Act of 1973 (ESA); and such private land is capable of supporting habitat for a selected species not listed under Section 4 of the ESA but is candidate for such listing, or the selected species is State-listed species, or is a species identified by the Chief for special consideration for funding.

NRCS may also enroll land adjacent to the restored forestland if the enrollment of such adjacent land would contribute significantly to the practical administration of the easement area, but not more than it determines is necessary for such contribution.

To be enrolled in the program, eligible land must be configured in a size and with boundaries that allow for the efficient management of the area for easement purposes and otherwise promote and enhance program objectives. Withdrawals from the program are not permitted.

DEFERRED MAINTENANCE

FY 2007	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Bridges	$ 123	$ 29	$ 94
Buildings	543	114	429
Dam	21	7	14
Minor Constructed Features	90	-	90
Fence	324	324	-
Handling Facility	23	23	-
Heritage	17	5	12
Road	8,134	3,675	4,459
Trail Bridge	9	3	6
Wastewater	32	17	15
Water	89	54	35
Wildlife, Fish, TES	6	4	2
Trails	224	2	222
General Forest Area	-	-	-
Total Forest Service	$ 9,635	$ 4,257	$ 5,378

FY 2006	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Forest Service			
Bridges	$ 116	$ 27	$ 89
Buildings	483	106	377
Dam	21	8	13
Minor Constructed Features	88	-	88
Fence	403	403	-
Handling Facility	24	24	-
Heritage	32	9	23
Road	4,054	748	3,306
Trail Bridge	10	4	6
Wastewater	31	17	14
Water	85	47	38
Wildlife, Fish, TES	6	4	2
Trails	243	19	224
General Forest Area	-	-	-
Total Forest Service	$ 5,596	$ 1,416	$ 4,180

Deferred maintenance is maintenance that was scheduled to be performed but was delayed until a future period. Deferred maintenance represents a cost that the Federal Government has elected not to fund and, therefore, the costs are not reflected in the financial statements.

Maintenance is defined to include preventive maintenance, normal repairs, replacement of parts and structural components, and other activities needed to preserve the asset so that it continues to provide acceptable service and achieve its expected life. Maintenance excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended.

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

The FS uses condition surveys to estimate deferred maintenance on all major classes of PP&E. No deferred maintenance exists for fleet vehicles and computers that are managed through the agency's working capital fund (WCF). Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

Currently, no comprehensive national assessment of FS property exists. Estimates of deferred maintenance for all assets are based on condition surveys. The agency's deferred maintenance for roads is determined from surveys of an annual random sample of a sufficient number of roads to achieve estimates of 95 percent accuracy and 95 percent confidence. Five hundred roads were included in the FY 2007 sample.

Deferred maintenance needs for all other asset groups are determined from surveys of all individual assets on a revolving schedule where the interval between visits does not exceed 5 years.

In previous years, the FS reported deferred maintenance estimates for General Forest Areas (GFA) and Developed Sites (Minor Constructed Features) in this exhibit. The new Heritage Assets and Stewardship Lands Standard (SFFAS 29) provides the FS the means to report these land units' deferred maintenance by their respective individual asset, although deferred maintenance for the Minor Constructed Features located on the Developed Sites will remain in this exhibit.

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

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

- Federal Highway Administration regulations for the Federal Highway Safety Act;
- Best management practices (BMP) for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;

- Road management objectives developed through the National Forest Management Act (NFMA) forest planning process;
- Forest Service Directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (January 2003 amendment was superseded with August 25, 2005, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

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

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 34 percent needing major repairs or renovations; approximately 11 percent of in fair condition; and 55 percent of the facilities in good condition.

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

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation

Opportunities, and forest-level and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

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

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

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

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

STATEMENT OF BUDGETARY RESOURCES

FY 2007	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 370	$ 781	$ 1,165	$ 1,627	$ 296	$ 1,269	$ 12,418	$ 41	$ 248	$ 358
Recoveries of prior year unpaid obligations	40	84	717	15	132	3	761	104	15	156
Budget Authority:										
Appropriation	4,480	-	25,873	-	346	4,456	51,313	901	7,262	1,341
Borrowing Authority (Notes 22 & 23)	-	1,351	41,185	281	-	-	-	-	-	-
Earned -										
Collected	808	1,342	16,885	1,188	58	1,364	86	135	187	189
Change in receivables from Federal Sources	6	-	(963)	4	6	-	-	6	(3)	9
Change in unfilled customer orders -										
Advances received	-	-	(181)	-	-	-	(2)	-	-	(5)
Without advance from Federal Sources	-	-	-	-	62	-	(1)	-	-	-
Expenditure transfers from trust funds	-	-	934	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(1,831)	-	8	(6)	5,746	(1)	(5,812)	(235)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not available	(419)	(286)	(51,934)	(69)	(3)	(3)	(1,034)	(17)	(120)	(4)
Total Budgetary Resources	5,285	3,272	31,850	3,046	905	7,083	69,287	1,169	1,777	1,809
Status of Budgetary Resources:										
Obligations Incurred (Note 21):										
Direct	1,707	1,452	2,894	907	357	4,820	54,372	976	1,111	1,054
Reimbursable	413	-	27,352	-	161	1	24	136	63	393
Unobligated Balance:										
Apportioned	3,045	396	401	1,083	107	2,260	639	22	37	330
Exempt from Apportionment	-	-	808	5	-	-	-	-	539	-
Unobligated balance not available	120	1,424	395	1,051	280	2	14,252	35	27	32
Total Status of Budgetary Resources	5,285	3,272	31,850	3,046	905	7,083	69,287	1,169	1,777	1,809
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	245	462	8,006	(99)	38	276	4,165	96	107	449
Obligations incurred	2,120	1,452	30,246	907	518	4,821	54,396	1,112	1,174	1,447
Gross outlays	(2,104)	(1,398)	(30,764)	(843)	(346)	(4,914)	(53,648)	(961)	(1,155)	(1,324)
Recoveries of prior year unpaid	(40)	(84)	(717)	(15)	(132)	(3)	(761)	(104)	(15)	(156)
Change in uncollected payments from Federal Sources	(6)	-	963	(4)	(68)	-	1	(6)	3	(9)
Obligated balance, net, end of period -										
Unpaid obligations (Note 27)	235	446	8,046	125	117	180	4,154	160	115	436
Uncollected customer payments from Federal Sources	(20)	(14)	(312)	(178)	(106)	-	-	(23)	(3)	(29)
Obligated balance, net, end of period	215	432	7,734	(53)	11	180	4,154	137	112	407
Net Outlays:										
Gross outlays	2,104	1,398	30,764	843	346	4,914	53,648	961	1,155	1,324
Offsetting collections	(808)	(1,343)	(17,637)	(1,189)	(58)	(1,364)	(84)	(135)	(187)	(184)
Distributed offsetting receipts	(89)	-	-	(464)	-	-	3	(7)	(140)	(25)
Net Outlays	$ 1,207	$ 55	$ 13,127	$ (810)	$ 288	$ 3,550	$ 53,567	$ 819	$ 828	$ 1,115

FY 2007	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1:	$ 9	$ 1,809	$ 864	$ 308	$ 133	$ 1	$ 3	$ 1,818	$ 1,307	$ 172	$ 21,282	$ 3,715
Recoveries of prior year unpaid obligations	10	112	564	98	213	5	6	169	1,346	70	3,175	1,445
Budget Authority:												
Appropriation	38	5,586	874	1,148	1,208	75	148	2,821	-	558	108,428	-
Borrowing Authority (Notes 22 & 23)	-	-	-	-	-	-	-	-	10,846	-	41,185	12,478
Earned -												
Collected	39	525	173	83	31	1	23	4,797	5,983	774	26,158	8,513
Change in receivables from Federal Sources	1	(44)	(21)	(3)	-	-	1	(44)	-	(20)	(1,069)	4
Change in unfilled customer orders -												
Advance received	-	5	-	-	13	-	-	-	-	-	(170)	-
Without advance from Federal Sources	-	(5)	6	(1)	13	-	(6)	-	8	28	96	8
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	934	-
Nonexpenditure transfers, net, anticipated and actual	-	21	1,747	3	5	-	-	14	-	5	(336)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(36)	-	-	-	-	-	(36)	-
Permanently not available	-	-	(1)	(6)	(2)	-	-	(4,086)	(5,902)	(6)	(57,635)	(6,257)
Total Budgetary Resources	97	8,009	4,206	1,630	1,578	82	175	5,489	13,588	1,581	142,012	19,906
Status of Budgetary Resources:												
Obligations Incurred (Note 21):												
Direct	45	6,048	3,000	1,336	1,388	78	151	3,790	12,339	616	83,743	14,698
Reimbursable	39	289	159	84	64	1	19	517	-	798	30,513	-
Unobligated Balance:												
Apportioned	7	840	234	189	117	1	4	427	438	134	8,794	1,917
Exempt from Apportionment	-	-	4	-	-	-	-	-	-	-	1,351	5
Unobligated balance not available	6	832	809	21	9	2	1	755	811	33	17,611	3,286
Total Status of Budgetary Resources	97	8,009	4,206	1,630	1,578	82	175	5,489	13,588	1,581	142,012	19,906
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	9	1,950	3,484	538	1,365	30	13	5,652	18,537	114	26,537	18,900
Obligations incurred net	84	6,337	3,159	1,420	1,452	79	170	4,307	12,339	1,414	114,256	14,698
Gross outlays	(78)	(6,366)	(2,918)	(1,387)	(1,181)	(74)	(166)	(4,452)	(11,793)	(1,280)	(113,118)	(14,034)
Recoveries of prior year unpaid	(10)	(112)	(564)	(98)	(213)	(5)	(6)	(169)	(1,346)	(70)	(3,175)	(1,445)
Change in uncollected payments from Federal Sources	(1)	49	15	4	(12)	-	4	44	(7)	(8)	973	(11)
Obligated balance, net, end of period												
Unpaid obligations (Note 27)	10	2,243	3,244	555	1,488	31	20	5,410	18,369	400	26,844	18,940
Uncollected customer payments from Federal Sources	(6)	(384)	(68)	(77)	(77)	-	(6)	(29)	(641)	(232)	(1,372)	(833)
Obligated Balance, net, end of period	4	1,859	3,176	478	1,411	31	14	5,381	17,728	168	25,472	18,107
Net Outlays:												
Gross outlays	78	6,366	2,918	1,387	1,181	74	166	4,452	11,793	1,280	113,118	14,034
Offsetting collections	(39)	(530)	(173)	(83)	(44)	(1)	(23)	(4,798)	(5,982)	(773)	(26,921)	(8,514)
Distributed offsetting receipts	-	(500)	6	(19)	(3)	-	-	(488)	-	(41)	(1,303)	(464)
Net Outlays	$ 39	$ 5,336	$ 2,751	$ 1,285	$ 1,134	$ 73	$ 143	$ (834)	$ 5,811	$ 466	$ 84,894	$ 5,056

FY 2006	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1:	$ 343	$ 2,146	$ 1,299	$ 2,699	$ 175	$ 1,358	$ 7,108	$ 71	$ 378	$ 316
Recoveries of prior year unpaid obligations	43	77	4,945	4	754	4	797	177	20	338
Budget Authority:										
Appropriation	1,884	-	28,112	-	341	3,372	53,813	844	6,719	1,335
Borrowing Authority (Notes 22 & 23)	-	1,746	44,465	824	-	-	-	-	-	-
Earned -										
Collected	979	1,483	15,068	1,174	81	1,208	85	132	60	477
Change in receivables from Federal Sources	(15)	-	54	(29)	10	-	-	(10)	(1)	(24)
Change in unfilled customer orders -										
Advances received	-	-	259	-	-	-	-	(2)	-	23
Without advance from Federal Sources	(1)	1	-	-	-	-	1	-	-	-
Expenditure transfers from trust funds	-	-	891	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	(38)	-	(1,872)	-	14	(5)	5,203	-	(5,265)	(180)
Permanently not available	(541)	(2,862)	(50,153)	(1,690)	(3)	(2)	(1,032)	(23)	(40)	(17)
Total Budgetary Resources	2,654	2,591	43,068	2,982	1,372	5,935	65,975	1,189	1,871	2,268
Status of Budgetary Resources:										
Obligations Incurred (Note 21):										
Direct	1,801	1,810	2,970	1,355	965	4,666	53,530	999	1,565	1,229
Reimbursable	483	-	38,933	-	111	-	27	149	58	681
Unobligated Balance:										
Apportioned	260	361	363	748	101	1,266	3,160	7	20	314
Exempt from Apportionment	-	-	533	-	1	-	-	1	178	13
Unobligated balance not available	110	420	269	879	194	3	9,258	33	50	31
Total Status of Budgetary Resources	2,654	2,591	43,068	2,982	1,372	5,935	65,975	1,189	1,871	2,268
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	168	483	8,428	(153)	77	268	3,940	82	119	479
Obligations incurred	2,284	1,810	41,903	1,355	1,076	4,666	53,557	1,148	1,623	1,910
Gross outlays	(2,180)	(1,752)	(37,326)	(1,325)	(350)	(4,653)	(52,533)	(968)	(1,616)	(1,627)
Recoveries of prior year unpaid	(43)	(77)	(4,945)	(4)	(754)	(4)	(797)	(177)	(20)	(338)
Change in uncollected payments from Federal Sources	16	(1)	(53)	29	(10)	-	(1)	10	1	24
Obligated balance, net, end of period -										
Unpaid obligations (Note 27)	259	476	9,281	75	77	276	4,166	113	112	468
Uncollected customer payments from Federal Sources	(14)	(14)	(1,275)	(174)	(39)	-	(1)	(17)	(5)	(19)
Obligated balance, net, end of period	245	462	8,006	(99)	38	276	4,165	96	107	449
Net Outlays:										
Gross outlays	2,180	1,752	37,326	1,325	350	4,653	52,533	968	1,616	1,627
Offsetting collections	(979)	(1,483)	(16,217)	(1,174)	(81)	(1,208)	(85)	(130)	(60)	(501)
Distributed offsetting receipts	(396)	-	-	(987)	2	(3)	(1)	(12)	(148)	(11)
Net Outlays	$ 805	$ 269	$ 21,109	$ (836)	$ 271	$ 3,442	$ 52,447	$ 826	$ 1,408	$ 1,115

FY 2006	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:												
Unobligated balance, brought forward, October 1:	$ 8	$ 2,429	$ 468	$ 412	$ 128	$ 1	$ 5	$ 4,498	$ 1,983	$ 173	$ 19,170	$ 6,828
Recoveries of prior year unpaid obligations	7	78	721	295	444	13	29	304	860	102	9,071	941
Budget Authority:												
Appropriation	38	5,362	1,358	1,330	1,221	76	141	3,298	-	612	109,856	-
Borrowing Authority (Notes 22 & 23)	-	-	-	-	-	-	-	-	10,038	-	44,465	12,608
Earned -												
Collected	42	665	151	84	33	1	20	3,410	5,207	769	23,265	7,864
Change in receivables from Federal Sources	(2)	(21)	(48)	(9)	(8)	(2)	(2)	(26)	-	(25)	(129)	(29)
Change in unfilled customer orders -												
Advance received	-	19	-	-	-	-	-	-	-	-	299	-
Without advance from Federal Sources	-	37	30	13	7	-	2	2	10	(21)	70	11
Expenditure transfers from trust funds	-	159	-	-	-	-	-	-	-	-	1,050	-
Nonexpenditure transfers, net, anticipated and actual	-	3	1,741	6	5	-	-	37	-	9	(342)	-
Permanently not available	(1)	(65)	(28)	(20)	(20)	(1)	(2)	(3,755)	(4,246)	(42)	(55,745)	(8,798)
Total Budgetary Resources	92	8,666	4,393	2,111	1,810	88	193	7,768	13,852	1,577	151,030	19,425
Status of Budgetary Resources:												
Obligations Incurred (Note 21):												
Direct	45	6,382	3,363	1,690	1,630	86	169	5,427	12,545	668	87,185	15,710
Reimbursable	38	475	166	113	47	1	21	523	-	737	42,563	-
Unobligated Balance:												
Apportioned	1	1,052	527	278	104	-	1	244	516	120	7,818	1,625
Exempt from Apportionment	-	-	3	15	25	-	-	-	-	2	771	-
Unobligated balance not available	8	757	334	15	4	1	2	1,574	791	50	12,693	2,090
Total Status of Budgetary Resources	92	8,666	4,393	2,111	1,810	88	193	7,768	13,852	1,577	151,030	19,425
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	7	1,561	3,565	442	1,268	28	16	6,022	17,872	85	26,555	18,202
Obligations incurred net	83	6,857	3,529	1,803	1,677	87	190	5,950	12,545	1,405	129,748	15,710
Gross outlays	(76)	(6,375)	(2,907)	(1,408)	(1,136)	(74)	(163)	(6,041)	(11,012)	(1,323)	(120,756)	(14,089)
Recoveries of prior year unpaid	(7)	(78)	(721)	(295)	(444)	(13)	(29)	(304)	(860)	(102)	(9,071)	(941)
Change in uncollected payments from Federal Sources	2	(15)	17	(4)	1	2	(1)	24	(10)	46	59	18
Obligated balance, net, end of period												
Unpaid obligations (Note 27)	13	2,383	3,567	619	1,430	30	23	5,725	19,171	339	28,881	19,722
Uncollected customer payments from Federal Sources	(4)	(433)	(83)	(81)	(65)	-	(10)	(73)	(634)	(225)	(2,344)	(822)
Obligated Balance, net, end of period	9	1,950	3,484	538	1,365	30	13	5,652	18,537	114	26,537	18,900
Net Outlays:												
Gross outlays	76	6,375	2,907	1,408	1,136	74	163	6,041	11,012	1,323	120,756	14,089
Offsetting collections	(42)	(844)	(151)	(84)	(33)	(1)	(20)	(3,410)	(5,207)	(766)	(24,612)	(7,864)
Distributed offsetting receipts	-	(457)	(19)	(22)	(4)	1	-	(688)	-	50	(1,708)	(987)
Net Outlays	$ 34	$ 5,074	$ 2,737	$ 1,302	$ 1,099	$ 74	$ 143	$ 1,943	$ 5,805	$ 607	$ 94,436	$ 5,238

IV.

Other Accompanying Information

Appendix A—Management Challenges

USDA

U.S. Department of Agriculture
Office of Inspector General

Management Challenges

August 2007

UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

August 1, 2007

MEMORANDUM FOR THE SECRETARY

FROM: Phyllis K. Fong /signed/
Inspector General

SUBJECT: Management Challenges

The Reports Consolidation Act of 2000 requires the Department of Agriculture (USDA), Office of Inspector General, to identify and report annually the most serious management challenges USDA and its agencies face.

To identify Departmental challenges, we routinely examine issued audit reports where corrective actions have yet to be taken, assess ongoing investigative and audit work to identify significant vulnerabilities, and analyze new programs and activities that could pose significant challenges due to their range and complexity. We discussed our current challenges with USDA officials and considered all comments received.

Last year we reported six major crosscutting challenges that we believed were the most significant management issues facing USDA. This year we removed one management challenge, as well as specific issues identified under three other challenges in recognition of the progress made or actions taken by the agencies. We found that, generally, USDA's response to the 2005 hurricanes was timely and effective; therefore, we no longer consider it a management challenge. We have also incorporated the challenge relating to genetically engineered organisms into a new global trade challenge and added two additional challenges dealing with food safety and forest management. Unfortunately, because expected progress did not materialize, Civil Rights has again been identified as a challenge for USDA.

In recognition of the actions taken by the agencies, the specific issues that will no longer be highlighted within our challenges are beef exports to Japan (*Interagency Communications*), the need for strengthened program risk assessments (*Improper Payments*), the development of an information system to track specified risk material noncompliance (*Homeland Security*), and security and accountability of explosives and munitions (*Homeland Security*). Further descriptions of actions taken on those issues no longer considered a Departmental challenge are noted on pages 4-5 of this report.

We look forward to working with the Department to address these management challenges. If you have any questions or would like to discuss these issues, please contact me at (202) 720-8001, or have a member of your staff contact either Mr. Robert W. Young, Assistant Inspector General for Audit, at (202) 720-6945 or Ms. Karen Ellis, Assistant Inspector General for Investigations, at (202) 720-3306.

Attachment

cc:
Subcabinet Officials
Agency Administrators

OFFICE OF INSPECTOR GENERAL
MAJOR USDA MANAGEMENT CHALLENGES
(August 2007)

Current Challenges - Synopsis

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

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

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

- Develop Rural Housing Service controls over administering disaster housing assistance programs to ensure aid is provided to those in need and to avoid duplication of benefits.
- Strengthen quality control, publish sanction procedures, and perform required reconciliation in the Federal Crop Insurance Program.
- Prepare complete, accurate financial statements without extensive manual procedures and adjustments.
- Improve Forest Service internal controls and management accountability in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments.
- Capitalize on Farm Service Agency compliance activities to improve program integrity.

(3) Continuing Improvements Needed in Information Technology (IT) Security Agencies need to:

- Emphasize security program planning and management oversight and monitoring.
- Establish an internal control program throughout a system's lifecycle.
- Identify, test, and mitigate IT security vulnerabilities (risk assessments).
- Improve access controls.
- Implement appropriate application and system software change control.
- Develop disaster contingency (service continuity) plans.
- Address computing problems and mitigate the impact to users.

(4) Implementation of Improper Payments Information Act Requirements Needs Improvement

- Provide management oversight at all levels, programmatically within agencies and operationally at the State offices, in the improper payments elimination process.
- Develop a supportable methodology/process to detect and estimate the extent of improper payments.

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- Continue efforts to coordinate with the Department of Homeland Security in implementing effective control systems to ensure the safety and security of agricultural products entering the country.
- Work with States in preparing for and handling avian influenza occurrences in live bird markets or other "off-farm" environments.
- Ensure animal disease surveillance testing protocols are based on emerging science.
- Continue to work with other USDA agencies to ensure effective coordination and implementation of Homeland Security Presidential Directive-9; e.g., develop animal and plant diagnostic and tracking networks.

(6) Material Weaknesses Continue To Persist in Civil Rights Control Structure and Environment

- Develop a plan to process complaints timely and effectively.
- Ensure integrity of complaint data in the system.
- Develop procedures to control and monitor case file documentation and organization.

NOTE: *This issue was removed from the 2005 challenge list because a time-phased plan was developed to correct the weaknesses in Civil Rights management and complaint processing. However, expected improvements did not occur and material weaknesses continue to exist.*

(7) *NEW CHALLENGE:* **USDA Needs To Develop a Proactive, Integrated Strategy To Assist American Producers To Meet the Global Trade Challenge**

- Continue to strengthen genetically engineered organism field testing controls to prevent inadvertent genetic mixing with agricultural crops for export.
- Develop a global market strategy.
- Strengthen trade promotion operations.

(8) *NEW CHALLENGE:* **Better Forest Service Management and Community Action Needed to Improve the Health of the National Forests and Reduce the Cost of Fighting Fires**

- Develop methods to improve forest health.
- Establish criteria to reduce the threat of wildland fires.

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(9) *NEW CHALLENGE:* **Improved Controls Needed for Food Safety Inspection Systems**

- Complete corrective actions on prior recommendations.
- Develop a time-phased plan to complete assessments of establishment food safety system control plans and production processes, including a review program that includes periodic reassessment.
- Develop a process to accumulate, review, and analyze all data available to assess the adequacy of food safety systems.
- Improve the accuracy of data available in the systems.
- Continue to develop and implement a strategy for hiring and training inspectors.

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Challenges Removed From the Fiscal Year 2006 List

One Departmental management challenge reported last year, Challenge 7 on the 2005 hurricane season, was removed from this year's list. Another, Challenge 6 on genetically engineered organisms, was incorporated into the new Global Trade Challenge.

(Last Year's Challenge 6) Departmentwide Efforts and Initiatives on Genetically Engineered Organisms Need To Be Strengthened

In 2006, the United States was still the global leader in the number of acres grown with genetically engineered (GE) crops – 135 million acres or 53 percent of the global biotech area. In 2006, 89 percent of the total soybean acreage in the United States was planted with GE crops; for corn, 61 percent of the total acreage was planted with GE crops. These two agricultural commodities constitute a major part of the American agricultural commodities exported to other nations. One of the significant challenges facing American agriculture is the refusal by many nations to import GE crops due to the perceived health concerns involving the commodities. To add to this dilemma, in the last few years, GE strains not yet approved for commercial production or sale either in the United States or in importing nations were found in U.S. corn and rice crop productions, resulting in returned shipments or lost sales. Because of the challenges posed by GE agricultural commodities on trade and the economic risk of non-GE crops being exposed to GE strains, the Office of Inspector General (OIG) will track the Department's action on genetically engineered organism (GEO) field permits in our new challenge on Global Trade because inadvertent exposure of GE traits to non-GE crops may have significant adverse trade impact. For example, the recent incident of unapproved GE rice strains in seeds for production impacted potential foreign markets worth around $247 million.

(Last Year's Challenge 7) USDA's Response to the 2005 Hurricanes Needs Ongoing Oversight

Since the hurricanes struck the Gulf Coast in September of 2005, OIG has performed audits and conducted oversight monitoring of USDA's response to the devastation caused by the hurricanes. We have also conducted investigations of Government benefit fraud stemming from these disasters. OIG initiated 15 audits in response to this effort, the first of which began on October 31, 2005. As of August 1, 2007, six audit reports have been issued. The remaining audits and an overall assessment of lessons learned as a result of the 2005 hurricane season are scheduled to be released by the end of fiscal year (FY) 2007. These audits covered a myriad of agency programs providing assistance to those areas impacted by Hurricanes Katrina, Rita, and Wilma. They address housing relief, disaster food stamps, various producer disaster programs, controls over mission assignments, and conservation concerns. We found that, generally, USDA's response to the hurricanes was timely and effective. We did, however, identify areas that can be improved in future disaster responses, such as developing more comprehensive disaster plans, sharing data to avoid duplicate payments, and improving overall coordination among the agencies and departments.

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There has also been some significant progress in addressing specific issues identified under the following Departmental management challenges.

Challenge (1)—Interagency Communications, Coordination, and Program Integration Need Improvement

Improve communication and strengthen controls for beef exported to Japan. Both the Agricultural Marketing Service and the Food Safety and Inspection Service (FSIS) formulated and implemented procedures and controls to address the 12 actions announced by the Secretary and the recommendations made in our report to ensure compliance with the Beef Export Verification Program for Japan. The actions taken by the Department resulted in the resumption of trade with Japan.

Challenge (4)—Implementation of Improper Payments Information Act Requirements Needs Improvement

Strengthen program risk assessment methodology to identify and test the critical internal controls over program payments totaling over $100 billion. During FY 2006, USDA completed risk assessments for all programs. In addition, USDA is developing plans to measure improper payments for all high-risk programs and receive Office of Management and Budget approval. USDA agencies are in agreement with OIG's findings and recommendations and corrective action plans are being developed to reduce improper payments and establish both reduction and recovery targets for all high-risk programs.

Challenge (5)—Departmental Efforts and Initiatives in Homeland Security Need To Be Maintained

Develop an information system to better track noncompliance violations related to specified risk materials. This challenge area was removed based on actions taken by FSIS in response to our review of the controls over specified risk materials (SRM). FSIS developed and implemented an enhancement to its Performance Based Inspection System that records noncompliance related to SRM control requirements. FSIS began analyzing SRM noncompliance data in January 2006.

Improve security and accountability of explosives and munitions. This challenge area was removed based on actions taken by the Forest Service (FS) in response to our followup review of security over explosives and munitions. FS officials concurred with our findings and have initiated actions to address previous open recommendations. FS has designated its Director of Safety and Occupational Health as having responsibility for the overall safety and security of the FS' explosives/munitions program. OIG will continue to monitor FS' progress in completing agreed-upon actions.

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CHALLENGE: INTERAGENCY COMMUNICATIONS, COORDINATION, AND PROGRAM INTEGRATION NEED IMPROVEMENT

SUMMARY: USDA's work crosses jurisdictional lines within the Department and with other Federal agencies. USDA's challenge is to develop and foster a unified approach to accomplishing the Department's mission; the various agencies of the Department must understand and appreciate the interrelationships of their programs and work together to create a unified and integrated system of program administration that is greater than a simple totaling of the individual parts. Such an approach would increase organizational communication and information sharing, thus streamlining operations, reducing expenditures, and improving program efficiency, compliance, and integrity. This approach would enable USDA to speak with one cohesive voice and realize its vision of being "recognized as a dynamic organization that is able to efficiently provide the integrated program delivery needed to lead a rapidly evolving food and agriculture system."

OIG AUDIT/INVESTIGATION ACTIONS:

USDA Could Improve Crop Insurance, Conservation, and Farm Program Integrity and Efficiency Through Integration of the Agencies' Information Management Systems. The Agricultural Risk Protection Act (ARPA) of 2000 requires the Farm Service Agency (FSA) and the Risk Management Agency (RMA), beginning with the 2000 crop year, to annually reconcile data received by the agencies from producers. In our September 2003 report on the implementation of ARPA, we reported that Departmental data reconciliation efforts on the 2001 crop data were effectively negated by the hundreds of thousands of disparate records that were identified between the two agencies. Differences in the agencies' definitions of basic terms, such as "producer" vs. "insured" and "farm" vs. "unit," hamper any data reconciliation as well as data sharing. To date the agencies have been unable to complete the legislatively mandated data reconciliation for a single year.

Since ARPA was enacted, section 10706 of the Farm Security and Rural Investment Act of 2002 directed the Secretary of Agriculture to develop a comprehensive information management system (CIMS) to be used in implementing the programs administered by RMA and FSA. Under section 10706, all current RMA and FSA information is to be combined, reconciled, redefined, and reformatted in such a manner that the agencies can use the information management system. It was the sense of Congress that CIMS would lay valuable groundwork for further modernization of information technology systems of USDA agencies in the future and for the incorporation of those systems into CIMS.

Since 1998, FSA's ad hoc crop disaster programs (CDP) have been predicated on crop production data that is managed by RMA and downloaded to FSA. OIG's audits of the 1998-2002 CDPs have shown that FSA and RMA need to reconcile and redefine their data to better meet the needs of FSA in the administration of the CDPs. FSA and RMA are beginning to address inconsistencies in their data in the CIMS project. Specifically, our audits of CDP have disclosed instances in which improper payments occurred because data downloaded from RMA were not properly interpreted or used by FSA. In addition, FSA's 2005 Hurricane Indemnity

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Program (HIP), implemented in FY 2006, relied in part upon data provided by RMA: eligible producers who received a crop insurance indemnity for crop losses suffered due to the 2005 hurricanes were eligible to receive HIP benefits equal to 30 percent of the crop insurance indemnity. (Note: HIP also provided benefits to producers who received FSA Noninsured Crop Disaster Assistance Program payments for production losses due to the hurricanes.) The necessary RMA data files for administering HIP were downloaded weekly to FSA. Since RMA data may change due to updated information, FSA manually generated periodic discrepancy reports to identify RMA data that no longer matched HIP data. The question remains as to how FSA will identify and handle such "mismatches" where RMA changes data after FSA has discontinued the RMA downloads[1]. If RMA's and FSA's systems were integrated, the downloads of data from RMA to FSA would be unnecessary; data necessary to properly administer the programs would be available in real time and with reduced risk of improper payment. In addition, more than just the crop insurance and disaster programs would benefit from such an integrated system—for example, production data in the system could also be used to determine whether quantities reported by producers for FSA price support program purposes were reasonable.

USDA Could Reduce Improper Payments in Conservation and Farm Programs Through Improved Coordination Between Agencies. The Natural Resources Conservation Service (NRCS) purchases conservation easements on land in association with its conservation programs, while FSA provides farm subsidy payments on crop base acres under its Direct and Counter-Cyclical Payment Program (DCP). Producers are generally prohibited from receiving payments for both DCP and conservation easement on the same piece of ground.

In our August 2005 audit of NRCS' Wetland Reserve Program (WRP), we found that, even though the law required the owners and operators of land subject to WRP conservation easements to agree to the permanent retirement of any existing crop base acres for such land under any USDA program, NRCS occasionally purchased easements on land with base acres without ensuring that landowners permanently retire that base for FSA's programs. NRCS had not issued any instructions requiring landowners to notify FSA to retire federally purchased crop base. In addition, we found that NRCS did not consistently notify FSA of conservation easements purchased. In reaching management decision, NRCS and FSA agreed to work together to develop mutually agreeable procedures to overcome these deficiencies. They anticipated achieving final action by September 2005. In an ongoing audit of crop bases on land with conservation easements in California, we continue to find examples where NRCS did not consistently notify FSA of a variety of conservation easements purchased. In 33 of the 53 WRP and Emergency Watershed Protection Program easements reviewed, FSA made $1.3 million in improper farm subsidy payments for crop bases on easement-encumbered lands. We have discussed this issue with both agencies. Because of weaknesses in interagency communication and program integration, USDA both compensated the producers for the value of the base acres under conservation programs and issued farm program payments on the base acres to the

[1] The last RMA download for HIP was initially scheduled for May 7, 2007, but was subsequently extended to continue indefinitely when, as a result of our audit of HIP, reinsurance companies began reviewing and, in some cases, removing/correcting the causes of loss that made the crops eligible under HIP.

producers under the DCP. The need for a more collaborative approach to the programs and better coordination between NRCS and FSA becomes more critical as Congress enacts more conservation programs in lieu of farm subsidies. Improved interagency communication and understanding of the linkages, interactions, and processes between the agencies and their programs will reduce instances in which one agency's action adversely affects the other's programs.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: RMA and FSA established a working group to develop CIMS, which will combine the agencies' separate program data (e.g., acreage, type of crop, producer, past claims, etc.). In addition to developing an integrated comprehensive information management system, this effort includes redefining data common to, and needed by, both agencies and data unique to each agency and developing a common format for such data. In January 2004, USDA awarded a contract to assist in the development of CIMS. The first component of CIMS to be developed is a database that contains select RMA and FSA data. This component will enable agency management, FSA county offices, RMA compliance and regional offices, approved insurance providers, company approved agents, and loss adjusters to access applicable producer information and crop acreage information from a single source. Users may then generate discrepancy and discovery reports of differences in RMA and FSA crop acreage data. RMA reports that, since July 2006, CIMS weekly has been loading selected RMA and FSA data. According to RMA, the system currently provides RMA and FSA electronic access to a centralized source of some common information and compares and identifies any differences in business entity types and acreage reported by a producer to both RMA and FSA. FSA has provided access to only its national office and a select few State and county offices to test applications. FSA State and county office employees will be granted access once the applications have been tested and a policy has been issued for CIMS. Approved insurance providers will have access to the system once the applicable System of Records is published, and, in the long term, NRCS will be invited to participate in CIMS. The success of this effort critically depends on a unified, integrated approach to program administration, information collection, and systems development.

In response to our WRP audit, NRCS and FSA agreed to correct agency-specific findings and establish a working group to identify and remove all impairments that have prevented them from ensuring that landowners permanently reduce their existing crop base acres where appropriate. All parties agreed that these actions, when completed, along with implementation of the other recommendations, would significantly strengthen the program. NRCS and FSA both reported the working group created a mutually agreeable process, complete with forms and a clear delineation of responsibilities. On February 22, 2006, NRCS issued Circular 31, which, in addition to modifying real estate appraisal instructions, also mandated NRCS staff secure from the landowner a completed FSA form used to reduce crop base. On August 4, 2006, FSA, in consultation with NRCS, issued an amendment to its permanent directives regarding the reduction of base acres and when it was to occur. In addition to the FSA internal distribution, NRCS transmitted the FSA amendment (1-DCP, Amendment 38) to all the NRCS State offices for immediate coordination. Moreover, in a March 2007 conference call that included the FSA

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and NRCS National and State offices, it was reiterated that each agency should share with the other information about jointly administered programs. During the call, NRCS agreed to provide to the FSA national office NRCS National Bulletins that affect work with FSA. The FSA national office will, in turn, provide the NRCS Bulletins to FSA county offices through FSA Common Management Notices. While issuance and sharing of procedures are positive steps, both NRCS and FSA need to assure communication and coordination are implemented at their field office locations.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Top Departmental leadership is critical to effecting the cultural changes necessary to the success of a unified approach to USDA program administration. The Department must foster improved interagency communication and data sharing in order to increase efficiency and to preclude the agencies from inadvertently working at odds with one another.

Farm Programs. To preclude errors and irregularities in one program from impacting program payments in another:

- RMA, FSA, and NRCS should implement a comprehensive information management system to better share program data and eliminate duplicate reporting by producers.
- RMA and FSA should implement a more effective data reconciliation process, as mandated by ARPA. Even if a comprehensive information management system is implemented, validity checks, i.e., data reconciliation, should be employed in that system, to the extent practicable, to identify apparent discrepancies in related data; and steps should be taken to resolve such discrepancies.
- RMA, FSA, and NRCS should incorporate data mining techniques up front in the design of software used for program administration to detect data anomalies and potential improper payments. (Through data mining RMA has estimated $487 million in potential savings from crop year 2001 through crop year 2006. In 2006, to better identify fraud, waste, and abuse in the crop insurance program, FSA began sharing with RMA information on policyholders' ownership interests. However, the agencies temporarily have since stopped sharing this information while issues related to producer privacy are resolved. NRCS could also benefit from data mining in its direct administration of conservation programs.)
- NRCS and FSA should continue to integrate interagency communication and coordination in its program activities to ensure one agency's actions do not adversely affect the other agency's programs.

CHALLENGE: IMPLEMENTATION OF STRONG, INTEGRATED MANAGEMENT CONTROL (INTERNAL CONTROL) SYSTEMS STILL NEEDED

SUMMARY: Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Internal Control, was revised and became effective in FY 2006. The circular requires that agencies and individual Federal managers take systematic and proactive measures to develop and implement appropriate, cost-effective internal controls. USDA agencies have a history of reacting to individual control issues rather than addressing the overall weaknesses of their internal control systems. Some of the internal control weaknesses identified by OIG and discussed below are specific to individual agencies, while others represent Departmentwide weaknesses.

Rural Housing Service Needs To Improve Controls Over Housing Assistance Provided to Victims of National Disasters. We reviewed the Rural Housing Service's (RHS) response to Hurricanes Katrina and Rita and found that the agency needed to improve controls over the disaster assistance it was providing victims. We reviewed the assistance the agency provided through both its multifamily and single-family housing programs. While the agency should be commended for its quick response to these disasters, we found that the agency lacked internal controls to address the assistance it provides for major disasters. As a result of these weaknesses, we found cases where victims participating in the multifamily housing program received duplicate aid from multiple sources, including other Federal agencies and private charitable organizations. We also found cases in the single-family housing program where Rural Development (RD) was funding repairs to residences that were not related to hurricane damage. Since the funding RD receives for disasters is limited, it is critical RD provide funds to only those victims that were adversely impacted by the disaster. We noted in our audit of funds provided for single-family housing that sufficient funds were not available to fund all victims' requests.

Long-standing Issues Remain Uncorrected in Federal Crop Insurance Programs Regarding Quality Control Issues, Sanctions, and Reconciliation of Data. For the 2006 crop year, indemnity payments totaled approximately $3.4 billion, and Government subsidies of insurance premiums totaled approximately $2.7 billion. To ensure quality and integrity in its programs, RMA relies on a number of complementary and/or independent control systems; these include quality control (QC) reviews by the approved insurance companies (AIP) and compliance activities by its own staff. Our audits and investigations have reported the need for RMA to strengthen its quality assurance and compliance activities to ensure compliance with program requirements. We have found through our audits and investigations that there is no reliable QC review system to evaluate private sector delivery of the Federal Crop Insurance Programs. As part of ARPA, RMA was provided expanded sanction authority for program noncompliance and fraud. Sanctions include civil fines; producer disqualification for up to 5 years; and disqualification of other persons (agent, loss adjuster, AIP) for up to 5 years.

Although RMA has utilized sanctions to a limited degree, it has not issued a final rule on its expanded sanction authority. (However, RMA did issue a proposed rule on May 18, 2007, and the comment period closed on June 18, 2007.) Also, beginning with the 2001 crop year, ARPA required that RMA and FSA reconcile producer-derived information at least annually in order to identify and address any discrepancies. RMA has not attempted to performed this reconciliation of RMA and FSA data since crop year 2001. RMA believes that the development of CIMS, jointly with FSA, will meet the reconciliation requirements of ARPA.However, CIMS will not assist RMA in reconciling data from the 2001 crop year until CIMS is fully implemented, which is expected in 2012.

Agencies Need To Improve Their Response to Audit Recommendations. USDA agencies need to improve their timeliness in developing and implementing corrective action plans in response to audit recommendations. As of August 1, 2007, there were 23 audit reports where OIG and the agencies had not reached management decision on the actions necessary to address the recommendations within the required 6-month time period. In addition, there were approximately 120 audits where agencies had not completed final action within 1 year of agreeing to implement corrective actions. Also, as of August 1, 2007, the U.S. Government Accountability Office's (GAO) Website lists 74 audits with open recommendations for USDA. This includes 11 audits released in FY 2007 and 63 in prior years, with the oldest GAO audit being open since FY 2002. Developing and implementing effective corrective actions in response to audit recommendations is a key component to enhancing agency internal control systems. Many OIG and GAO findings deal directly with weaknesses in agencies' internal control structures.

Improved Controls Needed Over USDA Financial Processes. Although the Department has obtained unqualified audit opinions for 4 consecutive years, control weaknesses continue to impair the utility of the financial information reported. For example, OIG identified three reportable conditions, two of which—(1) needed improvements in overall financial management across USDA and (2) needed improvements in information technology security—were significant enough to warrant being reported as material weaknesses for the Department. Furthermore, agency stand alone financial audits identified 6 material weaknesses and 16 reportable conditions. Although significant improvements have been made in this area, it nonetheless continues to represent a management challenge to the Department.

Forest Service Needs Improvement in Policy, Process, and Internal Control Issues. Management issues within FS have proven resistant to change. We attribute part of this to the agency's decentralized management structure. The agency delegates broad authority to its field units (regions, forests, and ranger districts) without having an adequate system of internal controls to ensure policies established by top management are followed. The use and accuracy of performance management information is severely limited. The usefulness of performance measures and the accuracy of reporting processes within FS are often flawed. This lack of timely and accurate information deprives FS management of tools needed to effectively measure the direction and progress of the agency. It also prevents oversight bodies and the public from being able to make informed decisions regarding the agency. These conclusions are based upon findings in OIG and GAO reports with which FS has concurred.

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Another internal control issue discovered through OIG work is the need for FS to have better controls to ensure adequate oversight of national firefighting contract crews. Specific issues identified included the lack of adequate controls to monitor and ensure oversight in training continuity—ensuring adequate training of contract firefighters—and administration of vendors (i.e., vendors using illegal workers on the firefighting crews who may have language barriers), as well as contract crew member qualifications.

FSA Needs To Use the Results of Its Compliance Reviews To Improve Internal Controls. Our audit of FSA compliance activities showed FSA generally does not capture or analyze the results of its various compliance and internal review activities to identify program weaknesses. Most of FSA's compliance review results were not communicated beyond the individual FSA county offices that performed the reviews. FSA at the national level should collect and analyze the review results to (1) identify program weaknesses that FSA can remedy to preclude future improper payments and (2) identify systemic noncompliance trends and direct its limited compliance resources to known problem areas.

OIG AUDIT/INVESTIGATION ACTIONS: OIG has taken specific actions to assist Departmental agencies in improving the overall management control structure.

- OIG audit work has identified weaknesses in RHS internal controls when the agency is providing assistance during national disasters. Events of this magnitude provide significant challenges for the agency both in providing assistance to victims as well as ensuring only those individuals impacted by the disasters receive the assistance. We are working with RHS to identify internal control processes that can ensure that victims of disasters receive the appropriate level of assistance.
- Our audit work has disclosed that RMA lacks an effective quality control review system to evaluate private sector delivery of the Federal Crop Insurance Program. We have an ongoing audit to evaluate RMA's overall compliance activities. Additionally, through our investigative work, we will continue to address allegations of fraudulent schemes by insurance agents and adjusters.
- OIG continues to work with USDA agencies to reach management decision on actions needed to address our audit recommendations. One of our primary goals is to ensure that the actions that are agreed to by the agency and OIG are achievable within the required 1-year period.

We continue to focus our audits on the management control structure within FS. OIG audits, along with those from GAO and special reviews from outside contractors, find FS management has not implemented effective corrective action on reported problems. Some of these issues have been reported in multiple reports for over a decade, but their solutions are still in the study and evaluation process by FS. We plan to conduct an audit of the overall structure of FS management control systems. We hope to begin this work in FY 2007, depending on other priorities.

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DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Some of the actions being taken by the Department and USDA agencies to address management control weaknesses include the following.

- RD is actively engaged in discussions with the Federal Emergency Management Agency and other departments to develop working agreements in providing housing assistance to disaster victims to prevent and detect duplicate payments. RD is also developing procedures to monitor field office actions following disasters.
- RMA has begun conducting AIP operations reviews to develop a "rolling" Program Error Rate. RMA plans to complete a review of all participating AIPs once every 3 years. These operational reviews are to assess the company's compliance with Appendix IV (quality control) and other provisions in the Standard Reinsurance Agreement. The review guide has been developed, and the first round of these national operations reviews has been completed for the 2004 reinsurance year.
- USDA has continued to strengthen its financial management process. The Office of the Chief Financial Officer (OCFO) has worked closely with the agencies to improve control measures to mitigate errors in financial data and to improve the Department's financial systems.
- FS has reemphasized its management review process to assess its operations and provide management with information on how the agency's internal controls are operating. The size and complexity of the FS operation will require a long-term commitment by agency management.
- In response to our compliance audit, FSA formed a task force in August 2005 to examine its compliance activities. As part of its duties, the FSA compliance task force will make recommendations on how FSA can use the results of its compliance reviews to strengthen internal controls.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: RD needs to complete working agreements with other agencies that provide disaster response and relief. It also needs to complete new RD procedures to monitor and control assistance in response to disasters. RMA needs to continue its effort to establish a consistent and comprehensive QC process for all reinsured companies, including a system to evaluate the overall effectiveness and reliability of QC reviews performed by the companies. USDA and its agencies need to ensure that their proposed management actions address audit recommendations and are structured so that they can be achieved within reasonable timeframes. USDA agencies need to continue to improve their financial systems with the goal that the financial information produced by these systems will allow them to prepare complete, accurate financial statements without extensive manual procedures and adjustments. FS needs to improve its management controls in order to effectively manage its resources, measure its progress towards goals and objectives, and accurately report its accomplishments. FSA needs to implement policies and procedures to analyze its compliance review results and use those results to identify program weaknesses and improve the corresponding systems of internal controls.

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CHALLENGE: CONTINUING IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY SECURITY

SUMMARY: Like most entities throughout the Federal government, securing USDA's vast array of networks and information technology (IT) resources is a major challenge coupled with significant risk. USDA depends on IT to efficiently and effectively deliver its programs and provide meaningful and reliable financial reporting. Despite progress, the Department's systems and networks continue to be vulnerable. Furthermore, since FY 2003, the Department has consistently obtained a grade of "F" on the *Report Card on Computer Security at Federal Departments and Agencies* published by the House Committee on Oversight and Government Reform. Audits of the Department's systems have continued to identify weaknesses that could seriously jeopardize operations and compromise the confidentiality, integrity, or availability of sensitive information.

OIG AUDIT/INVESTIGATION ACTIONS: OIG continues to conduct IT security audits to monitor agencies' compliance with Federal mandates as well as perform investigations of IT security breaches involving such activities as IT intrusions and equipment thefts. Our audits of compliance with the Federal Information Security Management Act, lost and stolen computers, and Office of the Chief Information Officer (OCIO) IT General Controls have found that, despite strong guidance provided by the OCIO, agencies' implementation of IT security requirements continues to be problematic. We found inaccurate systems inventories; inadequate security plans, disaster recovery plans, and risk assessments; noncompliance with certification and accreditation requirements; inadequate change and patch management and nonperformance of vulnerability scans. Most recently, Departmental servers containing personal identity information in one agency were compromised through hacker intrusion. Although agencies have accelerated efforts to comply with Federal information security requirements, IT management and security continues to be a material weakness within USDA.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: According to USDA's OCIO, significant accomplishments to address IT security have been implemented. These accomplishments include an increased management focus via a newly implemented security program scorecard, improved information systems and information technology inventories, improved plan of action and milestone processes, automated information systems risk categorization, system and program reviews, and other actions.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Agency-level managers should continue to consider IT security a top priority and display greater commitment and attention to assuring compliance with federally mandated IT security requirements to reduce the level of vulnerability. Specifically, agencies need to ensure that the requirements of OMB Circular No. A-130, *Management of Federal Information Resources*, are fully met.

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CHALLENGE: IMPLEMENTATION OF IMPROPER PAYMENTS INFORMATION ACT REQUIREMENTS NEEDS IMPROVEMENT

SUMMARY: USDA still faces many challenges in implementing the Improper Payments Information Act (IPIA) of 2002. The Act requires agency heads to annually review all programs and activities that they administer and identify those that may be susceptible to significant improper payments. If the estimate exceeds $10 million, agencies are to report the causes of the improper payments and corrective actions taken. In FY 2005, eliminating improper payments became a President's Management Agenda initiative. On August 10, 2006, Governmentwide guidance was consolidated into OMB Circular No. A-123, *Management's Responsibility for Internal Control*, Appendix C, Requirements for Effective Measurement and Remediation of Improper Payments. Within USDA, OCFO is designated as the lead agency for coordinating and reporting the Department's efforts to implement IPIA. For FY 2007, OCFO has designated compliance with IPIA as a top priority. OIG considers this to be a major challenge for USDA because of the number and complexity of USDA programs and activities that meet the Act's criteria.

OIG AUDIT/INVESTIGATION ACTIONS: During FY 2006, OIG initiated audits of FSA, FS, RHS, and NRCS efforts to quantify improper payment error rates for high-risk programs and establishment of related corrective actions. The audits revealed significant findings relating to compliance with IPIA. For example, OIG determined that valid statistical samples had not been performed and that improper payments reported in FY 2005 were not properly calculated. Similarly, OIG found that estimated improper payments reported in FY 2005 did not always include payments made to ineligible recipients. Furthermore, OIG felt that the corrective actions were too narrow in scope and ineffective in addressing previously reported findings. Lastly, OIG identified one audited agency that did not have a process in place for recovering improper payments. In response to these findings, OIG recommended that agency officials need to develop and implement controls to ensure statistical sampling processes comply with all OMB and OCFO requirements. This includes using the entire universe, reviewing all payments selected, accounting for payment variables, and maintaining documentation to support results reported in the Performance and Accountability Report (PAR). In addition, agencies should include a quality assurance review of its sampling design, second-party reviews of data accumulated for the sampling process, and sampling guidance.

OIG investigations have identified millions of dollars of benefits obtained fraudulently in some of the Department's largest programs. Such programs include the food stamp, FSA loan, crop insurance, and rural development programs. Over the past 5 fiscal years, our investigations led to total monetary results of $635 million, of which $443 million was restitution ordered by courts to repay the amount of losses directly due to criminal activity. The focus of our investigations is on specific subjects and specific allegations of criminal violations. Thus, the

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results achieved in individual investigations pertain directly to individuals, rather than identifying broad agencywide problems in benefit delivery. However, our investigative findings assist in identifying problem areas, such as common schemes used to obtain undeserved payments.

For FY 2007, OIG is conducting an audit of FSA with the objective of evaluating the criteria used to identify improper payments and the statistical process used to select and estimate the extent of improper payments. Additionally, OIG plans to assess FSA's corrective actions for its improper payments.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In FY 2006, USDA consolidated small and similar programs for improved focus in the risk assessment process. This consolidation caused USDA to move from 286 programs in FY 2005 to 146 programs in FY 2006. USDA's FY 2006 sampling identified that the Department had an estimated $7.05 billion of improper payments. USDA has identified 15 programs susceptible to improper payments, which is an increase from 13 programs identified in FY 2005.

During FY 2006, USDA completed risk assessments for all programs. Also, USDA is in the process of developing plans to measure improper payments for all high risk programs and receiving OMB approval. Corrective action plans are being developed to reduce improper payments and establish both reduction and recovery targets for all high-risk programs. The Department is working towards fully complying with reporting standards, including reporting component error rates for the first time for three Food and Nutrition Service programs (National School Lunch and School Breakfast Programs and the Special Supplemental Nutrition Program for Woman, Infants, and Children) and reporting statistical error rates for four newly declared high-risk programs administered under FSA's Commodity Credit Corporation. These four programs are the Direct and Counter Cyclical Payments Program, Conservation Reserve Program, Disaster Assistance Programs, and Noninsured Crop Disaster Assistance Programs.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Major challenges remain for USDA in meeting the goals of the IPIA and ultimately improving the integrity of payments. USDA agencies need to continue to implement and fully follow the requirements of OMB and OCFO's revised direction. Analyses of the internal control structure of all major programs must be performed, and weaknesses that could create vulnerabilities for improper payments need to be identified and remedied. Due to the breadth and complexity of the undertaking, successful implementation of the IPIA poses a significant management challenge to the Department.

CHALLENGE: DEPARTMENTAL EFFORTS AND INITIATIVES IN HOMELAND SECURITY NEED TO BE MAINTAINED

SUMMARY: Continuing concern about potential terrorist threats have added a new dimension to USDA's missions and priorities—in particular, its missions to ensure the safety and abundance of the Nation's food supply from the farm to the table and to protect the health of American agriculture from the introduction of foreign animal and plant pests and diseases. The National Strategy for Homeland Security provides a framework for prioritizing the use of Federal resources based on the highest threats and risks. Critical mission areas are defined as intelligence and warning, border and transportation security, domestic counterterrorism, protecting critical infrastructure and key assets, defending against catastrophic threats, and emergency preparedness and response.

For FY 2007 the USDA homeland security missions were funded at over $536 million. The USDA Homeland Security Office (HSO) and agencies concentrate on selected areas called the Food and Agriculture Defense Initiative. For FY 2007, the initiative was funded at $28.9 million for food defense and $156.6 million for agriculture defense. Many of these initiatives were mandated under the Public Health and Bioterrrorism Preparedness and Response Act of 2002; for example, enhancing the capability to respond in a timely manner to bioterrorist threats to the food and agricultural system and developing an agricultural bioterrorism early warning surveillance system.

USDA agencies must continue to work together to develop a better understanding of changing risks and threats. USDA must continue to foster effective coordination and communication across agency and other Department lines to ensure effective implementation of ongoing and future homeland security initiatives. For example, the Department is coordinating and monitoring efforts to implement the animal and plant disease diagnostic and reporting networks required by Homeland Security Presidential Directive-9.

OIG AUDIT/INVESTIGATION ACTIONS: Building on its earlier progress, USDA must continue its efforts to identify its assets, conduct thorough security risk assessments, and establish appropriate safeguards to prevent or detect deliberate acts to contaminate the food supply, disrupt or destroy American agriculture, or harm U.S. citizens. At the same time, USDA and the Department of Homeland Security (DHS) must continue to address weaknesses in their border inspection activities to guard against the unintentional introduction of pests, diseases, and contaminants on imported products.

Commodity Inventories. In our February 2004 audit of homeland security issues regarding USDA commodity inventories, OIG reported that FSA needs to conduct vulnerability and risk assessments to determine the appropriate levels of protection for these agricultural commodities. We also reported that FSA needs to formulate clear directions on food safety and security for the commodities that it manages, handles, transports, stores, and distributes. Although FSA agreed with our recommendations, preliminary resource and budgetary constraints delayed actions to address this concern.

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Select Agents and Toxins. In January 2006, OIG issued an audit of the Animal and Plant Health Inspection Service's (APHIS) implementation of the Agricultural Bioterrorism Protection Act of 2002, which provides for the regulation of agents and toxins that could pose a severe threat to animal and plant health or to animal and plant products. We reported that APHIS had not ensured that entities were fully complying with regulations regarding security plans; restricting access to select agents or toxins; training individuals authorized to possess, use, or transfer select agents or toxins; and maintaining current and accurate inventories.

Agriculture Quarantine Inspection Activities. OIG audits conducted prior to the transfer of APHIS inspection duties to DHS disclosed serious control weaknesses at American borders or ports of entry for agriculture and other food products. Although the inspection function at borders and ports of entry was transferred to DHS, APHIS retains functions such as quarantine, risk analysis, destruction and re-exportation, user fees, and adjudication of violations. USDA-OIG and DHS-OIG issued a report in February 2007, which assessed how well U.S. Customs and Border Protection (CBP) communicated and cooperated with USDA on issues relating to agricultural inspection policies and procedures, complied with established procedures for agricultural inspections of passengers and cargo, and accurately tracked agricultural inspection activities. The audit also reviewed whether CBP had taken corrective action on USDA-OIG issues reported on prior to the transition of the responsibilities to CBP. We were able to resolve many of the prior issues/recommendations; however, we found other issues had not been fully addressed.

In May 2006, GAO reported that CBP and APHIS continue to experience difficulty sharing information such as key policy changes and urgent inspection alerts. GAO recommended that DHS and USDA work together to establish processes and procedures for sharing urgent information, assessing inspection effectiveness, and identifying major risks posed by foreign pests and diseases at ports of entry. GAO also recommended developing and implementing a national staffing model to ensure that agriculture staffing levels at each port are sufficient to meet those risks.

Avian Influenza. In our June 2006 review of APHIS' oversight of avian influenza (AI), we concluded that APHIS has made commendable progress in developing plans and establishing the networks necessary to prepare for, and respond to, outbreaks of AI.

With regard to its National AI Preparedness and Response Plan (Response Plan), we reported that APHIS needed to provide additional guidance on preparing and responding to highly pathogenic AI (HPAI) or notifiable AI outbreaks in live bird markets or other "off farm" environments. Also, APHIS needed to finalize interagency coordination on the process and procedures for notifying owners of susceptible animals of the current infectivity risks, and the necessary protective actions they should take when an outbreak of AI occurs. In its response, APHIS described a number of initiatives planned and in-process to address our concerns.

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DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: Currently, as stated in the FY 2006 PAR, the Departmental efforts and initiatives in Homeland Security include:

- hosting bi-weekly homeland security discussions with mission area representatives;
- requiring bi-weekly updates on homeland security projects from component agencies and quarterly status reports on Homeland Security Presidential Directive-9 tasks from mission areas;
- conducting risk assessments to determine appropriate levels of security needed for USDA-owned agricultural commodities; and
- analyzing risk assessment findings and identifying changes needed to existing policies and procedures.

In response to our select agent audit, APHIS coordinated with the Department of Health and Human Service's (HHS) Centers for Disease Control and Prevention to develop and implement procedures to share responsibilities for inspecting registered entities handling agents. APHIS established formal procedures for performing security inspections at the registered entities to ensure that the inspections are consistent and thorough. APHIS is requiring that its inspections of registered entities in possession of select agents verify that these entities base their security plans on a site-specific risk analysis and address all critical areas identified in the regulations.

In response to the President's National Strategy for Pandemic Influenza, APHIS developed its Response Plan to address the threat of AI. APHIS has characterized it as a "living document," subject to revision, that establishes a comprehensive approach to the management of an outbreak of HPAI on a large commercial poultry operation. APHIS is also coordinating and establishing AI surveillance networks with other Federal, State, and private entities. APHIS is working with Federal and State cooperators in developing strategies for monitoring migratory birds, as well as working internationally to provide outreach, education, and technical assistance. APHIS clarified actions that employees should take in obtaining and administering necessary vaccines and anti-virals in the event that a culling operation for HPAI occurs. APHIS has performed and documented an analysis that identifies gaps in sampling surveillance. APHIS issued the National Avian Influenza Surveillance Plan, dated June 29, 2007, which included goals, objectives, case definitions, data collection and analysis methodologies, reporting of surveillance results, and assessment of surveillance programs.

In response to our review of homeland security issues pertaining to USDA commodity inventories, FSA generally agreed with our recommendations and agreed to work with HSO to complete risk and vulnerability assessments and to develop appropriate guidelines and procedures. However, actions were delayed as FSA initially sought to hire a contractor to guide FSA through the risk assessment process, but was unable to obtain funding. To assist in protecting the Nation's food supply, the Federal Bureau of Investigation (FBI), DHS, USDA, and Food and Drug Administration (FDA) have since developed a joint assessment program, the Strategic Partnership Protection Agroterrorism (SPPA) Initiative. The purpose of this initiative is to conduct a series of assessments of the food and agricultural sector in collaboration with private industry and State volunteers.

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Together with the FBI, DHS, FDA, and other USDA agencies, FSA will participate in a summer 2007, SPPA grain facility risk assessment. The assessment will identify vulnerabilities and develop corrective measures for the handling and storage of agricultural commodities. FSA has also tentatively scheduled for the fall of 2007, a second SPPA facility risk assessment that would address certain processed commodities that FSA and the Commodity Credit Corporation purchase and store for the Food and Nutrition Service and the Agricultural Marketing Service. According to FSA, for both SPPA risk assessments, HSO has requested FSA to facilitate and lead the group discussions. Where applicable, FSA plans to use the results of the risk assessments in responding to the audit recommendations.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE:

Commodity Inventories. FSA needs to complete its planned risk and vulnerability assessments of grain and commodity storage facilities and use the results of such assessments to develop guidelines and procedures to protect commodity inventories.

Select Agents and Toxins. APHIS needs to implement its new procedures for inspecting registered entities in possession of select agents and verify that these entities conduct and document annual performance tests of their security plans; and update those plans based on the results of performance tests, drills, or exercises. APHIS also needs to verify that adequate security is maintained over select agent inventories. Registered entities need to be re-inspected to ensure compliance with regulations, using formal written procedures to ensure that the inspections are consistent and thorough.

Agriculture Quarantine and Inspection Activities. USDA and DHS need to work together to strengthen controls and communication, develop the necessary processes and procedures to assess inspection effectiveness, and identify major risks posed by foreign pests and diseases at ports of entry. Also, staffing models need to be developed to address those risks.

AI Surveillance Activities. APHIS needs to revise its Response Plan to include detailed instructions for handling HPAI occurrences in live bird market systems and other "off-farm" environments. In addition, APHIS needs to coordinate with other USDA agencies and States to develop and formalize producer notification and action procedures when an outbreak of AI occurs, to include identification of the roles and responsibilities of personnel involved, specific timeframes for action, and linkage to the Standard Operating Procedures set forth in the Response Plan.

CHALLENGE: MATERIAL WEAKNESSES CONTINUE TO PERSIST IN CIVIL RIGHTS CONTROL STRUCTURE AND ENVIRONMENT
(*Reinstated Challenge*)

SUMMARY: In 2005, OIG removed the challenge for Civil Rights (CR) from the list of management challenges facing the Department. The premise behind the challenge was that complaints were not timely addressed and there was a backlog of old complaints. Two reports issued in 2005 documented that the Assistant Secretary for Civil Rights (ASCR) had developed 13 initiatives to address these long-standing problems, including the backlog. In a report issued in May 2007, however, we found that although CR's processing time to complete a case has fallen from 3 years in 1997 to slightly under 1.5 years in 2006, its efforts have not been sufficient to ensure that employee civil rights complaints are effectively tracked and timely processed. The risk to employees' rights could reduce the public's confidence in USDA's ability to administer and address civil rights activities.

OIG AUDIT/INVESTIGATION ACTIONS: We found that material weaknesses continued to persist in CR's control structure and environment. Specifically, CR had not (1) established the necessary framework to monitor the processing of complaints and to intervene when established timeframes were not met, (2) sufficiently strengthened its controls over the entry and validation of data in its information system, and (3) established adequate controls to ensure case files could be timely located and the files contained the required documentation. As a result, CR cannot effectively track and timely process employee civil rights complaints.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: We found that in 2006, CR's processing time to complete a case averaged 504 days or just under 1.5 years, a significant improvement over the processing time of 3 years reported in 1997. In February 2005, CR began implementation of the Civil Rights Enterprise System (CRES), a Web-based application that allows USDA agencies and CR to use one automated system for processing and tracking equal employment opportunity (EEO) complaints at both the informal and formal stages. In a report issued in 2000, we had reported that CR had its tracking system and the agencies had their own systems, with CR tracking EEO complaints that were not in the agencies' systems and the agencies having complaints that were not in CR's system. Prior to the implementation of CRES, agencies did not have an enterprise system to track informal EEO complaints.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: CR should develop a detailed formal plan to process employment complaints timely and effectively. CR should also implement a monitoring framework to track the processing of complaints and intervene when timeframes are not being met. To strengthen controls over the entry and validation of data in CRES, CR needs to identify the business rules and implement a plan for testing and applying these rules. In addition, CR needs to implement a process for validating the accuracy of information entered in CRES. CR needs to develop procedures to control and monitor case file documentation and organization, including procedures to document which CR divisions or units are responsible for receiving, transferring, filing, and safeguarding documents in the file folder.

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CHALLENGE: USDA NEEDS TO DEVELOP A PROACTIVE, INTEGRATED STRATEGY TO ASSIST AMERICAN PRODUCERS TO MEET THE GLOBAL TRADE CHALLENGE (*NEW CHALLENGE*)

SUMMARY: The agricultural sector plays a major role in the overall U.S. economy, and the availability of global markets for agricultural products is critical to the long-term economic health and prosperity of the food and agricultural sector. Expanding global markets should increase demand for agricultural products and, therefore, lead to greater economic stability and prosperity for America's producers. In the Department's strategic plan for FY 2002-2007 and for FY 2007-2010, increasing export opportunities for U.S. agriculture was listed at the top of the Department's strategic goals. Between 1990 and 2005, the dollar value of U.S. agricultural exports rose by 39 percent (from $59.4 billion to $82.7 billion), but due to larger export gains by foreign competitors, the U.S.' market share of global exports declined by 32 percent over the same period. In 1990, the U.S. market share was 14.3 percent; by 2005, it had declined to 9.7 percent. In a review conducted by the Department, U.S. market share was described at the lowest level in 30 years, due to "over-reliance on slow growth commodities, mature markets, and rising competition."

Concurrently, the share of American crop land devoted to cultivating biotechnology derived or genetically engineered (GE) crops has grown significantly. In 2006, American producers had planted around 135 million acres with GE crops; this amounted to 53 percent of the total global biotechnology derived acreage. For agricultural commodities such as soybeans and corn, U.S. production has largely become GE-based: the percentage of GE soybeans planted in the United States increased from 54 percent in 2001 to 89 percent in 2006; during the same period, the percentage of GE corn planted in the United States increased from 25 percent to 61 percent.

Recognizing the importance of American agriculture in trade to foreign markets and the increasing importance of GE crops to the American agricultural sector, the 2002 Farm Bill mandated a number of general and specific trade initiatives in these areas. The 2002 legislation required a long-range agricultural global market strategy building on the policies of the 1996 Farm Bill, which established an "agricultural export promotion strategy" to take into account new market opportunities for agricultural products. Furthermore, under the general trade provisions, the 2002 Farm Bill extended the Export Credit Guarantee Program, encouraged multi-year and multi-country agreements, and extended funding for the Export Enhancement Program. The 2002 Farm Bill also included specific provisions on biotechnology—developing a biotechnology and agricultural trade program, funding biotechnology use in developing countries, and educating consumers about the benefits and safety of these products.

Other countries—especially countries that have long been traditional markets for American agricultural commodities—have not always been eager to import GE crops. Even though the Food and Agriculture Organization of the United Nations has acknowledged the benefits and wholesomeness of GE crops, the European Union has instituted labeling and traceability requirements for biotechnology derived imports, requirements that negatively affect U.S. producers' ability to compete in European markets and effectively act as trade barriers.

Because of the sensitivity and concern that GE traits, particularly regulated or non-approved traits, inadvertently appear in agricultural commodities sold to these foreign markets, the need for strengthened monitoring and oversight over field trials is critical. Recently, the Department faced a number of legal challenges to its issuance of these field-testing permits; for example, on March 12, 2007, the Federal district court for the Northern District of California ruled that GE alfalfa seed had been approved for commercial release illegally, because there had been no Environmental Impact Statement. Earlier, in August 2006, the Federal district court for Hawaii ruled that the Department had violated the Endangered Species Act as well as the National Environmental Policy Act in allowing drug-producing GE crops to be cultivated without conducting preliminary investigations on the environmental impact prior to approval for planting.

The threat of inadvertent release and incorporation of GE crop traits that are regulated or not approved for human consumption into agricultural commodities can have a potentially devastating impact on American agricultural exports. For example, last summer the discovery of unapproved GE traits in certain rice varieties destabilized U.S. rice exports and resulted in the closing of markets in the European Union and other destinations to U.S. rice. Just this winter, Government tests confirmed the presence of unapproved GE traits in planting seeds for rice production, again resulting in temporary disruptions in the foreign markets for the U.S. rice industry. According to the U.S. Rice Federation, the $1.2 billion foreign market for U.S. rice exports could be significantly impacted or entirely closed off by such inadvertent releases of GE traits to crop production.

Given the new importance of GE crops to American agriculture, USDA faces significant challenges not only in monitoring and providing oversight to field trials of such crops (to preclude inadvertent release to other crop production), but also in promoting trade of all American agricultural commodities, overcoming trade barriers in well-established markets, educating the public as to the safety concerns and benefits of agricultural biotechnology, and cultivating new markets more receptive to importing biotech crops.

To meet these challenges, USDA must balance several goals, including (1) developing, expanding, and implementing business processes to formulate marketing strategies at a worldwide level, including those of its program participants; (2) maintaining adequate accountability for GE seeds and crops; (3) preserving the integrity of non-GE seeds and crops; and (4) educating the public as to the health and safety of the American food supply, particularly agricultural biotechnology.

OIG AUDIT/INVESTIGATION ACTIONS:

Strengthening Controls Over Field Trials. During our review of USDA's monitoring of GE crops, we evaluated how USDA issues genetically engineered organism (GEO) release notifications and permits, which are required to ship or field test regulated GEOs. We found that the Department needs to strengthen its controls over the entire process, from how it handles permit and notification applications to how it oversees the devitalization of GE crops under approved notifications and permits. Based on the latest response from the Department, we were

still unable to reach management decision on 5 of the 28 recommendations reported. These unresolved recommendations include requiring written protocols for notifications as well as permits prior to approval of the field testing, providing such written protocols to inspectors into link the priorities of all stakeholders to USDA goals and objectives, and from there to produce a truly global strategy. The Department has proposed that the 35 percent threshold involving high-value and processed commodities be eliminated with the new farm bill.

In its response to our trade promotion report, the Department stated that it has begun to catalogue the existing information and reporting systems that support the mission to expand U.S. agricultural exports. The Department also stated that it will be reviewing the mechanisms needed to support existing Government Performance and Results Act reporting related to market access issues. The Department hopes to complete its review of other data and reporting mechanisms by the end of calendar year 2007.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: In its response to our Farm Bill Trade Title report, FAS expressed general disagreement with the conclusions reached citing the use of questionable data and "misunderstandings or misrepresentations" of the export strategies used to make funding decisions for market access programs. Regardless of the data used, there is a trend of steadily declining U.S. market share. USDA should—in consultation with Congress—analyze and reassess its strategic goals and marketing strategies as a whole in order to regain, to the extent possible, U.S. competitiveness in global agricultural exports. To better promote the export of agricultural crops, USDA needs to develop a coordinated and consolidated global market strategy, including guidelines and strategies to deal with countries reluctant to import GE crops and to open new markets willing to import American agricultural products, particularly high-value and processed products.

To improve USDA's oversight of regulated GE crops, the Department needs to provide the specific corrective action plans to address the outstanding audit recommendations, such as clarifying the number of field site inspections for permits and notifications and defining the term "termination of the field test."

CHALLENGE: BETTER FOREST SERVICE MANAGEMENT AND COMMUNITY ACTION NEEDED TO IMPROVE THE HEALTH OF THE NATIONAL FORESTS AND REDUCE THE COST OF FIGHTING FIRES (*NEW CHALLENGE*)

SUMMARY: In recent years, the average costs to fight wildfires have exceeded more than $1 billion per year. In 2006, more than 9.87 million acres of public and private land were burned by wildland fire (15,427 square miles). In 2006, FS spent more than $1.5 billion for wildland fire

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suppression. FS efforts to contain firefighting costs are impacted by several issues: climate change, the increase in hazardous fuels occurring on Federal lands, and the population growth in rural communities in the wildland urban interface (WUI). Addressing these key issues is critical if FS is going to be successful in reducing both the severity of wildland fires and the cost of fighting these fires. An additional challenge facing FS is fire safety; as the intensity of fires increases and the agency is called upon to suppress fires in urban areas, the dangers to firefighters has increased.

OIG AUDIT/INVESTIGATION ACTIONS: We completed our audit of large fire suppression costs in November 2006. Our review identified that the major cost driver of suppression costs has been unregulated development in the WUI. Improperly planned and unregulated growth in the WUI significantly increases the risks these communities face from wildfires. Because of the increased risk, FS must spend more money to prevent wildfires from reaching these areas and more money protecting the communities when wildfires do reach them. If not for the threat to the WUI, FS could use less expensive fire suppression tactics or even let the fires burn naturally. It is critical that FS work with local communities to ensure that private landowners take steps to reduce the risk of fire on private property adjacent to Federal land. In addition, we found FS needs to modify its policies that unduly restrict use of fire to reduce hazardous fuels on FS land. We also found that the agency lacked effective cost containment controls: managers' and incident commanders' decisions and oversight were neither tracked nor evaluated, agency performance measures and reporting mechanisms did not allow FS management to assess the effectiveness of its wildfire suppression cost containment efforts, and cost containment reviews had limited effectiveness.

Our audit of FS' implementation of the Healthy Forest Initiative evaluated the agency's efforts in reducing hazardous fuels on Federal land. Deteriorating forest health has resulted in the unnaturally heavy accumulation of hazardous fuels. While FS' 2005 budget for hazardous fuels reduction was $276 million, it has been estimated that hazardous fuels are accumulating at three times the rate that they can currently be treated. FS has allocated hazardous fuel reduction funds based, in part, on historical funding allocations and accomplishing the most acres of treatment. These factors do not necessarily address areas that may have the most risk of major wildfires. Treatment of high risk areas may cost more for fewer acres, but it may do more to reduce the potential for catastrophic fires than treatment of a large number of acres. FS needs to change its funding approach for fuel reduction projects to recognize the potential risk to forest resources and private property. This will help ensure that the limited funds are better targeted to reduce the potential for catastrophic fires.

Other audits that we have recently completed related to fire suppression activities concluded that FS needed to improve its controls over the use of firefighting contract crews and the use of Emergency Equipment Rental Agreements (EERA). The audit related to contract crews concluded that significant improvements were needed in safety training for these crews. Our review of EERA found that by using a combination of best practices, FS can lower costs for equipment and supplies it obtains through the EERA process.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: In response to audit recommendations, FS has implemented policies and procedures designed to contain wildfire suppression expenditures and to increase accountability for suppression operations. FS has developed new strategic performance measures and increased the emphasis on cost accountability. Also, FS has increased the level of management oversight on large fires and initiated significant changes in its wildfire cost containment reviews. The agency has implemented a formal training program for personnel who conduct cost containment reviews with the emphasis focusing on cost drivers and the impact of fire suppression strategies. Incident commanders will have performance standards that include whether the tactics employed represented cost effective use of resources. FS is also placing more emphasis on wildland fire use (WFU). Also, FS practices will allow managers to switch between suppression tactics and WFU as each situation evolves. In the past, once a strategy of suppression was chosen the manager was not allowed to change even if the situation warranted. FS is developing a fire program system to economically allocate resources and a LANDFIRE[2] system to provide data to use in order to target fire and resource projects more effectively.

ACTIONS NEEDED TO ADDRESS THE CHALLENGE: Top Department and FS management needs to work with Congress and other land management agencies to find ways to convince State and local governments to enact and vigorously enforce building and zoning codes in areas threatened by wildland fire. FS also needs to work with other land management agencies and State and local governments to conduct hazardous fuels reduction projects in those areas where they will have the greatest impact on reducing risk. FS also needs to continue to improve its internal controls over wildland fire expenditures and the delivery of systems to help managers improve cost containment decisions. FS needs to ensure that it structures its human and physical resources in a manner to meet the changing environment of forest health and the expanding of WUI.

[2] LANDFIRE, also known as the Landscape Fire and Resource Management Planning Tools Project, is a 5-year, multi-partner project producing consistent and comprehensive maps and data describing vegetation, wildland fuel, and fire regimes across the United States. It is a shared project between the wildland fire management programs of the Department of Agriculture's Forest Service and the U.S. Department of the Interior.

CHALLENGE: IMPROVED CONTROLS NEEDED FOR FOOD SAFETY INSPECTION SYSTEMS (*New Challenge*)

SUMMARY: The safety of the Nation's food supply and the adequacy of its Federal inspection systems is a major concern of consumers, Congress, and other stakeholders due to recent food-borne illnesses and food contamination events. FSIS must demonstrate that its information and data systems, management controls, and inspection processes are adequate to support its assessments of the adequacy of slaughter and processing hazard controls and production processes.

The Federal meat and poultry inspection program is operated under the Hazard Analysis and Critical Control Point (HACCP) system (HACCP was implemented in 1998). Under HACCP, each slaughter and processing establishment is responsible for designing a food safety system that complies with sanitation standards and procedures, HACCP requirements, and pathogen reduction requirements. FSIS is responsible for verifying that each establishment's food safety system is operating in compliance with the regulations and in a way that will result in safe and wholesome products. FSIS is moving towards a risk-based inspection system as its next step to modernize the inspection process and has stated that HACCP is the foundation of this risk-based initiative.

Since 2000, OIG has reported that FSIS had not analyzed and/or verified the adequacy of establishment HACCP plans. Also, we reported that FSIS did not have an effective management control structure that would ensure that adequate systems and processes were in place to accumulate, review, and analyze available data to monitor and assess compliance with HACCP and inspection requirements. We recommended that FSIS develop a written time-phased plan for completing its reviews of HACCP plans, to include periodic reassessments, and to establish a strategy for hiring and training staff. We also made numerous recommendations to improve FSIS information technology systems, inspection oversight, and data quality.

OIG AUDIT/INVESTIGATION ACTIONS: OIG issued a series of food safety audits in 2000 that assessed the effectiveness of FSIS' meat and poultry inspection program under HACCP. We concluded that while FSIS had taken positive steps in its implementation of the science-based HACCP program, FSIS needed to have a more aggressive presence in the inspection and verification process. FSIS had, in our assessment, reduced its oversight short of what was prudent and necessary for the protection of the consumer. The conditions noted in our 2003 review of the ConAgra recall (18 million pounds of ground beef and beef products suspected of being contaminated with E. coli O157:H7) again led us to question the adequacy of establishment HACCP plans and FSIS' oversight and verification programs that identify and control hazards in the production process.

In our 2004 audit of application controls for the Performance Based Inspection System (PBIS), we evaluated the adequacy and effectiveness of FSIS' controls over the input, processing, and output of PBIS data. PBIS is a software application designed by FSIS to manage its HACCP inspection assignments, specific inspection procedures, and data reporting. We found that FSIS

had not implemented adequate controls to ensure the integrity of PBIS data and concluded that this ultimately could affect FSIS' ability to adequately manage its inspection activities.

In response to both GAO and OIG audits and recommendations, FSIS developed a management control system to provide assurance that the agency is accomplishing its mission of protecting consumers from unsafe and unwholesome food products. A key component of FSIS' management control system is the In-Plant Performance System (IPPS), which was established to strengthen supervision and improve inspector accountability. Our 2006 audit of IPPS found that FSIS' policies and procedures were generally adequate and that the system improved supervision and inspector accountability. However, we did find that the review process could be strengthened in the areas of written guidance and management oversight; not all inspection activities identified as critical had been assessed.

In 2007, GAO designated three new high-risk areas in its annual high risk report. One of the high-risk areas is Federal oversight of food safety because of its importance to the economy and public health and safety. Any food contamination could undermine consumer confidence in the Government's ability to ensure the safety of the U.S. food supply, as well as cause severe economic consequences. GAO believed the current fragmented Federal system (15 agencies collectively administering at least 30 laws related to food safety) has caused inconsistent oversight, ineffective coordination, and inefficient use of resources.

DEPARTMENTAL/AGENCY ACCOMPLISHMENTS/PLANS: FSIS developed and recently implemented a management control system that is to provide multi-layered management oversight of its inspection activities. FSIS has focused on strengthening supervisory oversight of its in-plant inspection personnel through the use of IPPS. FSIS has also recently implemented AssuranceNet, a Web-based system, which will pull inspection data from five databases to facilitate analysis. The goal of AssuranceNet is to allow FSIS to monitor the agency's inspection activities.

ACTION NEEDED TO ADDRESS THE CHALLENGE: Although FSIS agreed to implement corrective actions to address prior audit concerns, some actions are not complete. FSIS needs to fully address prior weaknesses before it can ensure risks to public health from adulterated meat and poultry products processed under the proposed risk-based inspection process are minimized. FSIS must demonstrate that it has adequate information and data systems, controls, and processes in place and operational to support its ongoing assessments of the adequacy of establishment HACCP plans and production processes, and its inspection activities. Most critical, FSIS needs to develop a written, time-phased plan for completing reviews of HACCP plans. The time-phased plan should include a strategy for hiring and training staff. FSIS also needs to develop a review program that includes periodic (1 to 2-year) reassessment of HACCP plans.

ACRONYMS USED IN THIS DOCUMENT

AI	avian influenza
AIP	approved insurance companies
APHIS	Animal and Plant Health Inspection Service
ARPA	Agricultural Risk Protection Act of 2000
ASCR	Assistant Secretary for Civil Rights
CBP	Customs and Border Protection
CDP	crop disaster programs
CIMS	comprehensive information management system
CR	Civil Rights
CRES	Civil Rights Enterprise System
DCP	Direct and Counter-Cyclical Payment Program
DHS	Department of Homeland Security
EEO	equal employment opportunity
EERA	Emergency Equipment Rental Agreements
FAS	Foreign Agricultural Service
FBI	Federal Bureau of Investigations
FDA	Food and Drug Administration
FS	Forest Service
FSA	Farm Service Agency
FSIS	Food Safety and Inspection Service
FY	fiscal year
GAO	Government Accountability Office
GE	genetically engineered
GEO	genetically engineered organisms
HACCP	Hazard Analysis and Critical Control Point
HHS	Health and Human Services
HIP	Hurricane Indemnity Program
HPAI	highly pathogenic avian influenza
HSO	[USDA] Homeland Security Office
IPIA	Improper Payments Information Act of 2002
IPPS	In-Plant Performance System
IT	information technology
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PAR	Performance and Accountability Report
PBIS	Performance-Based Inspection System
QC	quality control
RD	Rural Development
Response Plan	National Avian Influenza Preparedness and Response Plan
RHS	Rural Housing Service
RMA	Risk Management Agency
SPPA	Strategic Partnership Protection Agroterrorism Initiative
SRM	Specified Risk Materials
USDA	U.S. Department of Agriculture
WFU	wildland fire use
WRP	Wetland Reserve Program

Appendix B—Improper Payment and Recovery Auditing Details

Since 2000, agencies have reported efforts to reduce erroneous payments through the Office of Management and Budget's (OMB) Circular A-11. Under the Improper Payments Information Act (IPIA), executive agencies must identify any of its programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act for FY 2002 requires recovery auditing. In this process, agencies entering into contracts worth more than $500 million in a fiscal year must execute a cost effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. In FY 2005, Eliminating Improper Payments became a President's Management Agenda (PMA) initiative. On August 10, 2006, government-wide guidance was consolidated into OMB Circular A-123, Management's Responsibility for Internal Control, Appendix C. Under this guidance, USDA has 5 programs required to report under Section 57 of A-11 and has identified an additional 11 at risk of significant improper payments through the risk assessment process.

USDA is taking steps to implement IPIA fully and achieve a "green" rating for the Eliminating Improper Payments PMA initiative. During FY 2007, USDA maintained "yellow" status. Accomplishments this year include:

- Completing risk assessments for all programs;
- Developing plans to measure improper payments for all high risk programs and receiving OMB approval;
- Developing corrective action plans to reduce improper payments and establishing both reduction and recovery targets for all high risk programs;
- Fully complying with reporting standards; and
- Reporting error rates for National School Lunch and School Breakfast programs for the first time.

USDA's improper payment rate of 6.11% for FY 2007 is a reduction from the 6.97% rate reported for FY 2006. The estimated improper payments amount of $4.4 billion for FY 2007 is a reduction from the $4.6 billion for FY 2006. The Farm Service Agency (FSA), with seven high risk programs, showed significant improvement in the reduction of improper payments. FSA reduced their overall estimated improper payments from $2.9 billion (11.18%) in FY 2006 to $563 million (2.49%) in FY 2007. Since many of FSA's corrective actions were implemented late in FY 2007, improvements may not be shown until the FY 2008 review results are reported.

FSA's improvements were related to:

- direct senior management involvement and support to reduce improper payments;
- agency-wide training on improper payments awareness and responsibilities;
- inclusion of improper payment payments reduction in FSA strategic planning documents;
- implementation of program checklists;
- integrating reducing improper payments into employee's performance plans; and
- publication of notices providing new instructions.

USDA will be able to move to "green" status when error rates are available for all programs and it demonstrates that reduction and recovery goals are being met. Due to budget and program constraints, this process can be complicated. For the programs without an estimated error rate, USDA worked with OMB to develop interim methods to establish and track erroneous payment percentages.

Additionally, USDA is taking steps to implement recovery auditing fully. Using an independent recovery audit contractor working on contingency, USDA identified $206,000 of potentially recoverable improper payments. Of this amount, USDA recovered $146,000 in FY 2007.

OMB provided a reporting template for IPIA in OMB Circular A-136. The template requires responses to specific issues. USDA's response to these issues follows.

I. Describe your agency's risk assessments, performed subsequent to compiling your full program inventory.

List the risk-susceptible programs identified through your risk assessments.

OCFO issued detailed guidance for the risk assessment process including templates and extensive reviews of drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs. For USDA's largest programs, the risk assessment process required the following:

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

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

Selection Methodology	Agency	Program
Section 57 of OMB Circular A-11	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program (MAL)
	Food Nutrition Service (FNS)	Food Stamp Program
		National School Lunch Program (NSLP)
		School Breakfast Programs (SBP)
		Special Supplemental Nutrition Program for Woman, Infants and Children
USDA Identified as Susceptible to Significant Improper Payments	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Milk Income Loss Contract Program
		Loan Deficiency Payments
		Direct and Counter-Cyclical Payments
		Conservation Reserve Program
		Miscellaneous Disaster Programs
		Noninsured Assistance Program
	Food Nutrition Service (FNS)	Child and Adult Care Food Program
	Forest Service (FS)	Wildland Fire Suppression Management
	Rural Development (RD)	Rental Assistance Program
	Risk Management Agency (RMA)	Federal Crop Insurance Corporation Program Fund
	Natural Resources Conservation Service (NRCS)	Conservation Security Program

II. Describe the statistical sampling process conducted to estimate the improper payment rate for each program identified.

Agency	Program	Sampling Process
FSA/CCC	Marketing Assistance Loan Program (MAL)	A statistical sample of high risk programs is conducted by the Farm Service Agency's (FSA) County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). Testing is conducted using statistically sound samples drawn from the total population of program payments being tested. A professional statistician, under contract to FSA, is used to design the sampling approach, define the sample size and identify the sample items. Sample size is chosen to achieve a 95 percent confidence level. Once the universe of the program is determined for the target fiscal year, a stratified two-stage sampling approach is used. County offices (COFs) making payments for the target program are selected in the first stage and individual payments made or contracts reviewed by COFs are selected in the second stage. That sample list of individual contracts or payments is provided to the members of the CORP staff covering the respective States. The CORP staff visits each of the COFs shown on the list and reviews the individual contracts or payments identified in the statistically sound sample. The CORP reviewers use a list of program division provided criteria that is drawn from legal and program administrative guidance. Findings of non-adherence to the criteria related to the individual contracts or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to the CORP national office staff to be analyzed by the contractor statistician. That contractor determines the rate of improper payments based on the data provided by the CORP staff that visited the COFs and completed the actual review of documents

FNS	Food Stamp Program (FSP)	**Statistical sampling** Each month, States select a statistically random sample of cases from a universe of all households receiving FSP benefits for that given month. Most States draw the samples using a constant sampling interval. There are some which employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State agencies with small FSP populations to more than 1,000 for larger States. The average is approximately 950 per State. States are required to complete at least 98 percent of selected cases deemed to be part of the desired FSP universe. Federal sub-samples are selected systematically by FNS from each State's completed reviews. These sample sizes range from 150 to 400 per State. **Error Rate Calculation** The National payment error rate is calculated using a multi-step process: • Each State agency conducts quality control (QC) reviews of the monthly sample of cases. The QC review measures the accuracy of eligibility and benefit determinations for each sampled case against FSP standards. State agencies are required to report to FNS the findings for each case selected for review. • FNS then sub-samples completed State QC reviews and re-reviews selected individual case findings for accuracy. Based on this sub-sample, FNS determines each State agency's official error rate using a regression formula. • The national payment error rate then is computed by averaging the error rate of the active cases for each State weighted by the amount of issuance in the State.
FNS	National School Lunch Program (NSLP)	USDA makes use of periodic studies to assess the level of error in program payments because detailed information on the circumstances of the National School Lunch Program (NSLP) and School Breakfast Program (SBP) participating households are not collected administratively. The current study – NSLP/SBP Access, Participation, Eligibility and Certification (APEC) Study – makes use of a national probability sample of school food authorities (SFAs), schools, certified students and their households, and households that applied and were denied for program benefits in School Year 2005-06. A stratified random sample of 78 unique public SFAs was selected in the first stage of sampling. Stratification variables included geographic region, prevalence of schools having a School Breakfast Program and those using Provision 2/3, and a poverty indicator. For SFAs that do not have Provision 2/3 schools, three schools, on average, were selected for inclusion in the studying the second stage of sampling. Schools were stratified into two groups: (1) elementary schools and (2) middle- and high-schools. The school sample included both public and private schools. A total of 264 schools participated in the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, samples of households were selected in 240 of these schools to yield completed interviews for about 3,000 students certified for free and reduced-price meals and 400 denied applicant households. The sample of approved and denied applicant households was augmented by sampling of applications from Provision 2/3 schools in which household surveys were not conducted. Application reviews of about 6,800 students approved for free and reduced-price meals and over 1,000 denied applicants were conducted to estimate the case error rate due to administrative error. Data on counting and claiming errors were collected in all schools selected for application reviews. On randomly selected school days, field staff observed approximately 100 lunch transactions at each of the 245 schools participating in the NSLP as well as 50 breakfast transactions at each of the 218 schools participating in the School Breakfast Program. Cashier error was estimated using information from these meal transactions. Data on school-recorded daily meal totals across all points of sale. Aggregated meal counts reported to the district and total meals submitted to the State Agency for reimbursement were examined to determine claiming errors.
FNS	School Breakfast Program (SBP)	The statistical sampling process for this program is similar to the FNS National School Lunch Program (NSLP). See the NSLP description.

FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	FNS plans to continue periodic examinations of WIC certification and vendor error. Certification Error— The 1998 WIC Income Verification Study was designed to provide information on the characteristics of a nationally representative sample of WIC participants in the contiguous United States, certified for WIC during spring 1998. The sample was based on a multi-stage sample design, with 50 geographic primary sampling units (PSUs) selected at the first stage, 79 local WIC agencies selected at the second stage, and 178 WIC service sites selected at the third stage. WIC participants were randomly sampled for the study at the 178 WIC service sites as they appeared for WIC certification. In-person interviews were completed with 3,114 WIC participants at the 178 WIC service sites. The estimate of improper payments comes from a follow-up in-home survey that was conducted with approximately one out of every three persons selected for the in-person interviews. The in-home survey was designed to verify income information through review of household income documents. In-home interviews were completed with 931 respondents. FNS' intent is that the 2008 decennial income verification study will use a similar sampling strategy that provides a nationally representative estimate of erroneous payments within the IPIA-specified precision parameters. The certification error rate will be reported in FY 2009. Vendor Error—The 2005 vendor error study employed a nationally representative probability sample of WIC vendors. A two-stage clustered design was developed to facilitate over-sampling of WIC-only stores. Current lists of authorized WIC vendors were collected from the 45 States plus the District of Columbia that use retail vendors from delivery of benefits. These lists were used to establish the retail vendors for delivery of benefits. These lists were sued to establish the national sample frame of vendors active during the study period. Geographic Information System software was used to form 365 PSUs in contiguous counties. Most PSUs had at least 80 vendors. The study selected 100 PSUs using probability non-replacement sampling with probabilities proportional to the size of the PSU. About 16 vendors and 4 reserve vendors were selected from each of the 100 PSUs. The final sample size (unweighted) was 1,768 vendors. The study compared the purchase price paid by the compliance buyer with (i) observed shelf prices and (ii) the purchase amount the vendor reported to the State in order to yield estimates of overcharge and undercharge.
FNS	Child and Adult Care Food Program (CACFP)	The national estimate of erroneous payments for the sponsor error component is based on a nationally representative sample of sponsor files for 3,150 Family Daycare Homes (FDCHs) in 95 distinct sponsors in 14 States. Data collectors went to each sampled sponsor with randomly drawn lists of 30 to 90 FDCHs and extracted documents necessary to establish eligibility for reimbursements from the sponsors' files.
FSA	Milk Income Loss Contract Program (MILC)	See the process described in the Marketing Assistance Loan Program (MAL) discussion shown above. The same process was used for this program.
FSA	Direct and Counter-Cyclical Payments (DCP)	See the process described in the Marketing Assistance Loan Program (MAL) discussion shown above. The same process was used for this program.
FSA	Conservation Reserve Program (CRP)	See the process described in the Marketing Assistance Loan Program (MAL) discussion shown above. The same process was used for this program.
FSA	Miscellaneous Disaster Programs (CDP)	See the process described in the Marketing Assistance Loan Program (MAL) discussion shown above. The same process was used for this program.
FSA	Noninsured Assistance Program (NAP)	See the process described in the Marketing Assistance Loan Program (MAL) discussion shown above. The same process was used for this program.
FS	Wildland Fire Suppression Management	Wildland Fire Suppression Fund (WFSU) transactions were analyzed and a stratified sampling method was employed to select transactions. FS used a package of statistical software tools designed to assist the user in selecting random samples and evaluating the audit results. The goal behind the software package was to develop valuable analytical tools that could be easily used by auditors. The statistical audit tool has been used by the Office of Inspector General since the 1970's. The sample size was determined using a 90% confidence level, anticipated rate of occurrence of 2.9% and a desired precision range of +/-2.5%. The transactions were selected using a random number generator, selecting the corresponding record number in the universe of payments. The population was broken down into four categories: Travel, Payroll, Purchase Card Management System (PCMS), and Contracts. Separate statistical samples were selected using the criteria required by OMB. An exception occurred when a transaction met the criteria for an improper payment as defined by the Improper Payment Improvement Act (IPIA). We categorized errors that were improper as errors that were either insufficiently documented or were improperly paid.

RD	Rental Assistance Program	The agency reviewed the sampling plan developed by the U.S. Department of Housing and Urban Development for its studies. It engaged Rural Development (RD) statisticians to prepare a similar plan for this report. This report is based on a review of tenants receiving rental assistance (RA) during FY 2006. The sampling plan consisted of 666 RA payments from a universe of 3,333,206 or .019 percent. The methodology produced a sample with a 99-percent confidence level. The study required field staff to evaluate tenant files and income calculations. The agency did not test if RD's deputy chief finance office paid appropriately on the borrower's request for subsidy due to the minuscule error rate from the FY 2004 report and the implementation of an automation enhancement to improve data entry. The universe of rental assistance payments FY 2006, was 3,333,206. The only parameter used to determine the eligible universe was the RA payment. No other data element, such as location, size of property, number of units and availability of other rental assistance (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS). The extract contained a list of all tenants receiving RA during FY 2006. The data included month of payment, project name, project identifier (case number/project number) and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. Once the sample was identified, an unnumbered letter dated March 20, 2007, was issued to RD field staff that explained the process (including detailed instructions), provided the list of tenant payments to be reviewed and provided the data currently maintained in MFIS. These data were used as the baseline review of the tenant data comparison between the Agency records and the management agent's tenant files. The study asked State office staff to complete the survey for the selected tenant payments. There was to be no substitution of the selected payment and, if the management agent was unable to submit the file, the payment would be considered improper.
RMA	Federal Crop Insurance Corporation Program Fund	RMA drew 600 random 2004 and 2005 crop year indemnities to review during 2005 and 2006. It will repeat this process for three years to compile 900 random indemnity reviews that will be used to identify the RMA program-error rate. Samples are drawn by the compliance staff which oversees the compliance review data base and is responsible for data quality control. Limited resources make it impractical to conduct a statistically valid program review each year. Despite these limits, in combination with the National Operations Reviews conducted by RMA compliance personnel, these random reviews of paid indemnities should provide the program with sufficient data to establish an acceptable error rate for the purposes of the IPIA.
NRCS	Conservation Security Program	A risk assessment was developed with the Financial Management Division and the National Program Manager. Using last year's risk assessments and corrective action plans, NRCS identified any new risks and internal controls to test. It reviewed internal and external reviews and audits to eliminate duplication of effort and incorporated testing of any new internal controls implemented as a result of the reviews and audits. Statutory and program changes as they related to IPIA were considered. Samples were drawn by a contractor statistician from the universe of payments made to participants during fiscal year 2006. The anticipated error rate was based on the actual target rate of .50%. NRCS used a rigorous confidence level of 95% and precision range of +/-2.5% to select the number of samples. A total of 95 samples were selected. A questionnaire was developed with the program manager. Sample payment data were merged into the questionnaire. The questionnaire was sent to State and field offices to complete and return with supporting documentation. The questionnaire is a tool for re-enforcing program rules and a means to obtain verification of items which would not be readily available in a contract file. NRCS implemented individual program review checklists. These were created by the Financial Management Division based on the risk assessments and internal controls selected for testing. As samples were returned, the agency used the review checklist to test the effectiveness of the selected internal controls. This ensured testing consistency by the review team. NRCS also tested payment calculations, contracting policy adherence, and issues from last year's sampling. Person and land eligibility was verified as described in the Farm Bill statutory language.

III. Describe the Corrective Action Plans for reducing the estimated rate of improper payments. Include in this discussion what is seen as the cause of errors and the corresponding steps necessary to prevent future occurrences.

If efforts are already underway, and/or have been ongoing for some length of time, it is appropriate to include that information in this section.

Agency	Program	Corrective Actions Planned
FSA/CCC	Marketing Assistance Loan program (MAL)	The three most significant causes for payments being identified as improper were as follows: • A lien search for Federal or State Tax liens was not conducted. • The Financing Statement was not filed. • The loan quantity is not supported by a producer certification, measurement service, or warehouse receipt. Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. Broad Scope Actions Taken: • FSA is making every effort to lower the improper payment rate and to reduce program weaknesses contributing to improper payments. Regardless of the reasons improper payments are made, FSA is taking the issue of improper payments very seriously. • The Agency has taken actions to correct its deficiencies in many areas and has incorporated the priority of reducing improper payments into its strategic planning documents. • The Administrator has personally participated in an online training module on performance and accountability. This presentation explains the importance of managing payments, the impact of the improper payment results from FY 2006, and how every employee within FSA is accountable for doing their share in reducing improper payments. FSA issued a program Notice making it mandatory for all FSA employees working with or making policy decisions to view the training module and require the State Executive Directors (SEDs) to certify that those employees viewed the training module before August 27, 2007. b. Actions Already Taken that Impact All Causes of Improper Payments Identified: The actions taken were completed late in FY 2006 or early FY 2007 so the impact would not be realized until review of the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Issued various National Notices to State and COFs providing them with instructions related to training, proper processing of payments, and the new checklist for processing loans. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Developed a new checklist, the CCC-770 MAL, MAL Checklist, for COF employees to use. By completing the CCC-770 MAL, the COF employee is certifying that the applicable program provisions have, or have not been met. Handbook 8-LP was amended on December 13, 2006, to include policy that a CCC-770 MAL or CCC-770 eLDP/LDP must be completed before a loan or LDP is issued.

Agency	Program	Corrective Actions Planned
		c. Actions That Will be Taken that Impact All Causes of Improper Payments Identified • FSA is implementing a new compliance review process for the 2007 crop year. The new compliance spot check review process will allow FSA to (1) conduct a more meaningful and comprehensive spot check/compliance review and; (2) utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as result of a spot check. • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 MAL Statistical Sample including established policy and procedure references for each finding. • Based on sample results, amend the CCC-770 MAL checklist, as appropriate, to ensure that COFs are reminded of the necessary policies and procedures for program compliance. • Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and county staff may need to assist in facilitating compliance to controls. • Re-enforce current program policies regarding program compliance through the issuance of National notices to State and COF personnel. • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls. d. Actions That Will be Taken that Impact Lien Searches for Federal or State Tax Liens Not Conducted: FSA will clarify current policies associated with conducting Federal and State Tax liens, conducting lien searches and perfecting security interest in program notices, handbook procedures and regulations, if necessary. These notices, in addition to conference calls to the specific State and COFs that were identified in the statistical sample, should help to reduce the number of improper payments.
FNS	Food Stamp Program	Causes of improper payments An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which they are eligible. This can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification. It also can occur from changes subsequent to certification or errors in determining eligibility or benefits by caseworkers. Eligibility worker delays in action or inaction taken on client reported changes also can cause of improper payments. An analysis of the FY 2005 completed statistical sample revealed that approximately 74.5 percent of all variances occurred before or at the most recent certification/recertification. Additionally, 68.5 percent of the errors were State agency caused. About half of the errors (50.8 percent) were income related and caused by client misreporting or the agency misapplying the reported income. Misreporting or misapplying deductions was the second largest source of errors at 28.0 percent. The analysis of the FY 2006 data is scheduled for release in early 2008. Steps that are (or will be) taken to address specific findings in the last statistical sample Program regulations require State agencies to analyze data to develop corrective action plans to reduce or eliminate program deficiencies. A State with a high error rate must develop a QC corrective action plan to address deficiencies revealed through an analysis of its own QC data. A State with an excessive error rate will be required to invest a specified amount (depending on its error rate and size) designated specifically to correct and lower its error rate. The State also will face further fiscal penalties if it fails to lower its error rate in a future fiscal year.

Agency	Program	Corrective Actions Planned
		Steps that are (or will be) taken to improve the overall control environment and improper payments FNS, through its regional offices, works directly with States to impart the importance of payment accuracy and correct payments to State leadership. The agency also helps those leaders develop effective corrective action strategies to reduce payment errors. Regional offices provide many forms of technical assistance to States, such as: • Analyzing data; • Reviewing and monitoring corrective action plans; • Developing strategies for error reduction and corrective action; • Participating on boards and in work groups; and • Hosting, attending and supporting payment accuracy conferences. FNS administers a State Exchange Program that provides funds to States to facilitate travel for obtaining, observing and sharing information on best practices and effective techniques for error reduction. Coalitions have been formed among States to promote partnerships, information exchange and collaborative efforts. These efforts address mutual concerns and support development of effective corrective action.
FNS	National School Lunch Program (NSLP)	FNS has worked closely with OMB, Congress, the States, schools, and advocacy partners for two decades to gain a better understanding of erroneous payments, and to develop and implement initiatives to address them: Strengthened the Certification Process through Legislative Program Reauthorization FNS worked with Congress to develop the Child Nutrition and WIC Reauthorization Act of 2004 (CNR) to enact program changes that address school meals certification problems. The act strengthened the certification process by: • Requiring food stamp direct certification for free meals in all school districts, and continuing authority for optional direct certification using data from the Temporary Assistance for Needy Families (TANF) and the Food Distribution Program on Indian Reservations (FDPIR); • Simplifying the certification process by requiring a single application for all eligible children in a household; • Requiring eligibility determinations to be in effect for the entire school year; • Modifying verification requirements, and adding authority for optional direct verification of children's eligibility; • Requiring State agencies to conduct additional administrative reviews of school districts with higher rates of error; • Expanding authority for the use of public records for verification of applications; and • Requiring increased efforts to obtain household response to application verification requests; requiring districts with high rates of non-response to verification to target subsequent year verification activity toward error-prone applications. FNS is engaged in continuing efforts to fully implement all the provisions of the CNR designed to improve program accountability. Improved State and Federal Oversight and Technical Assistance FNS conducted the following to improve oversight and technical assistance: Since 2004, required annual training for schools on certification and accountability issues; • Secured funding from Congress in 2004 for FNS technical assistance to help State and local partners reduce administrative errors and improve program integrity; • Provided ongoing guidance and training materials to State agencies to improve monitoring of schools; and • Since 1995, provided ongoing guidance and training materials to States on the School Meals Initiative (SMI), to help schools improve compliance with program nutrition and menu planning standards in order to increase the accuracy of meal-counting. Expanded National Data Collection and Analysis to Inform Policy • FNS conducted the following to collect and disseminate program data:

		• Initiated an annual measure of administrative errors in the certification process in school year 2004-2005; • As early as the 1990s, tested alternative approaches to the existing school meals certification and verification processes to assess their impact on accuracy and program access; • Highlighted the results of the data collections at numerous briefings with State and Federal partners and Congressional staff; and • Developed the Access, Participation, Eligibility and Certification (APEC) study, which provides the first comprehensive national estimate of erroneous school meal payments for the PAR, as required by the IPIA. Additional Action Planned FNS proposes to expand training, technical assistance, and other efforts to reduce payment errors that result from operational problems. Planned efforts include: • Working with the National Food Service Management Institute to provide web-based training to States and schools on certification and other accountability issues; • Delivering training to States on improving their oversight of local schools (fiscal year 2008), which will lead to States' conduct of more rigorous and robust local-level oversight; • Emphasizing to State agencies that annual verification data must be used to ensure that corrective action is taken by school districts to address error rates; • Partnering with the School Nutrition Association to coordinate efforts on training and technical assistance to its membership on accountability issues; and • Working on strategies to continue the APEC study, which would enable FNS to estimate and measure changes in erroneous payments over time, and would help inform FNS, Congress, the States, and advocacy partners on the development of additional guidance, training, and policy options.
FNS	School Breakfast Program (SBP)	• The corrective actions planned for this program are similar to the FNS National School Lunch Program (NSLP). See the NSLP description.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	• Certification Error: FNS plans to continue periodic examinations of certification error in the WIC Program. The Child Nutrition Act was amended in 1998 to require income documentation for WIC Program applicants in all States. The Final WIC Policy Memorandum #99-4, *Strengthening Integrity in the WIC Certification Process,* February 24, 1999, the WIC Certification Integrity Interim Rule (65 FR 3375, January 21, 2000) and the WIC Certification Integrity Final Rule (65 FR 77245, December 11, 2000) implemented this requirement. The WIC Food Delivery Final Rule (65 FR 83248, December 29, 2000) mandated one-year disqualifications for the most serious participant violations, including dual participation and misrepresentation of income. The WIC Miscellaneous Final Rule (71 FR 56708, September 27, 2006) required State agencies to prevent conflicts of interest such as clinic staff certifying themselves, close friends, or relatives, and also required State agencies to maintain information on participant and employee fraud and abuse. FNS will measure the level of improper payments due to certification error in Fiscal Years 2008-09. • Vendor Error: Overall rates for vendor error are very low in relation to the volume and value of transactions. Nevertheless, FNS will annually estimate and report improper payments to vendors based on information on vendor investigations routinely conducted by the state WIC Agencies and reported to FNS. The Child Nutrition Act was amended in 1996 to require the disqualification of WIC vendors who had been disqualified by the Food Stamp Program (FSP), and was amended in 1998 to require permanent disqualification of vendors who had been convicted of trafficking and illegal sales. The WIC/FSP Vendor Disqualification Final Rule (64 FR 13311, March 18, 1999) implemented these requirements and also mandated three-year disqualifications for overcharging and charging for food not received. The WIC Food Delivery final Rule (65 FR 83248, December 29, 2000) mandated nationwide standards for vendor authorization, training, and monitoring.

FNS	Child and Adult Care Food Program (CACFP)	CACFP has three distinct parts: Child Care Centers, Adult Daycare facilities and Family Daycare Homes (FDCHs). Overall program funding is provided to state agencies which provide funds to sponsoring organizations to pay for claims for reimbursable meals served at provider sites. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure. Payments and claim information are transferred among FNS, State agencies, program sponsors and program sites; each such 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. The original plan was to develop a program-wide study which would examine reimbursements for meals served and develop program error measurements that complied with the requirements of the IPIA. Because of the complexities of the program, FNS estimated that it would cost $20 million to measure improper payments at the precision required by IPIA. This amount has not been provided. In lieu of funding for a program-wide measurement, FNS has identified the FDCH component of this program as potentially high risk. FDCHs participate in CACFP through public or private nonprofit sponsoring organizations. FDCH improper payments are most likely caused by sponsor error in determining a participating home's reimbursement tier (tiering error) or by FDCH error in reporting the number of meals which are eligible for reimbursement (claiming error). Two activities are underway which provide information on improper payments in the FDCH component of CACFP. A third activity was pilot tested during FY2007. • CCAP — In the Spring of 2004, FNS began the Child Care Assessment Project (CCAP). This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP family daycare homes and provide information from a broadly representative national sample of sponsors and providers. Over a four - year period, FNS is conducting comprehensive on-site assessments of a sample of participating family daycare home sponsors. These assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance. They will also offer insights on the control points in the claiming and reimbursement process that most frequently cause or contribute to improper payments. This information will also help to support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA. Data collection for this activity will conclude at the end of FY 2007 and the final results will be presented in the USDA PAR for FY 2008. • Sponsor error — FNS has developed an annual sponsor tiering error measure and tested it. CACFP sponsors are responsible for determining whether family daycare homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). In FY 2007, the second annual data collection was conducted to determine a nationally representative sponsor tiering determination error rate. The findings are reported above. • Claiming error — FNS has identified two potential methods of estimating the risk of claiming error: 1. State data approach: Use data from State monitoring visits of FDCHs. 2. Sponsor data approach: Federal staff select a random sample of sponsoring organizations and from each use a random selection of the sponsor's monitoring visits of FDCHs. Both approaches compare the number of participants observed during a monitoring visit to the average number of meals claimed for reimbursement for the meal or snack closest to the time of the visit. FNS pilot tested both approaches in conjunction with the CCAP reviews in FY 2007. The pilot sample size included approximately 220 FDCHs. Data collection has been completed and results will be reported in the FY 2008 PAR. FNS has contracted with Mathematica Policy Research, Inc. (MPR) to evaluate the feasibility of four different data collection methods for validating family daycare homes (FDCHs) meal reimbursement claims. FNS is currently reviewing the results of MPR's pretest of the four possible data collection methods. The next step is for MPR to conduct a pilot test of the data collection method(s) which are perceived to have the greatest likelihood of producing valid comparison between the true number of reimbursable meals and the number claimed by FDCHs for reimbursement. Results of MPR's evaluation will be available in FY 2008.

FSA	Milk Income Loss Contract Program (MILC)	The three most significant causes for payments being identified as improper were as follows: • Information on the contract does not support payment eligibility. • Payment is based on incorrect production. • Payee's share is incorrect. Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. Broad Scope Actions Taken: • FSA is making every effort to lower the improper payment rate and to reduce program weaknesses contributing to improper payments. Regardless of the reasons improper payments are made, FSA is taking the issue of improper payments very seriously. • The Agency has taken actions to correct its deficiencies in many areas and has incorporated the priority of reducing improper payments into its strategic planning document. • The FSA Administrator has personally participated in an online training module on performance and accountability. The presentation explains the importance of managing payments, the impact of the improper payment results from FY 2006, and how every employee within FSA is accountable for doing their share in reducing improper payment. b. Actions Already Taken that Impact All Causes of Improper Payments Identified: • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training will be delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-side learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Beginning in December 2006, FSA required COF employees to re-check eligibility for every MILC applicant to verify and ensure that all MILC applicants met all eligibility requirements before the application is approved. After eligibility is verified for a MILC applicant, COF employees are required to complete a processing checklist before disbursing payment to the eligible applicant. The payment processing checklist requires the COF employee to certify that they reviewed production evidence against the data entered in the eMILCX automated software application and that a second party review was completed before each monthly payment is issued to the producers in a dairy operation. Both the eligibility checklist and the MILCX checklist address the primary reasons for improper payments for the MILC program; payment based on incorrect production and information on contract does not support payment eligibility. County Executive Directors and a State Committee Designee are required to randomly spot check checklists to ensure they are completed. c. Actions that Will be Taken that Impact All Causes of Improper Payments Identified: • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 MILC Review including established policy and procedure references for each finding. • Based on sample results, amend the CCC-770 MILCX checklist, as appropriate, to ensure that COFs are reminded of the necessary policies and steps for program compliance. • Re-enforce current MILC policies regarding program policy and compliance through issuance of National notices to State and COF personnel. Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and county staff may need to assist in facilitating compliance controls. • FSA implemented a new compliance review process for Fiscal Year 2007. The new compliance review spot check process will allow FSA to conduct a more meaningful and comprehensive sport check/compliance review and utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as a result of a spot check.

		• Clarification amendments have been made to 11-D, in addition to answering questions received from COF employees pertaining to completing spot checks and implementing new corrections functionality in the eMILCX automated software released May 16, 2007. COC Dairy Operation Reconstitution Reviews – A dairy operation that reorganizes or restructures the constitution or makeup of their operations into another organization framework is subject to a review by FSA to determine legitimacy. This ensures that dairy operations reorganize according to State requirements for a single dairy operation so that payments are not issued to multiple dairy operations erroneously.
FSA	Loan Deficiency Payments (LDP)	The three most significant causes for payments being identified as improper were as follows: • The LDP quantity is not supported by a producer certification, measurement service, warehouse receipt, or other acceptable production evidence. Late payment interest was not paid. • The LDP application was not on file. Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. <u>Broad Scope Actions Taken:</u> See the actions described in the Marketing Assistance Loan Program (MAL) shown above. The same actions apply to this program. b. <u>Actions Already Taken that Impact All Causes of Improper Payments Identified:</u> The actions taken were completed late in FY 2006 or early FY 2007 so would have their impact on the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Issued various National Notices to State and COFs providing them with instructions related to training, proper processing of payments, and the new checklist for processing loans. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Developed a new checklist, the CCC-770 LDP/eLDP, LDP/eLDP Checklist, for COF employees to use. By completing the CCC-770 LDP/eLDP, the COF employee is certifying that the applicable program provisions have, or have not been met. Handbook 8-LP was amended on December 13, 2006, to include policy that a CCC-770 MAL or CCC-770 LDP/eLDP must be completed before a loan or LDP is issued. c. <u>Actions That Will be Taken that Impact All Causes of Improper Payments Identified:</u> • FSA is implementing a new compliance review process for the 2007 crop year. The new compliance spot check review process will allow FSA to (1) conduct a more meaningful and comprehensive spot check/compliance review and; (2) utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as result of a spot check. • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 LDP Statistical Sample including established policy and procedure references for each finding. • Based on sample results, amend the CCC-770 LDP/eLDP checklist, as appropriate, to ensure that COFs are reminded of the necessary policies and procedures for program compliance.

		• Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and county staff may need to assist in facilitating compliance to controls. • Re-enforce current program policies regarding program compliance through the issuance of National notices to State and COF personnel. • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls. • Enhance current financial systems and security issues in order to use Treasury Offset Program System to verify Debt Collection Improvement Act compliance.
FSA	Direct and Counter-Cyclical Payments (DCP)	The results of DCP's FY 2007 statistical sample of improper payments were based on FY 2006 DCP payment data. DCP's FY 2007 sample results indicate that the most significant error for FY 2006 DCP payments was that the payee's interest in base acres on the farm did not support the claimed payment share. Actions taken or that will be taken to reduce the weakness identified are as follows: a. <u>Broad Scope Actions Taken:</u> See the actions described in the Marketing Assistance Loan Program (MAL) shown above. The same actions apply to this program. b. <u>Actions Already Taken that Impact Situations where the Payee's Interest in Base Acres on the Farm Did Not Support the Claimed Payment Share:</u> The actions taken were completed late in FY 2006 or early FY 2007 so the impact would not be realized until review of the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. Developed a new checklist, the CCC-770 DCP, DCP Contract Checklist, for COF employees to use. By completing the CCC-770 DCP, the COF employee is certifying that the applicable program provisions have, or have not, been met. Handbook 1-DCP was amended on December 11, 2006, to include policy that a CCC-770 DCP must be completed before DCP payment is issued. c. <u>Actions That Will be Taken that Impact Situations where the Payee's Interest in Base Acres on the Farm Did Not Support the Claimed Payment Share:</u> • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 DCP Statistical Sample including established policy and procedure references for each finding. • Based on sample results, amend the CCC-770 DCP checklist, as appropriate, to ensure that COFs are reminded of the necessary policies and procedures for program compliance. • Re-enforce current program policies regarding program compliance through the issuance of National notices to State and COF personnel. • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls. • If possible, develop automated tools to assist COF staff with the identification of problematic situation.

FSA	Conservation Reserve Program (CRP)	The three most significant causes for payments being identified as improper ere as follows: • Incorrect payment rates. • Performance not certified on an AD-862 (Practice Certification) • Compliance not certified on a FSA-578 (Report of Acreage) or CRP-817U (Certification of Compliance for CRP) Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. <u>Broad Scope Actions Taken:</u> See the actions described in the Marketing Assistance Loan Program (MAL) shown above. The same actions apply to this program. b. <u>Actions Already Taken that Impact All Causes of Improper Payments Identified:</u> The actions taken were completed late in FY 2006 or early FY 2007 so the impact would not be realized until review of the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Issued various National Notices to State and County Offices providing them with instructions related to training, proper processing of payments, and the new checklist for processing loans. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Developed a new checklist, the CCC-770-CRP, which is the CRP Contract Approval and Payment Checklist, for COF employees to use. By completing the CCC-770-CRP, the COF employee is certifying that the applicable program provisions have, or have not been met. Handbook Agricultural Resource Conservation Program, 2-CRP (Revision 4), Amendment 10, paragraph 7 was revised on December 13, 2006, to include provisions for CCC-770 CRP. Additionally, subparagraphs 253, A-B, 372 B-E and 496 A have been amended to update provisions for CCC-770 CRP. Exhibit 26 has been amended to include a revised copy of CCC-770 CRP. The CCC-770-CRP is a tool for employees to use to confirm that all necessary requirements for payment readiness have been completed before payment is issued. The CCC-770 form was developed to reduce COR findings and improper payments. c. <u>Actions That Will be Taken that Impact All Causes of Improper Payments Identified:</u> • FSA is implementing a new compliance review process for the 2007 crop year. The new compliance spot check review process will allow FSA to (1) conduct a more meaningful and comprehensive spot check/compliance review and; (2) utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as result of a spot check. • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 CRP Statistical Sample including established policy and procedure references for each finding.

		• Based on sample results, amend the CCC-770-CRP checklist, as appropriate, to ensure that COFs are reminded of the necessary policies and procedures for program compliance. • Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and COF staff may need to assist in facilitating compliance to controls. • Re-enforce current program policies regarding program compliance through the issuance of National notices to State and COF personnel. • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls. • Continuation of training efforts related to improper payments for field personnel to educate them on the importance of control procedures as well as the potential risks of noncompliance. The conservation training will consist of two levels and will be conducted through out FY 2008; and beyond if needed. The following criteria is being used by CEPD to identify the level of training needed: **Basic Course:** This course is strongly recommended for State Office personnel with less than 5 years of State Office Conservation Reserve Program (CRP) experience who possess the basic knowledge, skills, and abilities to administer CRP. The participant will elevate their basic level of understanding of CRP policy and procedures, raising their performance level through practical exercises, case studies, and examples. In order to provide some very efficient CRP training, the Conservation and Environmental Programs Division will survey State Office program knowledge of CRP policies and provisions. **Advanced Course:** This course is designed for State Office personnel with 5 years or more of State Office CRP experience that wish to elevate their level of quality for managing and understanding of the CRP within their state. This course will provide advanced CRP policy and procedure training in addition to in-depth area specific training for experienced State Office Conservation personnel. d. <u>Actions That Will be Taken that Impact the Incorrect Payment Rates:</u> • Enhancing existing web-based software and retiring legacy systems in order to more closely tie all program payments to a single contract file. This migration will reduce the potential that contract payment documents and records will contain inconsistent or out-of-date information. (See Section 7 for delivery schedule). • Requiring COF with potential improper payments identified to review the payment and determine if the payment was proper had the procedures been followed. If not, the COF will be required to establish a receivable, and take action to recover the overpayment, and afford appropriate appeal rights.
FSA	Miscellaneous Disaster Programs (CDP)	The results of Miscellaneous Disaster Programs FY 2007 Statistical Sample for improper payments were based on FY 2006 payment data for the following programs: • Crop Disaster Program • Livestock Assistance Program • Crop Disaster Program – VA • Tree Assistance Program – Orchard • Hurricane Indemnity Program • Florida Nursery • Feed Indemnity Program • Feed Program – American Indian • Florida Citrus • TAP – Timber • Florida FAV Disaster

		• TAP – Pecan Producers • Tree Indemnity Program. It is important to note that none of these are permanent programs. Therefore, each fiscal year's payment data represents different disaster response programs based on authorities provided by legislation passed by the Congress. For Miscellaneous Disaster Program, the four most significant causes for payments being identified as improper in the statistical sample were as follows: • Payment amount is incorrect. • Information on disaster application does not support payment. • Required acreage report is not on file. • Late payment interest is not paid or the amount paid was incorrect. Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. Broad Scope Actions Taken: • FSA is making every effort to lower the improper payment rate and to reduce program weaknesses contributing to improper payments. Regardless of the reasons improper payments are made, FSA is taking the issue of improper payments very seriously. • The Agency has taken actions to correct its deficiencies in many areas and has incorporated the priority of reducing improper payments into its strategic planning documents. • The FSA Administrator has personally participated in an online training module on performance and accountability. The presentation explains the importance of managing payments, the impact of the improper payment results from FY 2006, and how every employee within FSA is accountable for doing their share in reducing improper payments. b. Actions Already Taken that Impact All Causes of Improper Payments Identified: The actions taken were completed late in FY 2006 or early FY 2007 so the impact would not be realized until review of the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. c. Actions That Will be Taken that Impact All Causes of Improper Payments Identified: • Provide a Notice to State and COFs providing the detail findings discovered during the FY 2007 Miscellaneous Disaster Programs Statistical Sample including established policy and procedure references for each finding. • Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and COF staff may need to assist in facilitating compliance to controls. • Re-enforce current disaster programs' policies regarding program compliance through the issuances of National notices to State and COF personnel. • In September 2007, the National Office will hold the 2005-2007 Crop Disaster Program National Training for State and COF employees. Training will provide State and COF personnel with program policy and procedure, impacts of improper payments, and include software training.

		• Based on the FY 2007 Miscellaneous Disaster Programs Statistical Sample results, the National Office will develop a Checklist for the 2005-2007 Crop Disaster Program or any other new disaster program being implemented, if determined necessary. • FSA implemented a new compliance review process for the 2007 crop year. The new compliance spot check review process will allow FSA to (1) conduct a more meaningful and comprehensive spot check/compliance review and; (2) utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as a result of a spot check.
FSA	Noninsured Assistance Program (NAP)	The six most significant causes for payments being identified as improper were as follows: • Incorrect total production used to calculate payment • Unit's yield is not properly calculated • Acceptable production evidence is not filed when required • Notice of loss not timely filed • Information on the payment application does not support the payment • Notice of loss does not support the payment. Actions taken or that will be taken to reduce the weaknesses identified are as follows: a. <u>Broad Scope Actions Taken:</u> See the actions described in the Marketing Assistance Loan Program (MAL) shown above. The same actions apply to this program. b. <u>Actions Already Taken that Impact All Causes of Improper Payments Identified:</u> The actions taken were completed late in FY 2006 or early FY 2007 so the impact would not be realized until review of the FY 2007 payment activity. The FY 2007 payment activity will be sampled as part of the FY 2008 review cycle. • Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance. Training was delivered through various means including in person and via Ag Learn, a Department of Agriculture enterprise-wide learning management system, and is being followed up with communications and job aid to help facilitate compliance controls. • Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating. • Issued various National Notices to State and County Offices providing them with instructions related to training, proper processing of payments, and the new checklist for processing loans. • Developed a new checklist, the CCC-770-NAP, Noninsured Crop Disaster Assistance Program Payment Checklist, for County Office employees to use. By completing the CCC-770-NAP, the County Office employee is certifying that the applicable program provisions have, or have not been met. Handbook 1-NAP was amended on December 11, 2006, to include policy that a CCC-770-NAP Checklist must be completed before a payment is issued. c. <u>Actions That Will be Taken that Impact All Causes of Improper Payments Identified:</u> • FSA is implementing a new compliance review process for the 2007 crop year. The new compliance spot check review process will allow FSA to (1) conduct a more meaningful and comprehensive spot check/compliance review and; (2) utilize a better mechanism for reporting spot check results. The new reporting mechanism will allow the National Office to monitor improper payments discovered as result of a spot check. • Provide a Notice to State and County Offices providing the detail findings discovered during the FY 2007 NAP Statistical Sample including established policy and procedure references for each finding.

		• Based on sample results, amend the CCC-770-NAP checklist, as appropriate, to ensure that County Offices are reminded of the necessary policies and procedures for program compliance. • Contact State Office managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the State and county staff may need to assist in facilitating compliance to controls. • Re-enforce current program policies regarding program compliance through the issuance of National notices to State and county office personnel. • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls.
	Wildland Fire Suppression Management	Insufficient documentation was detected in the travel and purchase card management processes and not in the payroll or contractual payment processes. Insufficient documentation included: lost travel vouchers, or just incomplete documentation (for example, some receipts missing for Purchase Card Management System (PCMS) cards). Insufficient documentation did not result in an improper payment. The cause and subsequent correction action plan for insufficient and or improper documentation will be addressed during the OMB A-123 testing Corrective action plans. Several payment processes are used in the Wildland Fire Suppression Fund so control systems vary by process consequently corrective action will vary by process. For PCMS, FS has implemented stricter monitoring over purchase card transactions with monthly audits which should improve documentation problems. In some cases prompt payment interest was not computed correctly because the incorrect log dates were input thereby causing the Foundation Financial Information System to underpay interest to vendors. The Lean Sigma Transaction Processing Initiative should implement new control systems to ensure correct log dates which will improve timely payment and ensure proper computation of prompt payment interest.
RD	Rental Assistance Program	The overall number of errors is less than the prior report, although the combined dollar amount is higher. This year, 19% of the overpayments were attributed to tenant certifications that were either not signed by the tenant or not in the file. This caused the total amount of rental assistance paid to be considered as improper. This accounts for 78% of the overpayments identified. In FY 2006, the overpayments attributed to tenant certifications not signed by the tenant or not in the file was 7%. Corrective actions include: • Errors found in this report must be followed up by Loan Servicers for corrective actions; • State offices, with an error rate of 2% or higher of the total errors, must develop a corrective action plan. The plan will include procedures to train field staff, borrowers and property managers in appropriate required documentation and follow-up with tenants and income-verifiers; • Issue an unnumbered letter to the State Offices regarding the findings from this report. • Management companies, with an error rate of 5% or higher of the total errors, must provide a corrective action plan indicating actions they will undertake to improve internal controls for reviewing tenant file documentation. • The national office will continue to pursue access to the U.S. Department of Health and Human Services new hires data to be shared with State offices. • Add to HB-2-3560, Multi-Family Housing (MFH) Asset Management Handbook, Chapter 6 – Project Occupancy, a check sheet for property management agents to review when verifying assets, income and adjustments to income; • Add to HB-2-3560, MFH Asset Management Handbook, Chapter 6 – Project Occupancy, a check list of required tenant file documentation; and • Develop a “Fact Sheet” for MFH tenants explaining their responsibilities and rights regarding income disclosure and verification.

RMA	Federal Crop Insurance Corporation Program Fund	RMA is in the third year of the three-year review cycle established to determine the improper payment rate for the Federal Crop Insurance Program. The agency identified a lower-than-expected rate in the first round of random sampling, 1.92 % absolute error, and a slightly higher aggregate 2.68% absolute error rate for the 2007 PAR report. Despite these findings, the agency will not have a completed benchmark established until the review of 2006 crop year indemnities has been completed and reported in 2008. The strategy for bringing the error rate down includes identifying error trends and policy concerns, then correcting them. However, in the first 600 policies reviewed no definitive trends, or underlying policy or underwriting issues have become apparent. This is due in part to the diversity of crops being reviewed. This suggests it will be several years before RMA would amass sufficient numbers of samples on any particular crop to draw meaningful comparisons in the error identified. RMA negotiated and executed a new Standard Reinsurance Agreement starting in 2005. That agreement emphasizes improved quality controls and enhanced penalties that together should encourage participating companies who sell and service Federal crop insurance policies to improve the improper payments rate.
NRCS	Conservation Security Program	Causes of improper payments identified in NRCS' risk assessments for Farm Bill programs can be categorized into four areas; statutory compliance, program compliance, eligibility and payment calculation. Findings from prior year audits as they applied to IPIA were incorporated into the review. Specific internal controls resulting from these audits would not have been in effect for its sample period but will be tested once implemented. Participant eligibility was a target area for this year's testing. Specifically, Highly Erodible Land/Wetland Compliance (HEL/WC) and Adjusted Gross Income determinations. ProTracts has automated eligibility determinations for contracts and payments made through that tool by using the Farm Service Agency eligibility data base. NRCS used tax returns and certified accountant statements to verify Adjusted Gross Income. Field personnel perform HEL/WC compliance checks. After reviewing the samples we found a total of 10 improper payments. Documentation issues for program compliance continue to be a source of improper payments. Four of the ten improper payments were related to the inability to produce supporting documentation. Three were due to a lack of documentation to demonstrate control of the land and the fourth was a lack of receipts to support a payment for use of Biofuels. Starting with FY 2005, Conservation Security Program (CSP) payments were initiated through our contracting tool called ProTracts. Business rules and internal controls built into Protracts helped eliminate many of the types of improper payments we found in prior years. This year we tested the internal controls that relate to program documentation, eligibility and payment calculation. We found no instances of errors made by the software for program documentation and eligibility. We did find one payment calculation error due to the rounding routine under certain conditions. The software has been modified to prevent this error in the future. One of the samples was identified by the field as a cross over duplicate payment. The Farm Bill prohibits payments for the same practice from different programs on the same tract of land in the same fiscal year. An external audit issued by the General Accounting Office on CSP dated April 28, 2006 highlighted this issue. Program Management developed a plan to identify possible cross over payments and guidance to collect these duplicate payments. The payment in this sample we selected was made prior to the GAO audit and collection activity had been started. ProTracts now has a business rule edit in place which should prevent this error from happening in the future. The remaining four improper payments were the result of human errors in entering incorrect information into Protracts. These errors were unique and highlight the need for stronger quality assurance testing, training and/or internal controls. We are addressing with Program Leadership adding additional internal control edits in Protracts to prevent them where practical.s The results of this years sampling will be reported to leadership. Action items will be developed including a timeline of milestones and individual responsible for its completion. This information will be passed down to all State offices so that all may benefit from weaknesses found or where improvements can be made. Where specific action is needed to correct an error or where recovery is warranted, the State conservationist will be contacted.

IV. Based on the Rate(s) Obtained in Step III, Set Annual Improvement Targets through FY 2010.

Improper Payment Reduction Outlook FY 2006 – FY 2010

Below is a summary level table for all high risk programs outlining improper payment rates for the last two years and future reduction targets. When a number cannot be provided, an explanation is provided in the notes below. Amounts represent when the sampling results are reported. USDA programs report results the year following sampling activity. For example, results reported during FY 2007 represent measures of FY 2006 outlays and program activity.

Improper Payment Sampling Results ($ in millions)						
	Results Reported in FY 2006			Results Reported in FY 2007		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC [Note #12]	7,950	20.26%	1,611	6,306	7.52%	458
Food Stamp Program, FNS	28,160	5.84%	1,645	29,942	5.99%	1,794
National School Lunch Program, FNS [Note #1]						
Total Program	N/A	N/A	N/A	8,602	16.30%	1,402
Certification Error				8,602	9.42%	810
Counting/Claiming Error				8,602	6.88%	592
School Breakfast Program, FNS [Note #1]						
Total Program	N/A	N/A	N/A	2,086	24.94%	520
Certification Error				2,086	9.15%	191
Counting/Claiming Error				2,086	15.79%	329
Women, Infants and Children, FNS [Note #2]						
Total Program	3,525	N/A	N/A	3,598	N/A	N/A
Certification Error Component	3,525	N/A	N/A	3,598	N/A	N/A
Vendor Error Component	3,525	0.60%	21	3,598	0.69%	25
Child and Adult Care Food Program, FNS [Note #2]						
Total Program	2,065	N/A	N/A	2,187	N/A	N/A
FDC Homes – Tiering Decisions	864	1.80%	16	738	1.69%	12
FDC Homes – Meal Claims	864	N/A	N/A	738	N/A	N/A
Milk Income Loss Contract Program, FSA [Note #3]	9	N/A	N/A	351	2.17%	8
Loan Deficiency Payments, FSA	4,790	9.25%	443	4,071	0.45%	18
Direct and Counter-Cyclical Payments, FSA [Note #12]	8,546	4.96%	424	9,550	0.37%	37
Conservation Reserve Program, FSA [Note #12]	1,815	3.53%	64	1,851	0.45%	9
Miscellaneous Disaster Programs, FSA	2,365	12.30%	291	368	6.76%	25
Noninsured Assistance Program, FSA	109	22.94%	25	64	13.14%	8
Wildland Fire Suppression Management, FS [Note #4]						
Total Program	725	N/A	N/A	1,412	0.95%	13
Component Sampled	285	2.49%	7	N/A	N/A	N/A
Rental Assistance Program, RD [Note #5]	569	3.49%	22	855	3.07%	26
Federal Crop Insurance Corporation Program Fund, RMA	3,206	1.92%	62	2,364	2.68%	63
Conservation Security Program, NRCS [Note #9]	1,375	0.22%	3	227	0.47%	1

Detailed Breakout of Improper Payment Reported in FY 2007							
	Total Payments $ in millions	IP %	Over-Payments %	Under-Payments %	Other %	Incorrect Disbursement %	Incomplete Paperwork %
Marketing Assistance Loan Program, FSA/CCC	6,306	7.52%	7.52%	N/A	N/A	0.39%	7.13%
Food Stamp Program, FNS [Note #6]	29,942	5.99%	4.82%	1.17%	N/A	5.99%	N/A
National School Lunch Program, FNS [Note #1and #6]	8,602	16.30%	12.36%	3.93%	N/A	16.30%	N/A
School Breakfast Program, FNS [Note #1and #6]	2,086	24.94%	21.52%	3.42%	N/A	24.94%	N/A
Women, Infants and Children, FNS [Note #6]	3,598	0.69%	0.24%	0.45%	N/A	0.69%	N/A
Child and Adult Care Food Program, FNS [Note #6]	738	1.69%	1.67%	0.02%	N/A	1.69%	N/A
Milk Income Loss Contract Program, FSA [Note #7]	351	2.17%	1.73%	0.44%	N/A	2.13%	0.04%
Loan Deficiency Payments, FSA	4,071	.45%	.43%	.02%	N/A	0.45%	N/A
Direct and Counter-Cyclical Payments, FSA	9,550	0.37%	0.37%	N/A	N/A	0.37%	N/A
Conservation Reserve Program, FSA	1,851	0.45%	0.23%	0.22%	N/A	0.23%	0.22%
Miscellaneous Disaster Programs, FSA [Note #7]	368	6.76%	5.07%	1.69%	N/A	6.02%	0.74%
Noninsured Assistance Program, FSA	64	13.14%	10.97%	2. 17%	N/A	12.41%	0.74%
Wildland Fire Suppression Management, FS	1,412	0.95%	0.29%	0.09%	0.57%	0.38%	0.57%
Rental Assistance Program, RD	855	3.07%	2.42%	0.65%	N/A	1.92%	1.16%
Federal Crop Insurance Corporation Program Fund, RMA	2,364	2.68%	2.64%	0.04%	N/A	2.68%	N/A
Conservation Security Program, NRCS	227	0.47%	0.47%	0.00%	N/A	0.23%	0.24%
Total	72,385	6.11%	4.99%			5.47%	0.64%

Improper Payment Reduction Outlook ($ in millions)									
Program	FY 2008 Reporting			FY 2009 Reporting			FY 2010 Reporting		
	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	10,660	7.00%	746	8,749	5.00%	438	9,119	2.50%	228
Food Stamp Program, FNS [Note #6]	30,376	5.80%	1,762	31,351	5.70%	1,787	31,961	5.60%	1,790
National School Lunch Program, FNS [Note #1and #6]	8,761	TBD	TBD	9,115	TBD	TBD	TBD	TBD	TBD
School Breakfast Program, FNS [Note #1and #6]	2,226	TBD	TBD	2,371	TBD	TBD	TBD	TBD	TBD
Women, Infants and Children, FNS [Note #6]	4,158	0.64%	27	4,093	0.59%	24	TBD	TBD	TBD
Child and Adult Care Food Program, FNS [Note #6]	702	1.64%	12	725	1.59%	12	TBD	TBD	TBD
Milk Income Loss Contract Program, FSA [Note #7]	200	2.00%	4	N/A	N/A	N/A	N/A	N/A	N/A
Loan Deficiency Payments, FSA	189	0.50%	1	149	0.50%	1	33	0.50%	1
Direct and Counter-Cyclical Payments, FSA [Note #10]	6,899	0.41%	28	6,293	0.41%	26	6592	0.41%	27
Conservation Reserve Program, FSA [Note #11]	1,890	0.50%	10	1,926	0.50%	10	1,879	0.50%	9
Miscellaneous Disaster Programs, FSA [Note #7]	1,496	5.00%	75	1,403	3.50%	49	N/A	N/A	N/A
Noninsured Assistance Program, FSA	154	10.00 %	15	325	5.00%	16	325	2.50%	8
Wildland Fire Suppression Management, FS	1,410	.90%	13	1,406	0.85%	11	1,500	0.80%	9
Rental Assistance Program, RD	888	3.00%	27	924	2.90%	27	961	2.80%	27
Federal Crop Insurance Corporation Program Fund, RMA [Note #8]	3,421	3.80%	130	3,500	3.70%	130	3,500	3.60%	126
Conservation Security Program, NRCS [Note #9]	272	0.40%	1	388	0.30%	1	496	0.20%	1

Note #1: The NSLP and SBP are reporting error rates for the first time in the FY 2007 report based on the 2005-2006 school year. The study methodology derived separate estimates of erroneous payments from each source of error for the NSLP and SBP. Interaction between sources of error can affect the actual erroneous payment that results from any single transaction in the two programs. The estimate of erroneous payments for each source is the error that would result if the other sources were free of error. Adding the certification error and non-certification error erroneous payments estimates together tends to inflate the overall estimate; therefore, this combined estimate should be considered an upper bound of an overall estimate of payment error for the NSLP and SBP.

Note #2: WIC and CACFP tested components of their total program. WIC tested a component of the payment process on a sample of all outlays. CACFP tested a component of the payment process of a component of the total outlays. FNS intends to report a WIC certification error in FY 2009.

Note #3: MILC was not tested in FY 2006 due to very low outlays during FY 2005. Testing resumed in FY 2007 reviewing outlays during FY 2006. MILC expires, September 30, 2007. Thus, no outlays are expected beyond FY 2007.

Note #4: The entire Wildland Fire Suppression Management program was sampled for the FY 2007 report, including payroll, travel and purchase card transactions. For FY 2005 and FY 2006, only the portion of the program related contract payments were sampled.

Note #5: For FY 2007 reporting, the Rental Assistance statistical sample is based on the entire FY 2006. The FY 2006 results were based on a partial sample period September 1, 2005 to May 31, 2006. The results reported in both FY 2006 and FY 2007 contain eight months of overlapping FY 2006 outlays.

Note #6: The NSLP and SBP are reporting error rates for the first time in FY 2007. Since the study results were recently announced, FNS is just beginning to address NSLP and SBP reduction targets for FY 2008 and FY 2009. FNS will provide OMB the NSLP and SBP reduction targets with the next few months. The only FNS program with a reduction target available for FY 2010 is the Food Stamp program. Other FNS programs will develop FY 2010 estimated outlay projections and reduction targets as part of the FY 2010 budget process. Corrective action plans were developed for these programs addressing the causes and identifying initiatives to reduce improper payments.

Note #7: The program currently is not authorized in FY 2009 and does not have any estimated outlays.

Note #8: RMA has completed the second year of a three year testing cycle. In FY 2008, RMA will report the third year of a thee year cycle and provide more informed out-year projections for FY 2009, FY 2010 and FY 2011.

Note #9: The Conservation Security program is one of six Farm Security and Rural Investment (Farm Bill) programs. For FY 2006, all Farm Bill programs were reviewed. For FY 2007, only the Conservation Security program was sampled. For the FY 2008 review, USDA added all Farm Bill programs due to concerns over eligibility data. Those programs will remain as part of the review process until the concerns are mitigated or the improper payments statistical results are proven to be below the high risk standards.

Note #10: Current program authority for the Direct & Counter-Cyclical program ends September 30, 2007. Future reduction target rates assume current program policies and procedures will continue in effect. It is anticipated that program policies and procedures will change due to new Farm Bill proposals under consideration. The impact of those changes is unknown and affect on improper payment rates cannot be estimated a this time. Until all proposals are finalized and the Farm Bill is signed into law, future performance targets are being based on assumption that current program polices and procedures are continuing.

Note #11: Current program authority for the Conservation Reserve program ends December 31, 2007. Future reduction target rates assume current program policies and procedures will continue in effect. It is anticipated that program policies and procedures will change due to new Farm Bill proposals under consideration. The impact of those changes is unknown and affect on improper payment rates cannot be estimated at this time. Until all proposals are finalized and the Farm Bill is signed into law, future performance targets are being based on the assumption that current program polices and procedures are continuing.

Note #12: The FY 2007 estimated improper payment dollar amounts for the Marketing Assistance Loan program, Direct & Counter-Cyclical Payments and the Conservation Reserve program reflect a slight variance from the relationship between the improper payment percentage and the outlays amount. These variances result

from the complex, multi-stage statistical sampling methodology used to calculate the independent projections of the dollars/percentages in error. The variances are not an attribute measurement, but rather a complex ratio estimate weighted with respect to the payments within their applicable county stratification.

V. Discussion of your Agency's Recovery Auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business changes and internal controls instituted and/or strengthened to prevent further occurrences.

In addition, complete the table below.

USDA continued its recovery audit program with seven agencies in FY 2007. All agencies used independent recovery audit firms working on contingency.

Steps taken to reduce future errors include strengthening internal controls by providing information related to all recovered monies and the underlying transactions to management. The most successful method of identifying funds to be recovered has been the review of vendor statements. Most amounts identified during FY 2007 were due to the vendor statements reviews started in FY 2006.

FY 2007 Recovery Auditing Results ($ in Million)

Agency Component	Amount Subject to Review for FY 2007 Reporting	Actual Amount Reviewed and Reported	FY 2007 Amounts Identified for Recovery	FY 2007 Amounts Recovered	Prior Years Amounts Identified for Recovery	Prior Years Amounts Recovered	Cumulative (Current & Prior Years) Amounts Identified for Recovery	Cumulative (Current & Prior Years) Amounts Recovered
Forest Service	1,207.115	1,207.115	0.131	0.071	.338	0.353	.469	0.424
Natural Resources Conservation Service	830.732	830.732	0.026	0.026	0.000	0.000	0.026	0.026
Agricultural Research Service	457.351	457.351	0.000	0.000	0.000	0.000	0.000	0.000
Animal Plant Health Inspection Service	439.600	439.600	0.000	0.000	0.374	0.374	0.374	0.374
Farm Service Agency	114.087	114.087	0.047	0.047	0.000	0.000	0.047	0.047
Food Safety and Inspection Service	34.985	34.985	0.000	0.000	0.000	0.000	0.000	0.000
Rural Development	66.899	66.899	0.000	0.000	0.000	0.000	0.000	0.000
Agricultural Marketing Service	32.176	32.176	0.002	0.002	0.000	0.000	0.002	0.002
All Others	2,083.754	0.000	0.000	0.000	N/A	N/A	N/A	N/A
USDA Total	5,266.699	3,182.945	0.206	0.146	.712	0.727	.918	0.873

VI. Describe the steps the agency has taken and plans to take (including time line) to ensure that agency managers (including the agency head) are held accountable for reducing and recovering improper payments.

FSA

The following are steps that have or will continue to be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

The National Office will continue supporting the use of the program checklists for eligibility and program policy by local offices processing program applications. By completing the program Checklists, the County Office (COF) employee is certifying that the applicable program provisions have, or have not been met. The County Executive Director (CED) and State Committee (STC), or their designated representative, are required to spot check a certain number of program checklists. The CED, or their designated representative, must report to County Office Committee (COC) and the STC representative any checklists in which CED does not concur with the preparer's determination. The STC, or their designee, shall submit the results of the spot checks to the (State Executive Director (SED). SEDs are required to provide the National Office with a report of FSA programs spot checked.

- 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 SED Performance Plan, element 5 titled "Program Management."
- National and State Office (STO) managers are held accountable for ensuring that program policies and procedures are provided to the STO and 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. FSA employees' performance elements are directly related to FSA's Strategic Plan.
- COF employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans.
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.
- Employees at all levels of the Agency will be held accountable for efficient and accurate delivery of all FSA programs.

FNS

An agency priority is to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high risk for erroneous payments. The goal for the Food Stamp Program, Special Supplemental Nutrition Program for Women Infants and Children, and Child and Adult Care Food Program is to reduce the error rates. The agency goals and priorities are incorporated into each manager's performance plan.

FS

The entire Albuquerque Service Center management team is held accountable by performance metrics that include compliance with the Improper Payments Information Act. Additionally, the agency chief financial officer will provide disbursement performance information to the agency head as part of the performance appraisals for senior leadership.

RD

RD State Offices with an error rate of two percent or higher must develop a corrective action plan. The plan will include procedures to train field staff, borrowers and property manager in appropriate required documentation and follow-up with tenants and income-verifiers.

RMA

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

NRCS

NRCS has incorporated all of PMA's goals and objectives, including IPIA, in the performance standards for all senior executive service positions. These also are planned to be included in the regional assistant chiefs and state conservationist performance plans.

VII A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

VII B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2007 budget submission to Congress to obtain the necessary information systems and infrastructure.

While USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. USDA has worked closely with OMB to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.

FSA/CCC

The Department of Agriculture Reorganization Act of 1994, Section 281 provides that "[E]ach decision of a State, county, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This statue commonly is referred to the "Finality Rule."

FNS

The 2002 Farm Bill restricts the liability levels States can be sanctioned due to high error rates. It also restricts the amount of bonus funding available to States that do a good job reducing and maintaining a low error rate. In many instances the goal of providing easy access to benefits must be balanced with the goal of reducing improper and erroneous payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is decentralized and can involve a myriad of governmental and non-governmental organizations;
- States and localities tend to focus on managing local funds, rather than Federal funds; and
- Proper implementation of nutrition assistance programs requires a high degree of accuracy.

RD

The RD program does not have the statutory requirements similar to the Department of Housing and Urban Development to gain access to data from the Department of Health and Human Service's New Hire Database, Internal Revenue Service, Social Security Administration, and the Department of Labor to be shared with field offices and management agents.

IX Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges as a result of IPIA implementation.

Under the Recovery Auditing Act (P.L. 107-107), USDA agencies listed in Section V. of this report engaged recovery auditing firms to perform recovery auditing reviews of contracts to identify improper payments. One recovery auditing firm, as part of its 2006 review process, sent a form letter to vendors requesting information in an effort to help identify and recover improper payments. Without a prior Federal Register notice, solicitation of comments and assessment of the information collection burden, such a letter to vendors raised concerns whether or not the process is subject to the provisions of the Paperwork Reduction Act. For future years, USDA will request recovery auditing firms to not sent form letters to vendors but solely rely on the review of documentation provided by USDA to perform the improper payments reviews.

USDA has no additional comments.

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Appendix D—Acronyms

ACSI – American Customer Satisfaction Index

AETI – Agribusiness Education, Training and Incubator Project

AFB – American Foul Brood

AGOA – African Growth and Opportunity Act

AHMS – Animal Health Monitoring and Surveillance

AI – Avian Influenza

AKI – Agricultural Knowledge Initiative

ALB – Asian Longhorned Bettle

AMP – Asset Management Plan

ANNH – Alaska Native-Serving and Native Hawaiian-Serving Institutions Education Grants Program

ART – Account Relationship Tool

ARS – Agricultural Research Service

ASB – Agricultural Statistics Board

ATS – Automated Targeting System

B&I – Business and Industry

BBP – Building Block Plans

BSE – Bovine Spongiform Encephalopathy

CCD – Collapsing Colony Disorder

CDC – U.S. Centers for Disease Control and Prevention

CDL – Cropland Data Layers

CEM – Contagious Equine Metritis

CHRP – Citrus Health Response Plan

CIA – Conjugated Inoleic Acid

CIMS – Comprehensive Information Management System

CNMP – Comprehensive Nutrient Management Plans

CPI – Consumer Price Index

CRP – Conservation Reserve Program

CSFP – Commodity Supplemental Food Program

CSREES – Cooperative State Research, Education and Extension Service

CTA – Conservation Technical Assistance Program

CWPP – Community Wildlife Protection Plans

CYFAR – Children, Youth, and Families at Risk Program

ERS – Economic Research Service

ERS – Enterprise Reporting System

EU – European Union

FACTS – Forest Service Activity Tracking System

FAD – Foreign Animal Disease

FB4P – Federal Biobased Products Preferred Procurement Program

FDPIR – Food Distribution Program on Indian Reservation

FFIS – Foundation Financial Information System

FFMIA – Federal Financial Management Improvement Act

FISMA – Federal Information Security Management Act

FLP – Farm Loan Programs

FMMI – Financial Management Modernization Initiative

FRPC – Federal Real Property Council

FS – Forest Service

FS R&D – Forest Service Research and Development

FSA – Farm Service Agency

FSA – Food Safety Assessment

FSP – Food Stamp Program

FSRE – Food Safety Regulatory Essentials

FSRIA – Farm Security and Rural Investment Act of 2002

FTA – Free Trade Agreement

FTE – Full-Time Employee

FY – Fiscal Year

GAO – Government Accountability Office

GE – Genetically Engineered

GIS – Geographic Information System

GPS – Global Positioning System

GWSS – Glassy-winged Sharpshooter

HACCP – Hazard Analysis and Critical Control Point

HFI – Healthy Forest Initiative

HFRA – Healthy Forest Restoration Act

DA – The Department of Agriculture of the Philippines

DDG – Distiller Grain

DHS – The United States Department of Homeland Security

DOI – United States Department of the Interior

DR – Dominican Republic/*

DR-CAFTA – Dominican Republic-Central American Free Trade Agreement

EA – Enterprise Architecture

EAB – Emerald Ash Borer

ECMM – Enterprise Correspondence Management Module

EDI – Electronic Data Interchange

EFCRP – Emergency Forestry Conservation Reserve Program

EFNEP – Expanded Food and Nutrition Education Program

EFT – Electronic Funds Transfer

END – Exotic Newcastle Disease

EPP – Emerging Plant Pest

EPPO – European & Mediterranean Plant Protection Organization

EQIP – Environmental Quality Incentives Program

HSDP-9 – Homeland Security Presidential Directive 9

IAER – Iraq Agricultural Extension Revitalization Project

IGP – IT Governance Process

IPIA – Improper Payments Information Act

IPPC – International Plant Protection Center

IS – Information System

IT – Information Technology

Lm – Listeria Monocytogenes

LSTP – Lean Six Sigma Transaction Process

MID-SIPP – Monthly Income Dynamics, Survey of Income and Program Participation

MIDAS – Modernize and Innovate the Delivery of Agricultural Systems

MITS – Management Initiatives Tracking System

MOA – Memorandum of Agreement

NAFTA – North American Free Trade Agreement

NAHSS – National Animal Health Surveillance System

NAIS – National Animal Identification System

NAP – Noninsured Crop Disaster Assistance Program

NCP – National Conservation Planning Database

NDB – National Data Bank

NITC – National Information Technology Center

NPP – National Posted Price

NRI – National Research Institute

NSLP – National School Lunch Program

NVAP – National Veterinary Accreditation Program

NVSL – National Veterinary Services Laboratories

OCFO – Office of the Chief Financial Officer

OEPNU – Office of Energy Policy and New Uses

OIE – World Organization of Animal Health

OIG – Office of the Inspector General

OMB – United States Office of Management and Budget

OPM – Office of Personnel Management

PART – Program Assessment Rating Tool

PBIS – Performance-Based Inspection System

PC – Plum Curculio

PEIS – Program Evaluation and Improvement Staff

PHDCIS – Public Health Data Communication Infrastructure Systems

PHICP – Public Health Information Consolidation Projects

PMA – President's Management Agenda

PRA – Pest Risk Assessment

ProTacts – Program Contracts System

PRS – Performance Results System

PRT – Provincial Reconstruction Team

QC – Quality Control

R&D – Research and Development

RND – Results Not Demonstrated

RTE – Ready to Eat

SAM – State Agency Model

SBP – School Breakfast Program

SCN – Soybean Cyst Nematode

SEBAS – Socio-Economic Benefit Assessment System

SOD – Sudden Oak Death

SPOTS – Strategic Placement of Treatments

SPS – Sanitary and Phytosanitary

SSA – Sub-Saharan African

TANF – Temporary Assistance to Needy Families

TFP – Thrifty Food Plan

TPA – Trade Policy Authority

TRQ – Tariff Rate Quota

TSC – Technical Service Center

USDA – United States Department of Agriculture

USTR – United States Trade Representative

VENA – Value-Enhanced Nutrition Assessment

WFP – World Food Program

WIC – Special Supplemental Nutrition Program for Women, Infants and Children

WRP – Wetland Reserve Program

WTO – World Trade Organization