United States Department of Agriculture

2011 Performance and Accountability Report

This Performance and Accountability Report (PAR) can be downloaded at www.usda.gov. From there, click on "About USDA." The U.S. Department of Agriculture (USDA) can be contacted through the same Web site by clicking "Contact Us."

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

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Message from the Secretary

In fulfillment of its duty to the people, the President, and Congress, the U.S. Department of Agriculture (USDA) respectfully submits this *Fiscal Year (FY) 2011 Performance and Accountability Report*.

Recent budget challenges and efforts to stabilize the long-term financial health of the Nation have caused uncertainty and concern. As a country, we face important choices regarding the funding and operation of our Government.

As we approach USDA's 150th anniversary, the opportunity to build a better and stronger Department is before us. In that spirit, I have asked my fellow leaders at USDA to undertake a review of our operations to identify ideas, improvements, and innovation to manage this coming change. As part of this review, USDA leaders will be engaging employees and unions to help shape an outcome for the betterment of the entire Department. We can manage these challenges and strengthen our service. When we do, we will complete USDA's Cultural Transformation into a modern and trusted partner in the lives and well-being of the American people.

USDA continues to empower and revitalize farms, ranches, and U.S. rural communities. One of the primary ways that the Department supports rural communities is through increased exports and market access. Agriculture is one of the few sectors in the U.S. economy in which exports are creating a positive trade balance. Moreover, agricultural exports continue to grow, increasing by an average of 11 percent per year over the last 5 fiscal years (FY 2007–FY 2011). However, U.S. agricultural producers and small and medium enterprises face an increasingly challenging, technologically advanced, and competitive business environment. USDA works to ensure that they are prosperous and competitive by supporting innovative research and their access to international markets through market development programs, trade shows, prevention and resolution of unjustified Technical Barriers to Trade (TBT) and market-expanding trade agreements for U.S. agricultural products. The Department is participating in World Trade Organization multilateral committee meetings as well as negotiating new trade agreements to increase U.S. agricultural trade.

This year has been very beneficial to agricultural exports. USDA worked closely with the United States Trade Representative to gain approval for three free trade agreements. Once implemented, these agreements are expected to expand exports. The Department resolved numerous unjustified trade barriers and expanded U.S. opportunities in markets associated with Indonesian grain; Chilean and Egyptian meat; Algerian dairy products; Vietnamese horticulture. The Department also helped bring about Saudi Arabia's removal of a ban on food coloring and the opening of the western Australian market to U.S. cherries.

U.S. agricultural exports reached an all-time high of $137.4 billion in fiscal year (FY) 2011, which is a 27 percent increase over 2010. USDA will continue to facilitate trade for U.S. food and agricultural products with the ultimate goal of creating jobs and U.S. economic growth.

USDA also looked at new efforts—and at streamlining and targeting work—to conserve the Nation's forests, farmlands, and watersheds. USDA also worked closely with other agencies in launching the President's America's Great Outdoors initiative designed to reconnect Americans to the outdoors and establish a 21st century conservation agenda.

Examples of USDA's conservation work in this regard include the following:

- Committed more than $100 million to restoring the Everglades by developing conservation contracts on 44,000 acres and enrolling more than 23,000 acres of private lands in conservation easements through targeted use of the Wetlands Reserve Program;
- Released the first-ever National Watershed Condition Framework for the National Forest System and completed an assessment of condition class for 15,000 sub-watersheds; identified priority watersheds on all National Forests and initiated Watershed Action Plans for priority watersheds;
- Worked across 11 western states to restore habitat for the sage grouse, a bird proposed for the federal endangered species list, by providing $94 million to help landowners restore habitat and to purchase easements; participating landowners are assured that, if the sage grouse is added to the list, they won't be subject to additional regulation.
- Protected 149,000 acres in 14 States through the Forest Legacy Program, leveraging $31 million of Federal, State, and private resources to support land conservation activities through easements and fee acquisition; and
- Provided opportunities for thousands of young people to engage in work and service learning opportunities on our public lands through Forest Service Job Corps Centers and opportunities provided with Corps organizations and other partners around the country; also connected more than 25 million young Americans with the great outdoors through Forest Service-sponsored recreational, educational, and other programs and events.

USDA-led research, education, and extension efforts support and integrate all USDA programs and help producers and rural communities prosper. The Department's work on some of the world's most pressing problems, including food security, nutrition, food safety, climate change, and sustainable bioenergy, encourages innovation and the creation of new industries, businesses, products, and services. One major driver of successful innovation is technology transfer—the private sector adoption of research outcomes—of federally funded research from universities and Federal laboratories to the marketplace. Often, research performed by Federal scientists or supported by the Federal Government is leveraged by the private sector to serve the broader public—creating jobs, spurring economic growth, and enhancing global competitiveness in the U.S. agriculture sector.

No one should go hungry in America, and USDA helps nearly one person in four through a number of nutrition assistance programs, including the Supplemental Nutrition Assistance Program (SNAP), the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC), and our School Breakfast, Special Milk, National School Lunch, and Fresh Fruit and Vegetable Programs. The Department's commitment to improving the quality and standards of food in our schools, coupled with efforts to increase physical activity, is enabling more children to lead healthier lifestyles.

I recently joined First Lady Michelle Obama at a reception to honor schools taking part in USDA's *HealthierUS School Challenge* as part of the Administration's Let's Move! campaign. The *Challenge* recognizes schools that create healthier school environments by providing students with exceptional nutrition education, nutritious food and beverage choices, physical education, and opportunities for physical activity. In January of this year, the Department also issued new Dietary Guidelines for Americans (DGA) in collaboration with the Department of Health and Human Services. The DGAs are the Federal Government's blueprint for healthy eating and nutrition. In June, I joined the First Lady and Surgeon General Regina Benjamin to unveil the Federal Government's new food icon, *MyPlate*, to remind consumers to make healthier food choices. *MyPlate* encourages consumers to build a healthy plate with emphasis on the fruit, vegetable, grains, protein, and dairy food groups.

With regard to food safety, USDA has announced several new measures to safeguard our Nation's food supply, prevent foodborne illness, and improve consumers' knowledge of the food they and their families eat. Some of these actions include new steps to fight the pathogen *E. coli;* improved performance standards for poultry establishments; “test and hold” policies that reduce consumer exposure to unsafe meat products; and proposed improvements to consumer product labeling.

I am also pleased to report that USDA is leading the charge to help revitalize rural America. As a result of the President’s Executive Order in June, I am proud to chair the first White House Rural Council. The Council is responsible for coordinating the Administration’s efforts in rural America by streamlining and improving the effectiveness of Federal programs serving rural communities in an effort to promote job creation and economic development. In just a few months, the Council has already identified and announced several areas of improved collaboration, including doubling the SBA investment for small rural businesses over the next five years, expanding DOL job search and training services to the USDA sites nationwide, and increasing physician recruitment at critical access hospitals through expansion of the National Health Service Corps. The Council has created a mechanism for agencies to improve coordination and better leverage federal investment in rural communities.

Through its Departmental Management office, USDA has provided leadership in Cultural Transformation to increase the diversity, inclusion, and accessibility of the Department. Departmental Management has led the effort to improve outreach to socially disadvantaged farmers and ranchers, led innovations in procurement and property management services, achieved USDA’s highest level of workforce diversification through its Office of Human Resources Management, and brought in a record number of scholars and fellows through its Higher Education Programs who are collectively leading the way for USDA to be the most efficient and productive it has ever been.

In FY 2011, USDA’s Office of the Chief Financial Officer (OCFO) worked with USDA agencies to reduce the inventory of open audits by 20 percent. Additionally, the number of audits that have been open a year or more without final action was reduced by 34 percent. OCFO continued implementation of the Financial Management Modernization Initiative (FMMI), a core financial system to replace USDA’s nine general ledger systems. Of the 29 agencies that form the Department, 25 have implemented FMMI.

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

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

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

Thomas J. Vilsack
Secretary of Agriculture
November 15, 2011

About this Report

This *Fiscal Year 2011 Performance and Accountability Report* (PAR) is the year-end progress report of the United States Department of Agriculture (USDA). The Department reviews its strategic goals, objectives, and performance measures it set for itself at the beginning of the fiscal year. USDA then compares these targets to the year's performance. The data used by the Department to measure performance are collected using a standardized methodology. This methodology has been vetted by federally employed scientists and policymakers, and, ultimately, the Under Secretaries of the respective mission areas. All attest to the completeness, reliability, and quality of the data.

The Government Performance and Results Act of 1993 (GPRA), and the GPRA Modernization Act of 2010 are the Federal statutes that form the basis of Federal agency planning and reporting. GPRA, later laws, and executive branch guidance drive the planning and reporting process in this fashion: the 5-year Strategic Plan is used to craft the Annual Performance Plan, and progress on the Annual Performance Plan is reported in the PAR. All plans and reports are available at usda.gov.

The PAR is divided into four sections:

1. Management's Discussion and Analysis
   - Summarizes the information contained in Sections 2, 3, and 4 of the PAR
   - Includes the Secretary's Statement of Assurance
   - Includes summary of High Priority Performance Goals
2. Annual Performance Report
   - Reports results of actions taken toward meeting the performance measures put forth in the Annual Performance Plan. Note that this *FY 2011 PAR* has a different performance measure numbering scheme than the *FY 2010 PAR*, based on changes instituted in the *FY 2011 Annual Performance Plan*
   - Includes discussion of High Priority Performance Goals
3. Financial Statements, Notes, Supplemental, and Accompanying Documents

   Highlights USDA's progress in financial management during FY 2011
4. Other Accompanying Documents

   Includes appendices and additional information USDA deems relevant

The programs once rated by the Performance Assessment Rating Tool (PART) are represented by performance measures or program discussion presented in the Annual Performance Plan and subsequently reported in the PAR.


Section 1

Management's Discussion and Analysis


The Department was founded by President Abraham Lincoln in 1862, when more than half of the Nation's population lived and worked on farms. The population has increased approximately tenfold, and is estimated at 307 million people, the vast majority of whom do not live on farms or in rural areas. The magnitude of America's evolved needs for food, fiber, forest products, and public services has required USDA to grow and deliver expanded public services.

Today, USDA improves the Nation's economy and quality of life by touching the lives of almost every American every day. More than 100,000 employees deliver more than $188.7 billion to provide public services through USDA's more than 300 programs worldwide.

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

USDA's strategic goals, as outlined in the *Strategic Plan for FY 2010-2015* (usda.gov), are:

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

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

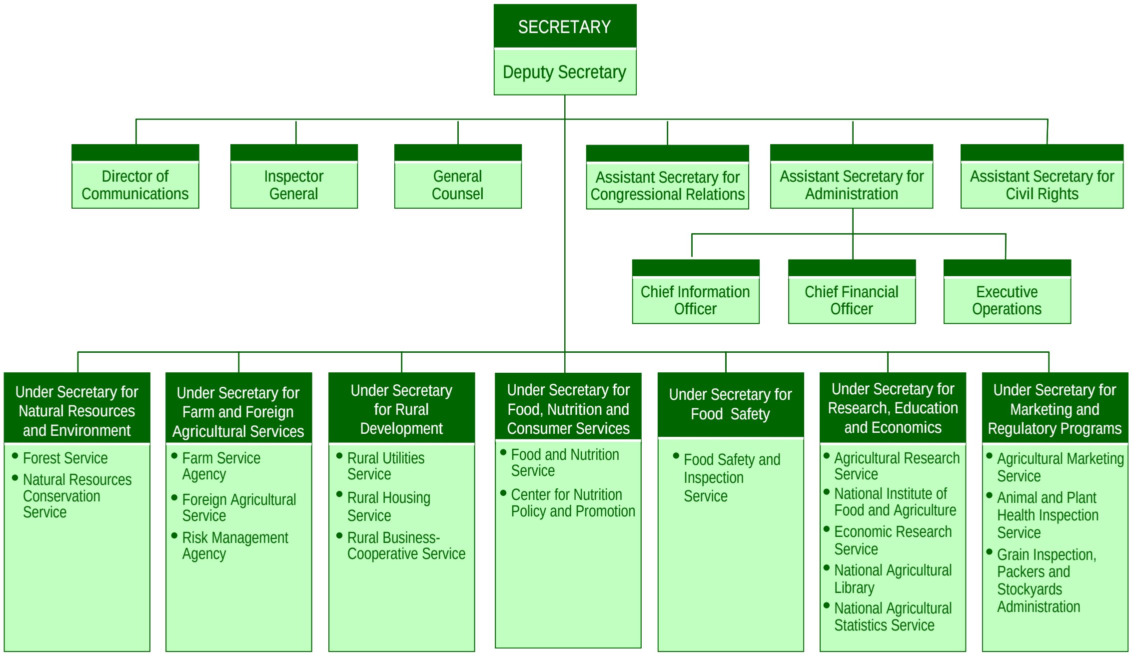
Strategic Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security

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

These goals reflect USDA's commitment to provide first-class service, state-of-the-art science, and consistent management excellence across the Department. USDA assesses and seeks to improve program performance so that the Department can maximize its impact. Program assessments identify how well and efficiently a program is working and what specific actions can be taken to improve its performance. Summary program evaluations conducted during fiscal year (FY) 2011 are included in this document at the end of Section 2, "Annual Performance Report."

USDA's management structure can be found in Exhibit 1, "Headquarters Organization."

Exhibit 1: Headquarters Organization (FY 2011)



MISSION AREAS

Mission Statement

USDA provides leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management.

The Department's work is organized by mission areas, which are collections of agencies that work together to achieve USDA's strategic goals. Descriptions of USDA's seven mission areas follow.

Natural Resources and Environment

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

Farm and Foreign Agricultural Services

The Farm and Foreign Agricultural Services (FFAS) mission area helps keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers programs that support a sustainable and competitive US agricultural system. This mission area is comprised of the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), and the Risk Management Agency (RMA). FSA administers and manages commodity, farm credit, conservation, and disaster programs through a network of Federal, State, and county offices. FSA provides administrative support for the Commodity Credit Corporation (CCC). The CCC is a Government-owned entity which funds most of the commodity, export, and some conservation programs of USDA. FAS works to improve international market access for

U.S. products, build new markets, improve the competitive position of domestic agriculture in the global marketplace, and provide food aid and technical assistance to other countries. RMA helps producers manage their business risks through effective, market-based risk management solutions. In addition, RMA manages the Federal Crop Insurance Corporation (FCIC) to improve the economic stability of agriculture through a sound system of crop insurance.

Rural Development

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

Food, Nutrition, and Consumer Services

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

Food Safety

Food Safety ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and properly labeled and packaged. This mission area also plays a key role in the Food Safety Working Group, a coordinated government-wide initiative to ensure a safe food supply for the American people for the 21st century. USDA's partners in the Working Group include the U.S. Department of Health and Human Services, the U.S. Environmental Protection Agency, and a number of other Government agencies. Food Safety is made up of the Office of the Administrator, the Office of Catfish Inspection Programs, the Office of the Chief Information Officer, the Office of Data Integration and Food Protection, the Office of Field Operations, the Office of International Affairs, the Office of Management, the Office of Outreach, Employee Training and Education, the Office of Public Affairs and Consumer Education, The Office of Program Evaluation, Enforcement, & Review, the Office of Policy and Program Development, and the Office of Public Health Science.

Research, Education, and Economics

The Research, Education, and Economics (REE) mission area is dedicated to the creation of a safe, sustainable, competitive U.S. food and fiber system, as well as the development of strong communities, families, and youth through integrated research, analysis, and education. REE is comprised of the Agricultural Research Service (ARS), the National Institute of Food and Agriculture (NIFA), the Economic Research Service (ERS), the National Agricultural Statistics Service (NASS), and the National Agricultural Library (NAL).

Marketing and Regulatory Programs

The Marketing and Regulatory Programs (MRP) mission area facilitates the domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP is made up of the Agricultural Marketing Service (AMS), the Animal and Plant Health Inspection Service (APHIS), and the Grain Inspection, Packers, and Stockyards Administration (GIPSA). AMS administers programs that facilitate the efficient, fair marketing of U.S. agricultural products, including food, fiber, and specialty crops. APHIS provides leadership in ensuring the health and care of animals and plants. GIPSA facilitates the marketing of livestock, poultry, meat, cereals, oilseeds, and related agricultural products.

Departmental Management

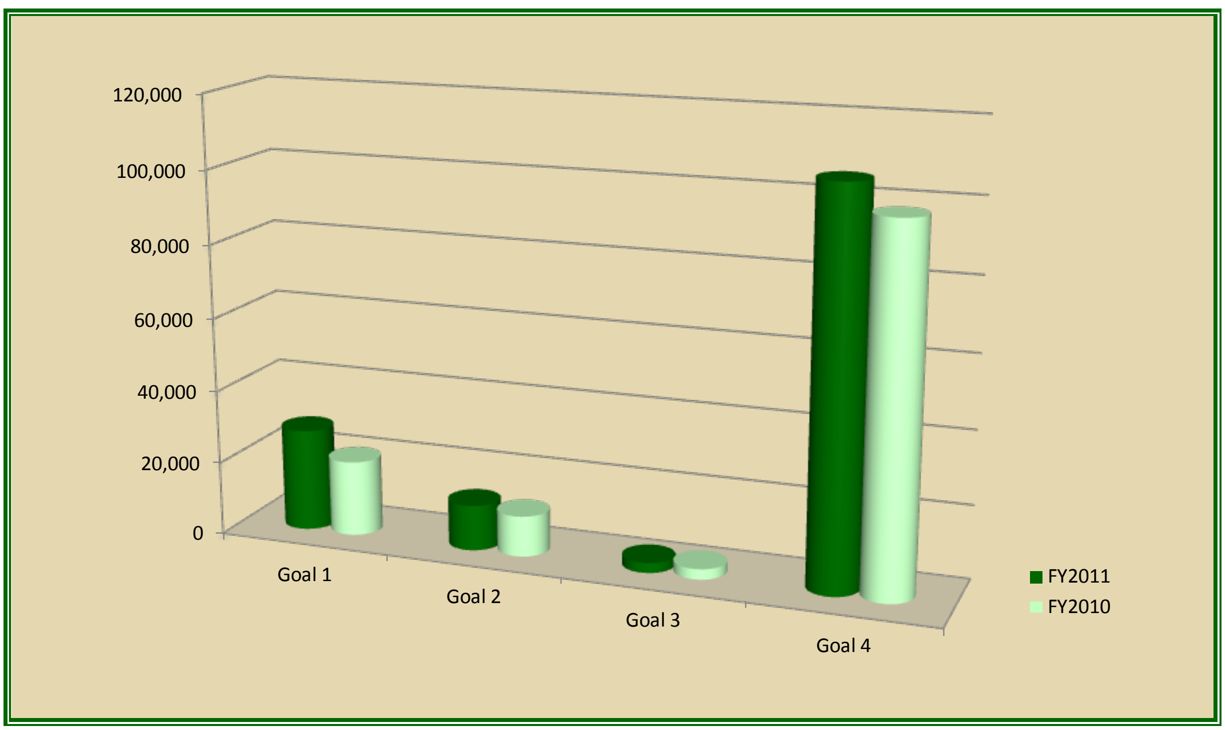
Department-level offices provide centralized leadership, coordination, and support for USDA's policy and administrative functions. Their efforts maximize the energy and resources agencies devote to the delivery of services to USDA customers and stakeholders.

Resources

Congressional appropriations are the primary funding source for USDA operations. FY 2011 program obligations totaled $183.6 billion, a decrease of $5 billion compared to FY 2010. These are current year obligations from unexpired funds.

Exhibit 2 shows USDA's net cost of program operations for FY 2011, organized by strategic goal and compared to FY 2010. Total net costs for FY 2011 were $149 billion compared to $132.4 billion for FY 2010.

Exhibit 2: FY 2011 USDA Net Cost of Program Operations by Strategic Goals (in millions)



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

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

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

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

Performance Goals, Objectives, and Results

Of the 43 performance measures contained in USDA's *FY 2011 Annual Performance Plan*, 33 were met or exceeded, 9 were unmet, and 1 was deferred. The following Performance Scorecard table, organized by USDA's strategic goals and objectives, provides a summary of the Department's performance results. Additional analysis of these results can be found in the Annual Performance Report section of this report.

PERFORMANCE SCORECARD FOR FY 2011		
Objectives	**Annual Performance Goals**	**Result**
Strategic Goal 1: Assist Rural Communities to Create Prosperity So they are self sustaining, repopulating and Economically Thriving		
1.1 Enhance Rural Prosperity	1.1.1 Number of jobs created or saved through USDA financing of businesses	Unmet
	1.1.2 Number of borrowers/subscribers receiving new or improved telecommunication services	Unmet
1.2 Create Thriving Communities	1.2.1 Number of borrowers/subscribers receiving new or improved service from agency funded water facility	Exceeded
	1.2.2 Homeownership Opportunities Provided	Unmet
	1.2.3 Percentage of customers who are provided access to new and/or improved essential community facilities	
	• Health Facilities	Exceeded
	• Safety Facilities	Exceeded
	• Educational Facilities	Exceeded
	1.2.4 Number of borrowers/subscribers receiving new and/or improved electric facilities	Exceeded
1.3 Support a Sustainable and Competitive Agricultural System	1.3.1 Percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA	Exceeded
	1.3.2 Maintain or increase percentage of FSA program delivery applications at USDA Service Centers that are Web-enabled	Met
	1.3.3 Dollar value of agriculture trade preserved through trade agreement negotiation, monitoring, and enforcement non-SPS activities	Met
	1.3.4 Value of trade preserved annually through USDA staff interventions leading to resolution of barriers created by Sanitary/Phytosanitary (SPS) or TBT measures.	Exceeded
	1.3.5 Value of FCIC risk protection coverage provided through FCIC sponsored insurance	Exceeded
	1.3.6 Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance	Met
	1.3.7 Percent of industry compliance with the Packers Stockyards Act	Unmet
Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources		
2.1 Restore and Conserve the Nation's Forests, Farms, Ranches, and Grasslands	2.1.1 CRP restored wetland acreage	Exceeded
	2.1.2 CTA: Cropland with conservation applied to improve soil quality	Met
	2.1.3 EQIP: Cropland with conservation plans applied to improve soil quality	Met
	2.1.4 CTA: Grazing land and forest land with conservation applied to protect and improve the resource base	Met
	2.1.5 EQIP: Grazing land and forest land with conservation plans applied to protect and improve the resource base	Met
	2.1.6 FRPP: Prime, unique, or important farmland protected from conversion to nonagricultural uses by conservation easements	Exceeded

PERFORMANCE SCORECARD FOR FY 2011				
Objectives		**Annual Performance Goals**		**Result**
		2.1.7	WHIP: Non-Federal land with conservation applied to improve fish and wildlife habitat quality	Exceeded
		2.1.8	Acres protected from conversion through easements and fee-simple purchases	Unmet
2.2	Protect and Enhance America's Water Resources	2.2.1	CTA: Comprehensive nutrient management plans applied	Met
		2.2.2	EQIP: Comprehensive nutrient management plans applied	Met
		2.2.3	CTA: Priority landscapes with high impact targeted conservation practices applied to improve water quality	Met
		2.2.4	WRP: Wetlands created, restored or enhanced	Met
		2.2.5	Acres of HIT practices implemented on NFS and private lands in priority landscapes to protect clean, abundant water	Unmet
		2.2.6	Annual economic contribution of recreation on NFS lands	Met
2.3	Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape	2.3.1	Acres of WUI fuels treated to reduce the risk of catastrophic fire	Met
		2.3.2	Percentage of acres treated in the WUI that have been identified in Community Wildfire Protection Plans	Unmet
		2.3.3	Cumulative Acres in NFS that are in a desired condition relative to fire regime	Met
Strategic Goal 3: Help America promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security				
3.1	Enhance America's Ability to Develop and Trade Agricultural Products Derived from New Technologies	3.1.1	Cumulative number of genetically engineered plant lines reviewed by USDA and found safe for use in the environment	Exceeded
Strategic Goal 4: Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals				
4.1	Increase Access to Nutritious Foods	4.1.1	Participation levels for the major Federal nutrition assistance program: Supplemental Nutrition Assistance Program average (monthly) participation	Met
		4.1.2	Improve SNAP payment accuracy rate	Deferred
		4.1.3	Participation levels for the major Federal nutrition assistance programs	
			• National School Lunch Program	Met
			• School Breakfast Program	Met
		4.1.4	Participation levels for the major Federal nutrition assistance programs: WIC Program	Met
4.2	Promote Healthy Diet and Physical Activity Behavior	4.2.1	Application and usage level of nutrition guidance tools(billions of pieces of nutrition guidance distributed) Baseline 2006 = 1.5	Unmet
4.3	Protect Public Health by Ensuring Food is Safe	4.3.1	Reduce overall public exposure to *Salmonella* from broiler carcasses	Unmet
		4.3.2	Reduce total illnesses from all regulated products	Met
		4.3.3	Percent of establishments with a functional food defense plan • Large Establishment • Small Establishment • Very Small Establishment	Exceeded
4.4	Protect Agricultural Health by Minimizing Major Diseases and Pests Ensuring Access to Safe, Plentiful, and Nutritious Food	4.4.1	Value of damage prevented and mitigated annually as a result of selected plant and animal health monitoring and surveillance efforts	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 programmatic approach to enhance its service to the public. This may result in a specific performance goal becoming 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, objectives, and performance measures.

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

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

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

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

- Weather-related hardships and other uncontrollable events domestically and abroad;
- Domestic and foreign macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases, such as *avian influenza* and *bovine spongiform encephalopathy*, to move quickly across 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, depending 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.

PRIORITY GOALS

As part of the FY 2011 budget process, leaders of the largest Federal agencies identified a small number of near-term, ambitious, outcome-focused priority goals. These are detailed in the President's FY 2011 budget. Each priority goal is important to the public and focuses on clear, measureable results.

Goal 1: By the end of 2011, reduce non-tariff trade barriers for 5 major markets and increase agriculture exports in those markets by $2 billion. USDA exceeded its priority goal for trade by working with the U.S. Trade Representative and other partners to reduce trade barriers in 9 major markets, facilitating $1.03 billion in additional trade for FY 2010. FY 2011 trade data, available in mid-November 2011, are expected to show that the Department significantly exceeded its $2 billion goal. Achievements included the lifting of import bans, favorable decisions from international bodies on pesticide residues and biotech products, and USDA continuing to support grant proposals for resolution of technical trade issues.

Goal 2: Increase the average number of provinces in Afghanistan that are deemed "Generally Food Secure" from an annual average of 11 in 2008 to an annual average of 14 in 2011, in support of the President's Afghanistan and Pakistan Strategy. As a result, 41 percent of Afghanistan's provinces will be food secure. With an average of 16 provinces considered food secure in 2011, USDA reached the target for this priority goal. USDA made a positive impact in Afghanistan by training and assisting 25,261 Afghan farmers, exceeding the milestone of 20,000 farmers by June 2011. USDA built capacity within the Afghan Agriculture Ministry by working with Afghan officials responsible for 79 Districts, exceeding the milestone of 70 Districts.

Goal 3: By the end of 2011, accelerate the protection of clean, abundant water resources by implementing high impact targeted (HIT) practices on 6 million acres of national forest and private working lands in priority watersheds. USDA exceeded this priority goal by implementing HIT practices on 6.7 million acres by the end of FY 2011.

Goal 4: Strengthen USDA's biotechnology regulatory program by enhancing compliance and improving the petition process for non-regulated status, while working toward the prevention of unauthorized releases. The Department has met or exceeded five of six performance metric targets for this goal. Accomplishments included publishing (cumulatively) 15 determinations on biotechnology petitions in the Federal Register between FY 2007 and FY 2011, including 6 in FY 2011, and conducting 828 biotechnology compliance inspections in FY 2011. USDA strengthened the biotechnology compliance program by enrolling a total of 18 companies in the Biotechnology Quality Management System (BQMS) program, falling slightly short of the goal of 20 companies after 2 companies withdrew. The 18 enrolled entities account for more than 90 percent of all notifications and permits processed by the Department. In addition, USDA conducted a process improvement review for the petition review function, and anticipates implementing changes based on the findings from the review in FY 2012. Also in FY 2011, the Department initiated a National Environmental Protection Act pilot project to test new approaches to developing environmental documents and how these approaches improve the quality, timeliness, and cost of the process.

Goal 5: By 2011, partner with local schools, propose national standards and take other actions that will result in improved quality of food sold in schools throughout the school day. USDA exceeded its key target to expand the number of schools in the HealthierUS School Challenge. As of September 30, 2011, there were 1,631 certified schools, well above the target of 1,350. These schools must meet rigorous standards for the quality of the food they offer at school. USDA is updating nutrition standards for federally-subsidized school meals to ensure consistency with the *Dietary Guidelines for Americans*. In January 2011, the Department published a proposed rule to update school meals nutrition standards based on IOM recommendations.

Goal 6: By the end of 2011, reduce the number of households with children who experience very low food security by 100,000. USDA's indicators suggest it did not achieve the target of 100,000 fewer children with very low food security. The number of households with low food security among children is estimated at 434,000, while the fourth quarter FY 2011 target was 350,000. Annual survey data for 2010, however, show a lower prevalence of very low food security among children than predicted by the quarterly estimates. Since the quarterly estimates are based only on changes in unemployment and food prices, this difference may show the positive impact of nutrition assistance programs in addressing food insecurity. In addition, Since there is a lag in data availability, USDA will not be in a position to definitively report on whether the agency achieved its targets until annual survey data for 2011 are available. The Department successfully met all 11 milestones for this goal. Accomplishments include awarding Hunger Free Community Grants and launching a partnership to end child hunger. USDA also strengthened the Summer Food Service Program through incentives to extend the duration of program operations, funding for enrichment activities at summer sites, non-congregate meals-on-wheels in rural areas, and "backpack" food packages for consumption over weekends.

Goal 7: By the end of calendar year 2011, evaluate USDA-supported strategies that made healthy food available to low-income Americans to demonstrate private and public sector efforts that can increase the availability of healthy foods. USDA is on target to achieve the priority goal on healthy and affordable food. USDA is completing a Healthy Food Access Report that evaluates food access strategies.

Goal 8: Reduce the case rate due to *Salmonella* in Food Safety Inspection Service (FSIS)-regulated products to 5.3 cases per 100,000. Compared to the baseline period, this represents a reduction of approximately 22,600 illnesses, and an illness-cost reduction of $404 million.

- During the period of time it spent working on the Food Safety Priority Goal, FSIS attained the majority of its Priority Goal milestones. This effort resulted in advancements in the fight against *Salmonella* illnesses. FSIS implemented the *Salmonella* Initiative Program in establishments, published a *Federal Register* Notice on the program, published tighter performance standards for *Salmonella*, began phased-in implementation of a new Public Health Information System (PHIS), and trained personnel on this system, and began conducting baseline studies relating to *Salmonella* prevalence on hogs, chicken parts, and pre-pasteurized egg products. USDA and the U.S. Department of Health and Human Services also jointly launched a national multimedia campaign, including national television ads by the Ad Council, to help families prevent foodborne illness.
- Despite these efforts, many of which are longer-term in nature, the third-quarter FY 2011 target for reducing *Salmonella* was unmet. U.S. Centers for Disease Control (CDC) data lag real time by at least one full fiscal year quarter. CDC reports a case rate of 6.28 cases of *Salmonella* per 100,000 people as compared to a goal of 5.32 cases. Consequently, until early CY 2012, FSIS will not be in a position to definitively report on whether FSIS has achieved its FY 2011 Food Safety Priority Goal.

Goal 9: By 2011, increase the prosperity of rural communities by concentrating and strategically investing in 8-10 regions, resulting in the creation of strong local and regional economies, with a particular emphasis on food systems, renewable energy, broadband-based economies, and rural recreation. In FY 2011, USDA made great strides through this goal to foster, develop and sustain innovation and entrepreneurship in rural and urban economies. The Department developed a portfolio of targeted regional innovation projects, all derived from the Rural Business Opportunity Grant (RBOG) program. The regional projects are in California, Iowa, North Dakota, South Carolina, the Pacific Northwest, Vermont, and tribal lands in Washington State. Accomplishments of the regional projects include:

- California - expanding rural-urban collaboration for movement of farm goods and biofuels and related infrastructure deployment;
- Iowa - providing 1-year business training for new food producer businesses;
- North Dakota - engaging more than 400 people in community and economic development to sustain and empower a rural network of community leaders;
- South Carolina - increasing the number of agribusiness projects that have considered marketing in the targeted region;
- Pacific Northwest - increasing connections between producers, consumers, and emergency food assistance;
- Vermont – developing links with other programs to address goat milk producer's needs; and
- Washington tribal lands - completing a draft feasibility study for the use of woody biomass in the Quinault Indian Nation.

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 budgetary resources consist of the balance at the beginning of the year, appropriations received during the year, spending authority from offsetting collections and other budgetary resources. Total budgetary resources were $214.4 billion for FY 2011 compared to $225.3 billion in FY 2010, a decrease of $10.9 billion.

The unobligated balance brought forward including recoveries of prior year unpaid obligations decreased $0.9 billion, budget authority net of transfers and resources temporarily not available decreased $10.2 billion and budgetary resources permanently not available decreased $0.2 billion.

	2011	2010	% Change
Total Budgetary Resources	$214,472	$225,385	-5%
Obligations Incurred	$183,630	$188,668	-3%
Net Outlays	$145,505	$135,634	7%

Data in millions

Obligations Incurred And Net Outlays

Obligations incurred decreased $5 billion in FY 2011. This decrease is primarily due to a $10.5 billion decrease at RD for the American Recovery and Reinvestment Act (ARRA); $2.3 billion decrease at CCC primarily for the Conservation Reserve and Commodity Purchase Programs; $1.8 billion decrease at FSA primarily for the Disaster Trust Fund, Agricultural Disaster Transition Assistance Recovery Act Fund, and the Supplemental Assistance Fund offset by a $8 billion increase at FNS for the Commodity Assistance Program, the Supplemental Nutrition and Assistance Program, and the Women, Infants and Children Program; and $2.7 billion increase for indemnities at RMA.

Net Outlays increased $9.8 billion in FY 2011. This increase is primarily due to a $8.3 billion increase at FNS for the Commodity Assistance Program, the Supplemental Nutrition and Assistance Program, and the Women, Infants and Children Program; $1.6 billion increase at RMA for indemnities paid; $1.3 billion increase at RD primarily for Distance Learning, Telemedicine and Broadband Programs offset by a $1.4 billion decrease at FSA primarily for the Disaster Trust Fund, Agricultural Disaster Transition Assistance Recovery Act Fund, and the Supplemental Assistance Fund; and $1.1 billion decrease at CCC for the Average Crop Revenue Election (ACRE), and Counter Cyclical programs.

BALANCE SHEET

Condensed Balance Sheet Data
AS OF SEPTEMBER 30, 2011 AND 2010(in millions)

	FY 2011	FY 2010	% CHANGE
Fund Balance with Treasury	$74,126	$75,805	-2%
Accounts Receivable, Net	8,225	7,608	8%
Direct Loan and Loan Guarantees, Net	92,042	89,405	3%
General Property, Plant and Equipment, Net	3,050	2,964	3%
Other	685	626	9%
Total Assets	178,128	176,408	1%
Debt	89,583	87,915	2%
Loan Guarantee Liability	3,621	2,857	27%
Benefits Due and Payable	3,500	3,356	4%
Other	39,548	34,796	14%
Total Liabilities	136,252	128,924	6%
Unexpended Appropriations	30,469	36,261	-16%
Cumulative Results of Operations	11,407	11,223	2%
Total Net Position	41,876	47,484	-12%
Total Liabilities and Net Position	$178,128	$176,408	1%

Total Assets

Total assets increased $1.7 billion in FY 2011. This increase is primarily due to an increase in Direct Loan and Loan Guarantees, Net of $2.6 billion; and an increase in Accounts Receivable, Net of $0.6 billion; offset by a decrease in Fund Balance with Treasury of $1.6 billion.

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 87 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 5 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.

Total Liabilities

Total liabilities increased $7.3 billion in FY 2011. This increase is primarily due to a $1.6 billion increase in Debt, a $0.7 billion increase in Loan Guarantee Liability, and a $4.7 billion increase in other liabilities.

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

Total Net Position

Total net position decreased $5.6 billion in FY 2011. This decrease is due to a decrease in unexpended appropriations of $5.7 billion offset by an increase in cumulative results of operations of $0.1 billion.

NET COST OF OPERATIONS

Condensed Statement Of Net Cost
For the Years Ended September 30, 2011 and 2010
(in millions)

	FY 2011	FY 2010	% CHANGE
Goal 1: Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:	$27,948	$20,611	36%
Goal 2: Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:	12,128	11,134	9%
Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:	3,103	2,856	9%
Goal 4: Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:	105,668	97,837	8%
Net Cost of Operations	$148,847	$132,438	12%

Net Cost of Operations

Net cost of operations increased $16.4 billion in FY 2011. This increase is primarily due to an increase at RMA of $7.6 billion as a direct result of the estimated higher indemnities for reinsurance year 2011 due to the combination of increased premium and significant weather conditions; and an increase at FNS of $7.9 billion due to increased costs and higher participation in the Supplemental Nutrition and Assistance Program resulting from higher unemployment and natural disasters.

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.

	2011	2010	% Change
Non-Federal Physical Property	$76	$77	-1%
Human Capital	$623	$652	-4%
Research and Development	$2,252	$2,307	-2%

Data in millions

Limitations of the Financial Statements

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

While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by U.S. Office of Management and Budget (OMB), the statements are in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records.

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity.

Financial Management Systems

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

- Continued implementation of a core financial system to replace USDA's 9 general ledger systems;
- Has been implemented in 25 of the 29 agencies and offices that form the Department;
- Began production of a data warehouse for financial statement, and standard and ad hoc reporting; and
- Stayed on track for schedule, cost, and performance.

FMMI has the following key attributes:

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

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

- Ensuring that financial management systems support data integrity, reliability, and consistency across the Department and for the community of direct users;
- Providing online, on-demand querying capabilities and access to reports for financial managers and, ultimately, program managers (new users);
- Ensuring that information and reports are clearly communicated and organized in a format that promotes understanding, and is directly relevant to the needs of end users;
- Providing technology that supports future growth and changes in requirements;
- Promoting USDA's credibility and trust with Congress, the Executive Office of the President, and the public by demonstrating full compliance with financial laws, regulations, and Federal financial standards, including maintaining an unqualified audit opinion;
- Ensuring that the investment advances the Department's strategic plan, including its responsiveness to the fulfillment of mandates such as Federal core financial management system requirements;
- Demonstrating the strategic use of USDA's human capital by supporting the realignment from internally focused positions to decision-support or citizen-facing roles, and enhancing workplace desirability for current and future financial employees;
- Demonstrating the strategic use of the Department's information technology (IT) by leveraging IT within USDA and across the Government to facilitate streamlining and unification of services; and
- Demonstrating good stewardship of public funds by securing the best performance and highest measure of accountability in the use of taxpayer dollars.

Systems, Controls, and Legal Compliance
Management Assurances

Statement of Assurance

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

USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, and financial reporting as of June 30, 2011. The assessment included the safeguarding assets and compliance with applicable laws and regulations, in accordance with the requirements of Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control."

Other than the exceptions noted, USDA financial management systems conform substantially with the objectives of FMFIA, internal controls were operating effectively, and no other material weaknesses were found in the design or operation of the internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2011, and 2) financial reporting as of June 30, 2011.

Thomas J. Vilsack
Secretary of Agriculture
November 15, 2011

Federal Managers' Financial Integrity Act Report on Management Control

BACKGROUND

FMFIA requires ongoing evaluations of internal control and financial management systems. These evaluations lead to an annual statement of assurance that:

- Obligations and costs comply with applicable laws and regulations;
- Federal assets are safeguarded against fraud, waste, 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.

USDA annually evaluates its internal controls over financial reporting in accordance with OMB Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control Over Financial Reporting" (A-123, Appendix A).

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws and OMB Circulars A–123, Appendix A, and A–127, "Financial Management Systems." All USDA managers must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the Office of Inspector General (OIG) and the Government Accountability Office (GAO), the Department's management works aggressively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

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

FY 2011 Results

USDA has two existing material weaknesses: Information Technology and Financial Reporting – Unliquidated Obligations. There is one system non-conformance: Funds Control Management. Thus, the Secretary's Statement of Assurance provides qualified assurance that USDA's system of internal controls complies with FMFIA objectives. The following exhibit summarizes the results reported in USDA's Consolidated Financial Statements Audit Report.

Exhibit 1: Summary of Financial Statement Audit

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

The following exhibit lists USDA's material weaknesses and the financial system non-conformance as related to management's assurance for FMFIA and the certification for FFMIA.

Exhibit 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology	1					1
Financial Reporting – Unliquidated Obligations	1					1
TOTAL MATERIAL WEAKNESSES	2					2

Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
TOTAL MATERIAL WEAKNESSES	0	0				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	1					1
TOTAL NON-CONFORMANCE	1					1

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

Summary of Outstanding Material Weaknesses

Material Weakness Existing	1. USDA Information Technology (IT)	Overall Estimated Completion Date	FY 2012
	Internal control design and operating effectiveness deficiencies occurred in four areas: logical access controls/personnel security, configuration management, physical access and environmental protection, and contingency planning. These deficiencies represent an overall IT material weakness.		

FY 2011 Accomplishments:	FY 2012 Planned Actions:
• Continued implementation of Homeland Security Presidential Directive 12 (HSPD-12) Identity, Credential, and Access Management (ICAM) initiatives to provide improved logical and physical access control to USDA IT systems and facilities; • Completed majority of the ICAM functional requirements cases; • Continued implementation of Security Operations Centers to increase real-time operational security monitoring of USDA networks; • Deployed 11 remote network monitoring sites; • Implemented Endpoint Security Whole Desk Encryption to 99	• Continue development of IT Security Architecture that incorporates automated tools for network monitoring and situational awareness; • Implement the continuous monitoring and continuous assessment initiatives in accordance with the National Institute of Standards and Technology (NIST); • Continue outreach and education programs to ensure USDA's Chief Information Officers (CIOs) are fully informed and participating in OCIO IT Security initiatives; • Continue to improve the security governance process by

<table>
<tr><td rowspan="2">Material Weakness Existing</td><td>1. USDA Information Technology (IT)</td><td>Overall Estimated Completion Date</td><td>FY 2012</td></tr>
<tr><td colspan="3">Internal control design and operating effectiveness deficiencies occurred in four areas: logical access controls/personnel security, configuration management, physical access and environmental protection, and contingency planning. These deficiencies represent an overall IT material weakness.</td></tr>
<tr><td colspan="2">FY 2011 Accomplishments:</td><td colspan="2">FY 2012 Planned Actions:</td></tr>
<tr><td colspan="2">percent of its end-user systems and servers;
• Monitored agency-wide Federal Desktop Core Configuration compliance and software patch installation;
• Institutionalized the Risk Management Framework, which provides increased real-time security control assessment and continuous monitoring; and
• Ensured key IT security controls are tested annually for all systems.</td><td colspan="2">further implementation of the Risk Management Framework as outlined in NIST security requirements;
• Continue monitoring, investigating, reporting of compliance and remediation of non-compliance to Department policies, guidance, processes, and procedures;
• Improve agency oversight and compliance with USDA and NIST security requirements; and
• Reduce the security risks associated with USDA IT Systems.</td></tr>
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<tr><td rowspan="2">Material Weakness Existing</td><td>2. Financial Reporting – Unliquidated Obligations</td><td>Overall Estimated Completion Date</td><td>FY 2012</td></tr>
<tr><td colspan="3">Lack of consistent review and follow-up on unliquidated obligations (ULO). (Department and NRCS)</td></tr>
<tr><td colspan="2">FY 2011 Accomplishments:</td><td colspan="2">FY 2012 Planned Actions:</td></tr>
<tr><td colspan="2">Department:
• Worked with USDA agencies to complete cleanup of obligations recorded in the Foundation Financial Information System (FFIS) and the Financial Management Modernization Initiative (FMMI);
• Reviewed close-out and deobligation procedures for procurements recorded in the Integrated Acquisition System (IAS), Greenbook reimbursable agreements, and other interagency obligations to ensure timely communication and close-out of obligations;
• Improved agency monitoring of unliquidated obligations via monthly working group meetings;
• Provided monthly scorecard in the Chief Financial Officer (CFO) Council to track status of unliquidated obligations;
• Distributed ULO aging reports to USDA agencies;
• Reviewed quarterly certifications by agency CFOs; and
• Monitored monthly corrective action status reports on review of unliquidated obligations under OMB Circular A-123, Financial Reporting, Appendix A.

NRCS:
• Created a risk-based statistical sample that segments the obligation population, then selected samples for testing and performed testing on a quarterly basis;
• Increased accountability by including an unliquidated obligation performance objective in the performance plans of State Conservationists;
• Provided training for open obligation reviews that address audit findings; and
• Published procedures for fund certification.</td><td colspan="2">Department :
• Draft memorandum to obtain leadership commitment to properly monitor and review obligation balances from the Office of the Secretary to all USDA Senior Executives;
• Continue working with USDA agencies to complete cleanup of obligations recorded in FFIS and FMMI; and
• Continue monthly review of corrective action status reports on review of unliquidated obligations under OMB Circular A-123, Financial Reporting, Appendix A.

NRCS:
• Increase monitoring and testing of open obligations;
• Complete a review of and enhance the OMB Circular A-123, Financial Reporting, Appendix A program for open obligations; unrecorded obligations, and non-referencing transactions and provide feedback to reporting activities; and
• Evaluate number and skill of resources at headquarters and State level to perform required obligation and related accrual activities.</td></tr>
</table>

SUMMARY OF OUTSTANDING SYSTEM NON-CONFORMANCE

System Non-Conformance Existing	1. Funds Control Management	Overall Estimated Completion Date	FY 2013
	System improvements needed in recording obligations at the transactions level. (CCC) Non-compliance with Federal Financial Management Improvement Act of 1996. (NRCS and CCC))		

FY 2011 Accomplishments:	FY 2012 Planned Actions:
CCC: • Completed transaction level obligations for the Conservation Reserve Program (CRP), Annual Rental Program as well as additional Farm Program; • Web Based Supply Chain Management (WBSCM) programs were incorporated into Electronic Funds Management System (eFMS) as those programs were moved from the Processed Commodities Inventory Management System (PCIMS) to WBSCM. PCIMS is presently being decommissioned; and • Continued to develop the Modernize and Innovate Delivery Agricultural Systems (MIDAS) project, and ensured that the financial requirements are clearly captured in the design of the system. NRCS: • Implemented an administrative trainee program to assist a pipeline of employees in financial management; • Deployed detailed procedures and training on obligations; reimbursable agreements, leases, property, and advances; • Instituted processes to ensure financial statements are reviewed and approved by management; • Worked with OCFO to obtain appropriate posting models for conservation easements, travel advances to others, cumulative results of operations for non-appropriated fund recoveries of prior years obligations, and accounts receivable with the public; • Implemented an enhanced Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control" program • Ensured the completeness of unfilled customer order population; • Established a robust procedure for monitoring of unliquidated obligations; and • Made significant improvements to document the completion of stewardship land.	CCC: • Complete software modifications to program applications to send obligation transactions; and • Continue to select and implement software, while migrating to the Department's enterprise solution under FMMI. NRCS: • Hire additional staff with experience in financial statement preparation and reporting; • Establish controls for the reporting of human capital and research and development costs as part of Requirement Supplementary Stewardship information; • Perform asset valuation reviews to improve property and deferred maintenance reporting; • Continue improvements regarding stewardship reporting, particularly the condition of closed easements; • Continue improvements in IT general and application access controls; • Continue to evolve a more robust A-123 program; and • Implement an agency wide Compliance Review Program to ensure compliance with applicable laws, regulations, and policies.

Federal Financial Management Improvement Act Report on Financial Management Systems

BACKGROUND

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 U.S. 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. The following exhibit contains the outstanding initiatives to achieve compliance.

Exhibit 3: Initiatives To Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	Section of Non-compliance	Agency	Target Completion Date
Information Technology[1]	Federal Financial Management System requirements, and Information security policies, procedures, and/or practices.	Multiple CCC	9/30/2012 3/30/2013
Funds Control Management	Federal Financial Management System requirements and U.S. Standard General Ledger at the transaction level.	CCC	09/30/2012
	Federal Financial Management System requirements, Federal Accounting Standards, and U.S. Standard General Ledger at the transaction level.	NRCS FAS	11/30/2013 9/30/2012

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

FY 2011 Results

During FY 2011, USDA evaluated its financial management systems to assess substantial compliance with the act. In assessing FFMIA compliance, the Department considered auditors opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the *FY 2010 Performance and Accountability Report (PAR)*. The Department is not compliant with Federal Financial Management System requirements, Federal accounting standards, 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 result in non-compliance with the FISMA requirement. As part of USDA's financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

In FY 2011, FAS identified serious deficiencies in its financial management operations performed by its service provider. As a result, FAS was unable to assure that its financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards.

The FAS Administrator evaluated alternative financial service providers and selected APHIS as the service provider. FAS records were transitioned to APHIS in the fourth quarter of 2011. APHIS has begun performing accounting operations. FAS will appoint a new Chief Financial Officer in the first quarter of FY 2012. FAS also engaged a team of Government employees supplemented by contract professionals to establish and document its financial processes. In 2012, FAS will complete a thorough test of the new procedures to evaluate operational effectiveness.

Forest Service resolved its deficiencies related to IT General Computer Controls to comply with information security, policies, procedures, and practices.

Federal Financial Management System Requirements

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

CCC Legacy Systems

The CCC's mission critical financial applications are supported in multiple environments including the mainframe, Web farm, and the AS/400/S36.

The AS400/S36 Operating Systems required to support some of these CCC applications delivered from this environment are no longer supported by the vendor. The applications run in the S/36 Virtual Machine environment as a "guest" of the OS/400 operating system, release V4R4. Later releases of the OS/400 operating system do not support the System/36 virtual machine and the S/36 operating system. The AS400 operating system version V4R4 is no longer supported by IBM. The current hardware is no longer manufactured by IBM. Maintenance of the AS400 hardware is supported through a third-party contractual agreement. FSA has applied all available patches and a final cumulative patch release to the environment at the IBM end-of-service period. Even though patches are no longer being provided and applied, the environment has not experienced exploitations or attacks, and is deemed stable from a performance perspective.

FY 2011 CCC accomplishments include:

- Posting $9.3 billion in obligations at the transaction level through eFMS. The $9.3 billion represented 22 programs of which 15 were new. Those new programs included:
- Advances from AMS Section 32;
- Biomass Crop Assistance Program;
- Conservation Reserve Program;
- Food for Progress;
- Food for Education;
- Food and Nutrition Service's Emergency Food Assistance Program, Commodity Supplemental Food Program and the Nutrition Services Incentives Program;
- Vessel Loading Observation; and
- Public Law 480, Title II.

In FY 2012, CCC will work on:

- Converting more programs into eFMS for transaction level obligations; and
- Continue development of the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) project and make certain that the financial requirements needed to ensure compliance with FMFIA are captured in the software design, including retirement of the CCC Legacy Systems.

NRCS

NRCS has made significant improvements for appropriate posting models for obligation recoveries, bad debt allowances, advances, and accounts receivables. However, deficiencies have been noted on Information Security Policies, Procedures, and Practices for lack of anti-virus software on certain servers, employees' background investigations, conducting vulnerability scanning, and month-to-month remediation of critical vulnerabilities.

Substantial improvements have been taken regarding the completion of stewardship land as part of financial reporting. NRCS expects to fully meet the reporting requirements on the condition of stewardship land in FY 2012, and for deferred maintenance on real property in FY 2013.

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

- Federal Financial Management System Requirements: NRCS's systems were unable to :
  - Provide timely extracts for audit purposes;

  - Allow for the authority beyond 10 years of availability; and
  - Prevent the recording of invalid upward and downward adjustments

- Applicable Federal Accounting Standards: Deficiencies on net position balances, obligations recoveries, current year activity, obligations incurred, accruals, undelivered orders, leases, real and personal property, advances, stewardship reporting and deferred maintenance;
- Information Security Policies Procedures and Practices: Deficiencies in general and application access controls; and
- Standard General Ledger at the Transaction Level: Deficiencies in recoveries of prior year obligations paid and unpaid.

In FY 2012, NRCS will:

- Improve general and application access controls; and
- Improve stewardship reporting.

In FY 2013, NRCS will:

- Record in accordance with Federal accounting standards;
- Beginning net position balances and current-year activity;
- Obligation recoveries;
- Accruals;
- Obligations;
- Leases;
- Real and personal property;
- Advances;
- Deferred maintenance;
- Comply with the Standard General Ledger posting models; and
- Recoveries of prior obligations paid and unpaid.

ELIMINATING IMPROPER PAYMENTS

The Improper Payments Information Act (IPIA) of 2002 is designed to identify programs susceptible to significant improper payments and reduce the amount and number of erroneous payments. IPIA's goal is to improve the integrity of the government's payments and the efficiency of its programs and activities.

USDA first reported on improper payments in the 2004 Performance and Accountability Report (PAR) by disclosing error rates and amounts for the Supplemental Nutrition Assistance Program (SNAP) and the Federal Crop Insurance Corporation Program (FCIC). The Department currently has 16 programs considered at risk for significant improper payments. A program with significant improper payments has both a 2.5 percent error rate of the total program outlays and at least $10 million in improper payments. Measuring and reporting improper payments is mandatory for five of the programs included under the former Section 57 of OMB Circular A-11, Preparation, Submission, and Execution of the Budget. USDA identified the additional 11 programs at risk of significant improper payments through the Departmental risk assessment process. The risk assessment process is used to review USDA programs and activities and identify those that are susceptible to significant improper payments.

IPIA requires that agencies measure their improper payments annually, establish reduction targets and corrective action plans and track the results annually to ensure that the corrective actions are effective. USDA's Office of the Chief Financial Officer (OCFO) issued specific policy guidance including templates and timelines for implementing IPIA. USDA continues to make progress in accurately measuring and reporting improper payments, developing and implementing corrective actions, and recovering improper payments.

USDA's improper payment error rate of 5.37 percent for FY 2011, which is the same error rate reported in FY 2010. However, due to a $7.1 billion increase (8 percent) in high risk program outlays from FY 2010 to FY 2011, USDA's estimated improper payments amount were $5.4 billion for FY 2011, more than the estimated $5.0 billion in FY 2010. The increase in outlays was largely attributable to the increase in demand for food and nutrition assistance due to the economic downturn. Also affecting the improper payment error rate and amount for FY 2011 is the initial reporting of an error rate for the certification component of FNS' Women, Infants and Children program. The following FY 2011 results demonstrate that progress is being made to reduce improper payments:

- Seven USDA high-risk programs reported improper payment error rates lower than their FY 2010 error rate;
- Four USDA high-risk programs reported error rates below their reduction targets for FY 2011;
- Forest Service's Wildland Fire Suppression Management Program error rate of 0.00 percent was below its target of 0.02 percent and equal to its FY 2010 error rate of 0.00 percent;
- FNS' SNAP FY 2010 error rate of 3.81 percent, which is reported in FY 2011, was less than its target of 4.36 percent and less than its FY 2009 error rate of 4.36 percent, which was reported in FY 2010. The SNAP error rate is a historic low for the program. This is the seventh year in a row the program's error rate has been less than 6 percent. SNAP error rates are reported the following year because all data are not available to perform the statistical sample before required annual reporting;
- FSA's Market Assistance Loan Program error rate of 0.52 percent was below its target of 0.81 percent, and below its FY 2010 error rate of 0.81 percent;
- FSA's Noninsured Assistance Program error rate of 8.97 percent was below its FY 2010 error rate of 11.65 percent;
- FSA's Direct and Counter-Cyclical Program error rate of 0.05 percent was below its FY 2010 error rate of 0.96 percent, and below its target of 0.40 percent; and
- RMA's FCIP error rate of 4.72 percent was below its FY 2010 error rate of 6.05 percent.

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

For FY 2011, the root causes of USDA improper payments were categorized as:

- Two percent attributable to administrative error;
- Ninety-seven percent attributable to verification error; and
- One percent attributable to authentication error.

Actions taken by USDA during FY 2011 include:

- Developing and issuing a request for proposal to solicit payment recapture/recovery auditing services from a private sector recovery auditing contractor;
- Revising Departmental High-Dollar Quarterly Report guidance for improper payments identified in high-risk programs to provide additional clarification and transparency;
- Providing semi-annual reporting of additional error measurements for USDA's high priority programs SNAP and National School Lunch Program (NSLP);

- Providing an Annual Accountable Official Report to the USDA Inspector General for the USDA high-priority programs (SNAP and NSLP);
- Providing Departmental improper payments information for the Government-wide PaymentAccuracy.gov Web site that includes key indicators and statistics by program; and
- Completing risk assessments for 46 programs in FY 2011 as scheduled on a 3-year cycle. No new programs were declared high risk as a result of the risk assessments.

USDA's goals are to achieve reduction of improper payments and implement a Payment Recapture/Recovery Auditing (PRRA) initiative during FY 2012. In addition to meeting the requirements of the IPIA, USDA will continue to implement the requirements of Executive Order 13520 on reducing improper payments, Presidential Memorandums on enhancing payment accuracy and recapturing improper payments, and the Improper Payments Elimination and Recovery Act of 2010 (IPERA).

USDA's actions planned for FY 2012 include:

- Awarding a Departmental contract and implementing initiative for payment recapture/recovery auditing services to address IPERA requirements for identifying, preventing and recovering overpayments;
- Developing and implementing policy based on OMB guidance to be provided in FY 2012 regarding the "Do Not Pay List" and the GOVerify portal;
- Develop and implementing policies, controls, procedures, and checklists at appropriate levels to reduce improper payments;
- Creating aggressive correction plans that target the verification, authentication, and administrative root causes of errors and address internal control issues for each program;
- Providing training to field personnel and cooperative partners that address specific issues found in internal controls, control procedures, and the potential risks of noncompliance;
- Sustaining accountability at all levels by incorporating the employee's individual results into their annual performance evaluations;
- Providing grants and technical assistance to State agencies aimed at simplifying the application and eligibility determination systems of SNAP; and
- Participating in interagency workgroups to assist OMB in developing Government-wide guidance for implementing initiatives to reduce, prevent, and recover improper payments and recover overpayments.


Section 2

Annual Performance Report


The mission of the United States Department of Agriculture (USDA) 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 has established strategic goals to fulfill this vital mission. The goals were introduced in USDA's *Strategic Plan Fiscal Year 2010-2015* (usda.gov, see "About USDA"). The goals are:

1. To Assist Rural Communities to Create Prosperity So They are Self-Sustaining, Repopulating, and Economically Thriving;
2. To Ensure Our National Forests and Private Working Lands are Conserved, Restored and Made More Resilient to Climate Change, While Enhancing Our Water Resources;
3. To Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security; and
4. To Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals.

This Annual Performance Report section of the Performance and Accountability Report (PAR) is organized by the Department's strategic goals. The goals are then divided by objectives, which are supported by performance measures. These measures track activities and determine if a program met targets for the fiscal year (FY) just ended that were established at the beginning of the year and published in USDA's Annual Performance Plan. When performance targets are unmet, an explanation is provided.

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

Objective 1.1: Enhance Rural Prosperity

1.1.1 Number of jobs created or saved through USDA financing of businesses

Overview

USDA programs help finance rural businesses and promote opportunities for economic growth as measured by jobs created and saved. The jobs measure is comprised of several elements, which are described below.

The Department provides capital to enable rural businesses to participate in the global economy. A primary program furthering this goal is the Business and Industry Guaranteed Loan Program (B&I). B&I provides loan guarantees to private sector financial institutions to improve, develop, or finance business, industry, and employment, and to improve the economic and environmental climate in rural communities. This process is achieved by bolstering the existing private credit structure through the guarantee of quality loans, which provide lasting community benefits. During FY 2011, B&I obligated approximately $1.39 billion in guaranteed loans, and assisted in the creation of approximately 16,655 jobs in a struggling economy. These loans assisted 826 small businesses.

USDA operates a variety of Rural Development grant programs that provided funding to the neediest rural communities to assist in the development of utility infrastructure and housing, and to attract new businesses.

Some Rural Development grants can fund small targeted job-training programs. In addition to the Rural Business Programs, the Cooperative Programs offer a full menu of economic development loan and grant options. These options are delivered through cooperatives, non-profit organizations, institutions of higher learning, local and tribal governments, and other rural business and economic development stakeholders.

The Rural Energy for America Program (REAP) provides grants and loan guarantees to agricultural producers and rural small businesses to help them purchase and install renewable energy systems and energy efficiency improvements. These grants can also support energy audits and technical assistance for energy efficiency and renewable energy projects. REAP funds projects ranging from biofuels to wind, solar, geothermal, methane gas recovery, advanced hydro, biomass, and ocean.

Renewable energy projects funded by USDA loan guarantees and grants improve the local economy by creating new jobs at energy plants, enhancing the tax base, and increasing local business profits. Recent funds allowed many agricultural producers and rural small business owners to decrease their energy consumption and increase their profit margins.

During FY 2011, REAP obligated approximately $57 million in grants and $34 million in guaranteed loans. This process generated 2.1 billion kWh of renewable energy. kWh is a billing unit for energy delivered to consumers by electric facilities.

Analysis of Results

The goal for the performance measure was unmet. Rural Business and Cooperative Programs seek to enhance rural prosperity by supporting rural businesses and encouraging job creation. Success toward reaching this goal is measured by jobs created and saved. The number of jobs created or saved annually is linked directly to the amount of total available funding, amount of funds disbursed to awardees, and local economic conditions. Therefore, annual job targets are based on historic program performance, program costs, and annual appropriations. Budget authorities, program costs, and program levels vary annually. These factors resulted in a general decline in annual job numbers. Original 2011 targets were based on projected budget authority and program levels from the prior fiscal year. Actual budget authority and program levels were less than expected. The shortage in anticipated funding had an adverse effect on the number of jobs created and saved.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.1.1 Number of jobs created or saved through USDA financing of businesses	72,710	71,100	68,185	68,894	72,873	66,824	Unmet
Rationale for Met Range: Job projected data are gathered when projects are obligated in the Guaranteed Loan System (GLS) data warehouse based on a formula driven by historic results. Final job counts are verified on closing the loan and grant. . The tolerance range for the measure to be "met" is 5 percent.							

Data Assessment of Performance Measure 1.1.1

Business program data are collected in various systems and ways. The program's finance office records and reports total loan and grant obligations as of the date they are executed. These data are collected as part of the obligation process. The Guaranteed Loan System (GLS) collects additional information to satisfy reporting requirements, and for management and evaluation purposes. This information includes the number of jobs projected at obligation and verified jobs created or saved at the transaction's closing. Data used to determine the Business and Industry Guaranteed Loan Program's delinquency status are generally reported directly by lenders into GLS. For other programs, USDA staff reports delinquency information.

- **Completeness of Data** — Business program data are considered final and complete as of September 30 at the close of the fiscal year, unless there are any year-end closing adjustments.
- **Reliability of Data** — Business and Industry guaranteed loan borrower financial performance is reported by many, but not all, lenders semi-annually to USDA. Grantees generally report quarterly or semi-annually. There is inconsistency in the time periods represented by lender reports. In lieu of a reliable, consistent, and complete data set from lenders, the program's finance office's financial data have been found acceptable to the U.S. Office of Inspector General, as are state office-verified data on the financial performance of loans. Data for jobs created or saved are obtained by State office staff from

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
borrowers and lenders. They are entered into GLS at the same time obligations are recorded. These data are reliable when they have been updated and verified by State staff. USDA reports the computed jobs saved or created based on underlying market and financial feasibility projections that support loan applications. The jobs are counted only in the fiscal year in which the loan is obligated. The delinquency rate, which excludes loans in bankruptcy, is based on reports supplied by lenders on the performance of each loan. While the percentage of States verifying third-party financial and jobs data have improved each year, further improvements are needed. The Department is testing an economic model to more accurately and completely show the impact of business programs in rural areas. • **Quality of Data** — While the percentage of States verifying third-party financial and jobs data has improved each year, further improvements are needed. The economic model described above should lead to these improvements.							

Description of Actions for Unmet Measures

The target for jobs created and saved is based upon the President's FY 2011 budget request. The 2011 Appropriations Act provided a lower level of funding than requested, which hampered the agency's ability to meet the established target.

As budget constraints continue, USDA is exploring new and innovative ways to promote job creation in rural areas. In 2011, USDA initiated several projects aimed at leveraging Rural Business and Cooperative Programs' investments in rural economic development with other private and public investments through the use of tax credits and capital markets. These efforts resulted in public/private partnerships with several Federal and local government agencies as well as private businesses. Additionally, USDA implemented a regional outreach strategy in FY 2011 that is also aimed at increasing investment in rural economic development. By engaging more partners in rural economic development, funds can be better leveraged and rural communities can continue to grow their economies.

Challenges for the Future

Rural communities are diverse and their economic challenges vary based on the condition of the industries which drive their economies. Generally speaking, rural areas with heavy reliance on the manufacturing and agricultural industries have struggled to remain competitive in the global economy for more than a decade. Fierce competition and technological advances in these industries have led to job losses in rural communities. Subsequently, job losses have led to population declines. Many college bound rural youth do not return to the communities where they were raised after they graduate.

Furthermore, rural areas typically have underdeveloped public services that make it difficult to attract or retain businesses. The lack of public funding for amenities which are common in urban areas, such as dedicated business parks or expanded transportation links, creates additional challenges. The persistent lack of well paying job opportunities (and the related local tax base ramifications) places many rural county and municipal governments under great stress as they attempt to meet the community development and human services needs of their constituents.

These challenges along with the lagging national economy will continue to put pressure on rural communities. Nevertheless, rural areas remain steadfast in their pursuit of prosperity. USDA's Rural Business Cooperative Programs provide financial assistance and expertise to rural businesses that assist rural communities' capacity to create prosperity so they are self-sustaining, repopulating, and economically thriving.

1.1.2 Number of Borrowers/Subscribers Receiving New or Improved Telecommunication Services

Overview

The telecommunications program provides loans and grants specifically targeted for the deployment of broadband service in small towns and communities. Utilizing advanced telecommunications services, the telecommunications program provides USDA with a powerful tool in building strong rural economies, and increasing educational and health care services in rural communities across the Nation. This program finances broadband services that support the economic growth of rural communities, including the creation or retention of rural businesses and jobs. All facilities financed must be capable of providing high-speed Internet services. Matching funds from loan and grant participants provide leveraging of the Federal funding with private financial resources.

Analysis of Results

The telecommunications program did not meet its performance measure for FY 2011. This is primarily due to the impact of delays in implementing new regulations for the broadband loan program.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.1.2 Number of borrowers/subscribers receiving new and/or improved telecommunication services (millions)	0.36	0.78	0.18	0.14	0.30	0.18	Unmet
Rationale for Met Range: Annual targets for this measure are based on historic activity and adjusted according to program level received each fiscal year. Met range represents a possible 7-percent deviation from target.							

Data Assessment of Performance Measure 1.1.2

- **Completeness of Data** — Data are actual, final and complete. The subscriber data are collected from each approved loan application. Applicants are required to detail their proposed service territories and subscribers. Loan funds are advanced only for approved purposes. Measuring the extent to which broadband service is deployed in rural America will enable USDA to assess improved economic conditions because of the availability of high-speed telecommunications network access for residents and business. The data on the number of subscribers to be served for each loan are derived from applicants' loan applications. Data must be complete before loans can be approved.
- **Reliability of Data** — While in many cases applicants are required to perform market surveys of their proposed service areas, the actual subscribers served may vary from the plan if all funds are not used or the borrower later requests a change of purpose from the original loan application. Overall, the data on subscribers are reliable.
- **Quality of Data** — All applications undergo an extensive review to determine eligibility. Additionally, all approved applications must show feasibility from a financial and technical standpoint. Applicants also are required to perform market surveys of their proposed service areas. Therefore, the data are reliable. As previously noted, the data on the number of subscribers to be served for each loan approved come from the applicant's loan application. The data depend on the borrower drawing down loan funds and constructing the system as portrayed in the applicant's loan design. Loan funds only may be used for the approved purposes for which the loan was made. Variance may result if a borrower does not draw down all loan funds or request approval for a change of purpose from the original loan. This could result in a different number of subscribers from the number specified in the plan.

Description of Actions for Unmet Measures

USDA was in the process of revising regulations upon the passage of the American Reinvestment and Recovery Act (ARRA). The unprecedented level of funding included in. The unprecedented level of funding included in the ARRA required dedicated staff resources to ensure immediate implementation of the program. Once ARRA funding was fully implemented, USDA continued development of regulations for the ongoing Farm Bill broadband program. Revised regulations were published in March 2011, limiting the number of months that loans could be developed by borrowers, processed and approved. Also, the new regulations required all applicants with loan applications that had been pending prior to the publication of the regulations to be revised and resubmitted. These conditions significantly contributed to the target being unmet.

Challenges for the Future

USDA will continue to monitor and service the telecommunications program portfolio. This portfolio rose by more than $3 billion in American Reinvestment and Recovery Act (ARRA) funding. ARRA includes measures to modernize the Nation's infrastructure, enhance energy independence, expand educational opportunities, preserve and improve affordable health care, provide tax relief, and protect those in greatest need. The hundreds of new ARRA broadband projects must be monitored to ensure the projects' completion within the required timeframe. The Department will coordinate with the Federal

Communications Commission as it reviews and moves towards implementing the National Broadband Plan and other initiatives. Major policy revisions are expected in areas such as the Universal Service Fund. This revision could negatively impact USDA's telecommunications portfolio.

OBJECTIVE 1.2: CREATE THRIVING COMMUNITIES

1.2.1 Number of borrowers/subscribers receiving new or improved service from agency funded water facility

Overview

The water and environmental programs provide rural communities with modern, affordable water and waste disposal services. USDA directs technical and financial program resources to rural communities with the greatest need. These communities may be poverty-stricken because of out-migration, natural disasters, or economic stress. Despite such events, all rural communities can sustain economic development and improve the quality of life for their residents with dependable water and waste services and infrastructure.

A network of 47 USDA State offices, supported by area and local offices, delivers the programs in the States and U.S. territories. This network provides such technical assistance as reviewing projects for engineering, environmental, and financial feasibility. Credit advice and assistance is provided to the applicants and borrowers throughout the loan making, construction, and system management and maintenance processes. Staff works closely with program participants, their project engineers, and State regulatory agencies to ensure that projects are reasonable, affordable, and based on commonly accepted engineering practices.

Analysis of Results

The water and environmental programs exceeded its FY 2011 overall annual performance target for number of borrowers/subscribers receiving new and/or improved service from agency funded water facilities. The water and environmental programs had anticipated serving 1,394,000 program borrowers' customers (subscribers) through regular funding. It exceeded that number by serving 4,468,329 program borrowers' customers (subscribers).

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.2.1 Number of borrowers/subscribers receiving new or improved service from agency funded water facility (millions)	1.3	4.4	3.4	3.9	1.4	4.5	Exceeded

Rationale for Met Range: Annual targets for this measure are based on historical activity and are adjusted according to program level received each fiscal year. Met range represents a 5-percent deviation from target.

Data Assessment of Performance Measure 1.2.1

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

Challenges for the Future

Rural communities must invest in modern water and wastewater facilities to attract families and businesses that are vital to thriving communities. The communities must decide wisely how to balance investing in new facilities to serve new or proposed customers with investing in upgrades to facilities that serve existing customers. They must weigh growing their customer base, controlling costs, and modernizing or upgrading aging facilities. Gaining access to credit markets and leveraging funds from Federal, State, and private sources will continue to challenge rural communities.

1.2.2 Homeownership Opportunities Provided

Overview

Home ownership remains important to strong, vibrant rural communities. USDA's Single Family Housing (SFH) Programs continue to make the American dream possible for thousands as this assistance fills a void in the Nation's housing financing. Since the first loan in 1950, USDA housing programs have benefited more than 3.3 million rural families with the assistance of more than $160 billion. This includes 151,000 loans, grants and guarantees totaling $17.8 billion in FY 2011.

This assistance goes to families with limited incomes unable to receive assistance elsewhere (or to obtain a home loan without a guarantee). Even so, loan delinquency and foreclosure rates remain well below other similar programs. Continued, sensible loan underwriting and common sense servicing which assures families will remain successful homeowners, allowed this program to succeed.

Analysis of Results

While the FY 2011 target of 186,015 homeownership opportunities was not met as recorded in the chart below, homeownership opportunities were provided at record levels in both the direct and guaranteed programs.

Beginning in FY 2011, the SFH guaranteed loan program became a negative subsidy rate program by imposing a fee structure to support the costs of the program. Accordingly, Congress does not need to appropriate budget authority (i.e. tax dollars) for this guaranteed loan program as the fee structure generates enough capital to make the program self supporting. However, Congress does establish the program level for guaranteed loans through the annual appropriations process. With the advent of the negative subsidy rate Congress increased the available program level from about $12 billion in FY 2010 to $24 billion in FY 2011.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.2.2 Homeownership opportunities provided	43,942	67,420	56,613	127,735	186,015	140,100	Unmet
Rationale for Met Range: The range of 10 percent to meet the target is based on the historical variance from the target during the past several years in the number of houses sold in the Guaranteed and Direct Single Family Housing Loan Programs.							

Data Assessment of Performance Measure 1.2.2

- **Completeness of Data**—Homeownership data are complete and final. Homeownership data are entered in the Web-based Dedicated Loan Origination and Servicing (DLOS) system. This centralized server application ensures viable data collection. DLOS tracks performance and can be used to forecast needs. Information is entered into UniFi and uploaded nightly to MortgageServe System. This system obligates funds, establishes closed loans, administers escrow accounts, and performs other administrative functions. Hyperion, a query and reporting tool, serves as the interface between the data warehouse and USDA staff.
- **Reliability of Data**—Homeownership data originate in systems used to obligate funding and are reliable. Data for initial placement of households into their own home are reliable. They are linked directly to homeownership loans maintained in USDA's financial accounting systems. No adjustments are made for later defaults and the resulting loss of homeownership.
- **Quality of Data**—Homeownership data are based on loan obligations collected in DLOS, and stored in USDA's data warehouse. Thus, the data on the number of households are auditable. Data represent the population served based on the available U.S. Census Data.

The definition of Homeownership Opportunities was expanded, beginning in FY 2011, to include all Section 502 direct and guaranteed loans, both initial and subsequent, to purchase a home. Using this new definition, homeownership opportunities for FY 2007-2010 were:

Fiscal Year	Guaranteed	Direct	Total
2007	35,322	11,450	46,772
2008	62,933	10,185	73,118
2009	133,043	12,167	145,210
2010	133,053	17,665	150,718

Descriptions of Actions for Unmet Measures

USDA's single-family housing programs provided an unprecedented level of funding to support the mortgage credit industry in rural areas. Funding for this program was authorized at historical levels in fiscal year 2011. This level of funding was supported by a fee structure that eliminated the need for Federal budget resources. USDA utilized these programs to meet current demand for mortgage credit in rural areas, however, demand continues to grow for single family housing financing as interest rates continue to fall.

Challenges for the Future

The need for all USDA single-family housing programs continues to grow. Despite significant changes to the guaranteed program because of a different fee structure and the late appropriations process during the past year, approved lenders turned to the guaranteed program near or above previous record levels. With few other affordable lending products available, continued increased demand is expected.

Demand for the direct home loan and repair programs remains strong, with the application backlog exceeding the amount of annual funding.

USDA's first challenge is to keep pace with the volume of applications. Improvements to the Guaranteed Underwriting System (GUS) and other similar automation products will move the approval and servicing of guarantees to an increasingly efficient and, eventually, paperless process. An automated "decisions tool" similar to GUS is being developed to streamline the direct loan program, as well.

The second challenge for the housing programs is to meet the ongoing demand for funding. The guaranteed program is now subsidy neutral, or fully supporting by the fees it collects without the requirement of funding from taxpayers. The program's subsidy-neutral status will allow for ample funding for the foreseeable future. The long-time goal of increasing access to housing for those, particularly minorities, in the poorest and most remote areas remains unfulfilled. For as long as the general economy in rural areas languishes and the housing market remains cool, USDA housing programs remain in demand.

1.2.3 Percentage of customers who are provided access to new and/or improved essential Community facilities

Overview

The Community Facilities (CF) program provides direct and guaranteed loans for the development of essential facilities in communities with a population of less than 20,000. Essential community facilities include hospitals; schools, libraries, and similar education facilities; nursing homes and assisted living facilities; police, fire, and rescue buildings, vehicles, and equipment; streets and bridges; child care and adult day care; and similar facilities needed for the orderly development of a community.

Analysis of Results

Community Programs (CP) has chosen health care; fire/rescue and public safety facilities; and education facilities as proxies for measuring the program's effectiveness. These three areas have historically been the areas of greatest demand for funding. In FY 2011, CP enjoyed a successful year, exceeding the targets in each of its performance measures, as demonstrated below.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.2.3 Percentage of customers who are provided access to new and/or improved essential community facilities							
Health Facilities	5.2	5.3	5.4	3.2	3.2	5.2	Exceeded
Safety Facilities	2.7	2.8	5.0	3.2	3.2	4.3	Exceeded
Educational Facilities	N/A	N/A	3.5	3.8	3.0	3.8	Exceeded

Previous year data has been recomputed since FY10.

Rationale for Met Range: Given the range of eligible CF project types and the varying service area to be expected for each, developing a rationale is difficult. Results within 0.2 points on either side of the target will be considered to "meet" the goal.

Data Assessment of Performance Measure 1.2.3

- **Completeness of Data** – Program data are complete and final. The Finance Office records and reports total loan and grant obligations as of the date of obligations. Additionally, USDA collects information for management and evaluation purposes. Data on delinquencies are reported by the Finance Office for CF direct loans, and by lenders for CF guaranteed loans.
- **Reliability of Data** – CF data are entered into the Guaranteed Loan System (GLS) by field staff as the program funds are obligated. GLS is an official accounting and financial management system of the Department's. These data are final, complete, and reliable. They include the population served based on available U.S. census information. The service area for each facility is based on estimates. The Department screens the data regularly for irregularities. Given the variety of areas served by different types of community facilities, estimating the service area is not a precise science. Population estimates are based on engineering studies used for the design of new or expanded facilities. USDA is developing mapping technologies to improve this process.
- **Quality of Data** – Data are projected on historical performance. The target information uses data dependent upon the baseline projections from numerous Department agencies.

Challenges for the Future

The ever-increasing cost and complexity of many facilities, especially in health care and education, pose the greatest challenge. Many rural communities are, by definition, small with a limited (and often dwindling) population. Capital markets remain limited in these areas. Often, these communities also have a limited tax base. It will be a major challenge to determine how to maintain quality services, with up-to-date technology, while keeping costs affordable. This process will be vital as the economy stabilizes.

1.2.4 Number of borrowers/subscribers receiving new and/or improved electric facilities

Overview

Providing reliable, affordable electricity is essential to the economic well-being and quality of life for all rural residents. USDA's electric loan program provides leadership and capital to upgrade, expand, maintain, and replace America's vast rural electric infrastructure. The program makes direct loans and loan guarantees to electric utilities and other entities that serve customers in rural areas. The loans and loan guarantees help finance electric distribution, transmission, and generation facilities. These loans and loan guarantees include system improvements and replacement, demand-side management, energy efficiency and conservation programs, and on-grid and off-grid renewable energy systems. Loans are made to entities that provide retail electric service in rural areas and/or supply the power needs of rural electric distribution providers. Eligible borrowers include corporations, States, territories, municipalities, people's utility districts, and cooperative, nonprofit, limited-dividend, or mutual associations.

Analysis of Results

The electric program exceeded its goal to provide new and improved electric facilities that benefit our borrowers' retail electric consumers across rural America. With the assistance of USDA electric loans, borrowers will provide new or improved electric service to 7.1 million retail consumers, including 115,507 new rural customers. The $4.8 billion in new loans and grants approved in FY 2011 provides a major source of funding in advancing the modernization of electric infrastructure in rural America. Additionally, the Department has $5.2 billion in the pipeline, currently fulfilling National Environmental Policy Act (NEPA) requirements, which will further support rural customers.

The program continues to prioritize energy efficiency projects, supporting the Recovery through Retrofit Initiative and created the Rural Economic Development Energy Efficiency Efforts. In FY 2011, USDA approved $7.28 million for energy efficiency improvements to continue its commitment to alternative energy production, and approved $294 million in new loans for renewable electric generation facilities. Additionally, the Department has provided more than $150 million in loans to support grid modernization, $653 million through new and/or improved transmission and, $1.3 billion for distribution improvements.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.2.4 Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	5.8	8.1	9.8	9.4	6.1	7.1	Exceeded
Rationale for Met Range: Annual targets for this measure are based on historical activity and are adjusted according to program level received each fiscal year. Met range represents a 5 percentage-point deviation from target.							

Data Assessment of Performance Measure 1.2.4

- **Completeness of Data** — The Rural Utilities Service (RUS) Electric Programs performance data are collected from various agency documents including RUS Form 740c, Borrower's Statistical Profile, Information Publication 201-1, and borrower loan applications. The data are complete and accurate, and collected at the time of loan approval and/or reported annually.
- **Reliability of Data** — First-time loan applicants must submit extensive financial and electric system data in support of their loan. Existing borrowers are required to report financial and operating data annually to the RUS. The data are used to administer Department loan funds and to ensure the security of the loans. Borrower information and loan and grant approvals and advances are tracked in the Commercial Loan Servicing System (CLSS). Borrower financial and system reports and information are collected and maintained through the data collection system in the Rural Development data warehouse.
- **Quality of Data** — Performance goal data on the number of borrower consumers receiving new or upgraded electric service is derived from information in loan applications and annual reports. All applications are reviewed for compliance with all eligibility requirements for the various Electric Programs loans, guarantees and grants. All approved applications must demonstrate financial feasibility and adequate loan security. Loan funds may be used only for the approved purposes for which the loan was made. Borrower loan applications and annual submissions are reviewed by field representatives and Headquarters staff for completeness and accuracy.

Challenges for the Future

The electric program will continue to work with new and existing borrowers to assure the availability of reliable, affordable, and clean electric service. Rural electric providers face many challenges and uncertainties because of economic conditions and new environmental and energy policy initiatives that are raising retail rates.

RUS is focusing efforts on developing new renewable electricity projects and in implementing energy efficiency and conservation programs has increased to mitigate these hurdles. In response, USDA is working on regulations and policies that will fully implement the new energy efficiency and renewable energy authorities of the 2008 Farm Bill and meet the needs of program users.

OBJECTIVE 1.3 SUPPORT A SUSTAINABLE AND COMPETITIVE AGRICULTURAL SYSTEM

1.3.1 Percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by Farm Service Agency (FSA)

Overview

USDA loan programs provide access to credit for farmers and ranchers who are temporarily unable to obtain financing from a commercial source at reasonable rates and terms. Through direct and guaranteed farm ownership and operating loans, USDA assists tens of thousands of family farmers each year in starting and maintaining profitable farm businesses. Loan funds may be used to pay normal operating or family living expenses, make capital improvements, refinance certain debts, and purchase farmland, livestock, equipment, feed, and other materials essential to farm and ranch operations. The loan programs are particularly important to beginning, minority, and women farmers. These farmers typically have fewer available resources. Thus, they tend to be less likely to qualify for commercial credit. USDA services extend beyond the typical loan by offering customers ongoing consultation, advice, and creative ways to make their farm businesses thrive. The Department is the lender of first opportunity because it provides agricultural producers needing assistance an entry into agriculture production.

Analysis of Results

USDA exceeded its FY 2011 performance target. The Department provided nearly 30,000 loans to farmers and ranchers. This included nearly 23,000 operating loans valued at more than $2.1 billion. Close to 13,000 of the operating loans, worth nearly $1 billion, were issued to beginning, racial and ethnic minority, and women farmers. USDA also issued more than 7,000 farm ownership loans valued at more than $2 billion. Of these loans, nearly 3,500 loans worth more than $800 million went to beginning, racial and ethnic minority, and women farmers. As of September 30, 2011, USDA had more than 57,000 beginning, minority, and women farmers in its portfolio of direct and guaranteed loans. This figure represents more than 54 percent of its total farm loan portfolio. By comparison, at the end of FY 2008, there were about 43,000 beginning, minority, and women farmers in the portfolio.

The financial strength of the USDA farm loan portfolio remains strong. Delinquency and loss rates for the direct and guaranteed loan programs remain below historic averages. Additionally, the Department continues to meet goals for the timeliness of loan application processing, helping to ensure that credit is provided when the need arises.

Performance Measure	2007	2008	2009	2010	2011 Target	2011 Actual	Results
1.3.1 Percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by FSA (percent)	15.9	16.22	17.4	19.1	18.0	21	Exceeded

The FY 2011 result is estimated based on actual data through July 31 and a fourth-quarter projection.
Rationale for Met Range: Data assessment metrics to meet the target allow for an actual number in the range 17.5-18.5 percent, as the threshold is +/-.5

Data Assessment of Performance measure 1.3.1

Farm Loan Programs (FLP) data reside in the Program Loan Accounting System, Guaranteed Loan System, Direct Loan System, and FLP databases. Information obtained from the 2002 Census of Agriculture is also used for this performance measure. The measure is calculated by taking the total number of minority, women, and beginning farmers in the loan portfolio, and dividing it by the numbers of members of those three groups listed in the 2002 Census of Agriculture with at least $10,000 in sales. This sales figure excludes hobby farms, which are not the intended market for FLPs.

- **Completeness of Data –** Data reported is final as of September 30, 2011.

Performance Measure	2007	2008	2009	2010	2011 Target	2011 Actual	Results

- **Reliability of Data –** Data are considered reliable. System enhancements and built-in edits coupled with comprehensive internal control review programs help ensure data reliability and quality. While Census of Agriculture data are considered reliable, the resulting percentage reported likely understates the importance of the USDA service to those targeted groups. Despite this limitation, these data are the best available for estimating Department performance in reaching the targeted groups.
- **Quality of Data –** FLP data are of high quality. Most FLP data originate from accounting systems, which are subject to Office of Inspector General audit. FLP data are collected for multiple purposes and gathered throughout the normal lending process. Data derived from the 2002 Census of Agriculture were developed in FY 2006. This information will be used until the next strategic plan update. At that time, more current Census of Agriculture data will be used, and a new baseline and performance targets will be established.

Challenges for the Future

USDA has improved the operational effectiveness and efficiency of the farm loan programs through program streamlining and information technology initiatives implemented over the past few years. Process improvement initiatives are ongoing and will be increasingly important as program resources decline while loan demand remains high because of restrictive commercial credit availability.

Additionally, as the U.S. agricultural sector continues to change, with farms becoming larger and increasingly dependent on technology, entry into farming has become more capital intensive. Farm operating costs also continue to rise. This factor causes significant barriers and challenges for the groups that USDA FLPs are intended to assist.

1.3.2 Maintain or increase percentage of Farm Service Agency (FSA) program delivery applications at USDA Service Centers that are Web-enabled

Overview

A key performance measure for Information Technology (IT) modernization is the percentage of program delivery applications at USDA Service Centers that are Web-enabled and do not use obsolete legacy systems. Web-enabled centers permit a timelier, more accurate, and more reliable delivery of benefits to producers. Improving the broad array of IT systems, including those for farm program delivery, farm loan programs, disaster assistance, and conservation programs, enhances services provided to producers and alleviates the risk of IT system failure due to the outmoded technology. Once it is fully operational, the Modernize and Innovate the Delivery of Agricultural Systems (MIDAS) initiative will improve the delivery of farm programs through re-engineering business processes and implementing modern IT.

Analysis of Results

USDA met the FY 2011 performance target of increasing the number of Web-enabled program delivery applications to 68 percent of total applications. Web-enabled applications allowed users to access the information systems applications via standard Web browsers.

The Department continued to make progress in reducing dependency on obsolete technology. USDA completed the 2011 crop acreage reporting requirement using the Web-enabled Crop Acreage Reporting System (CARS). The system certified more than 2,200,000 acreage reports from October, 2010 to July, 2011. The 2011 Noninsured Crop Disaster Assistance Program (NAP) payments were made available on the Web with more than $7.8 million in payments to date. The Department began capturing farm operating plans for individual producers in a Web-enabled business file application to support program eligibility determinations. Having this information in a centralized location allows USDA to implement payment programs in a more timely fashion. The Department is also on schedule to complete the consolidation of geo-spatial assets into a central repository, thereby eliminating dependency on outmoded servers in USDA Service Center offices. Thus, the integration of geospatial data with MIDAS and other enterprise business operations can take place.

Performance Measure	2007	2008	2009	2010	2011 Target	2011 Actual	Results
1.3.2 Maintain or increase percentage of FSA program delivery applications at USDA Service Centers that are Web-enabled	N/A	54%	51%	57%	68%	68%	Met
Rationale for Met Range: Data assessment metrics to meet the target allow for an actual number in the range of 67.5-68.5 percent, as the threshold is +/-.5 percentage points.							

Data Assessment of Performance measure 1.3.2

The FSA Systems Inventory Report System lists systems by investment, which supports FSA common business functions. It also identifies child systems, system modules, and system components providing a sub-set of business functions contained in a system, including any standalone applications that are subordinate to a system. The FSA Systems Inventory Report is reviewed manually to determine which systems are or include program delivery applications. The report also identifies the platform on which the program delivery applications are delivered.

- **Completeness of Data** – Data reported were considered final as of September 30, 2011.
- **Reliability of Data** – Data are considered reliable. The measurement process involves counting the number of Web-enabled program delivery applications used in the service center identified in the FSA Systems Inventory Report. That number is then divided by the total number of program delivery applications used in the service center to calculate the percentage of these program delivery applications that are Web-enabled. The report is updated weekly. The numerator is the number of Web-enabled program delivery applications used at the USDA Service Center. The denominator is the total number of Web-enabled program delivery applications that could be Web-enabled for service center use.
- **Quality of Data** – The FSA Systems Inventory Report is derived from the MEGA IT Architecture Repository. The data must be reviewed regularly by the system custodians. Any needed changes are incorporated periodically and prior to developing and reporting this measure of the percentage of these program delivery applications that are Web-enabled.

Challenges for the Future

The major challenge is to maintain momentum in modernizing USDA's IT and replacing aging, outmoded systems quickly enough to avoid system failures within limited budgets.

1.3.3 Dollar value of agriculture trade preserved through trade agreement negotiation, monitoring, and enforcement of non-SPS activities

Overview

USDA works closely with the Office of the U.S. Trade Representative (USTR) to enforce existing trade agreements and negotiate new ones. These trade agreements expand access to global markets for U.S. agriculture. During FY 2011, USDA assisted USTR in efforts to secure Congressional approval of three free trade agreements. Once implemented, these agreements are expected to expand U.S. agricultural exports annually by more than $1.9 billion for Korea, $370 million for Colombia, and $46 million for Panama.

The Department has played an integral role in the negotiations on the agricultural portions of the Doha Development Agenda (DDA) at World Trade Organization (WTO) meetings in Geneva. WTO is responsible for establishing the global rules of trade between nations. DDA's goal is to reach substantial improvements in market access; reduce, with a view to phase out, all forms of export subsidies; and make substantial reductions in trade-distorting domestic support. While the WTO meetings did not result in a final agreement, USDA officials continue to work to expand global trading opportunities and increase U.S. agricultural exports. As part of those efforts, USDA contributes to the President's goals for the National Export Initiative, which is designed to help farmers and small businesses increase their exports and expand their markets.

Work on the Trans-Pacific Partnership, an Asian-Pacific trade agreement designed to increase American exports in the region and create jobs domestically, continues. Negotiations with member countries, Australia, Brunei, Chile, New Zealand, Peru, Singapore, Malaysia, and Vietnam, focused on market access improvements, technical barriers to trade (TBT), regulatory coherence, sanitary and phytosanitary (SPS) measures, rules of origin, trade capacity building, and the environment. This work boosted efforts in developing a high-standard, 21st-century trade agreement which will create more trading opportunities. TBT refers to those technical regulations and product standards that may vary from country to country. Having many different regulations and standards can present barriers to exporting. SPS refers to measures imposed by governments to protect human, animal, and plant health from pests, diseases, and contaminants.

The Department assisted in negotiating bilateral accession agreements with countries seeking WTO membership. USDA played a critical role in supporting negotiations with countries such as Russia, Kazakhstan, Serbia, and Samoa. Current meat and poultry regulations affect U.S. exports to Russia and, because Russia is the largest economy not a member of WTO, negotiations to expand market access and improve regulatory systems are important.

USDA and USTR also successfully entered into a Memorandum of Understanding and related framework with Brazil for a mutually agreed upon solution to a WTO dispute regarding U.S. domestic cotton supports and the export credit guarantee program. The framework serves as a basis to avoid trade-related, WTO-authorized countermeasures by Brazil that would have negatively affected U.S. exports and interests.

Analysis of Results

USDA met the performance measure, which estimates the value of trade preserved through WTO agreement enforcement, creation, and maintenance of free trade agreements, and addresses trade barriers. Extensive monitoring and enforcement of existing trade agreements by the Department helped to reach this target again in 2011.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.3.3 Dollar value of agriculture trade preserved through trade agreement negotiation, monitoring, and enforcement non-SPS activities ($billions)	$0.7	$0.5	$0.4	$0.5	$0.5	$0.5	Met

Rationale for Met Range: The target for this measure is controlled by foreign parties. It reflects U.S. expectations for negotiating new agreements, addressing compliance with existing trade agreements, and resolving trade access issues that arise so U.S. exports can continue. Data assessment metrics to meet the target allow for an actual number in the range $0.4-$0.6 ($ billions).

Data Assessment of Performance Measure 1.3.3

Data for the World Trade Organization and tariff rates are projected estimates based on results posted to USDA's performance tracking system. Data for successfully retaining and assuring U.S. trade access to export markets are projected estimates based on results posted during the first three quarters of FY 2011.

- **Completeness of Data** - Data for successfully retaining and assuring U.S. trade access to export markets are projected estimates based on results posted during the first three quarters of FY 2011.
- **Reliability of Data** – Data are reliable and used by the Department to highlight successes in the trade-policy arena.
- **Quality of Data** - USDA maintains a standardized methodology to forecast trade impacts. Calculation of trade benefits from preserving existing trade is fairly straightforward and easy using this standard methodology. The primary sources of trade data are the U.S. Department of Homeland Security's U.S. Customs and Border Protection, the U.S. Census Bureau, the USDA publication, Foreign Agricultural Trade of the United States, and other databases. Other sources include market reports compiled by Department and industry estimates. Since measuring expected trade benefits from broad new trade agreements is extremely difficult, USDA evaluates its estimates against other outside estimates when available.

Challenges for the Future

The key challenge for increasing access to global markets is progress in DDA WTO negotiations. USDA will also continue to monitor and take action on trade barriers relating to established trade agreements. Barriers will continue to be addressed though the WTO dispute-settlement process, while others will be addressed bilaterally. The improvement in market opportunities under bilateral and regional trade agreements is contingent on the approval and implementation of agreements by all partners.

1.3.4 Value of trade preserved annually through USDA staff interventions leading to resolution of barriers created by Sanitary/Phytosanitary or Technical Barrier to Trade measures

Overview

Sanitary and Phytosanitary (SPS) measures are those imposed by Governments to protect human, animal, and plant health from pests, diseases, and contaminants. USDA works closely with the Office of the U.S. Trade Representative (USTR) and other agencies to pursue and enforce trade agreements to ensure that technical regulations and measures are designed to enhance food safety and protect plant and animal health, and do not serve as unjustified barriers to trade. The Department staff that work on these issues include veterinarians, economists, marketing experts, and plant pathologists.

During FY 2011, USDA resolved numerous SPS and other technical barriers to trade (TBTs), including:

- Gaining Indonesia's approval of new varieties of biotech corn and soy;
- Achieving less restrictive beef access agreements with Chile and Egypt;
- Reopening the Algerian market to U.S. dairy products;
- Gaining Vietnam's certification that the U.S. remains eligible to ship plant products;
- Securing Saudi Arabia's removal of a ban on food coloring; and
- Opening the western Australian market to U.S. cherries.

Analysis of Results

USDA exceeded the performance measure. USDA's selection of this performance measure reflects the growing importance of addressing SPS and TBTs to maintain or expand trade. The majority of SPS and TBT measures impacted food products rather than bulk agricultural commodities.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.3.4 Value of trade preserved annually through USDA staff interventions leading to resolution of barriers created by Sanitary/Phytosanitary (SPS) or other technical barriers to trade (TBT) measures ($billions).	2.5	7.3	9.5	3.6	4.0	4.1 (estimate)	Exceeded

Rationale for Met Range: The target for this measure is controlled by foreign parties. It reflects U.S. expectations for addressing compliance with existing trade agreements and resolving trade access issues that arise so that domestic exports can continue. A met or exceeded target reflects USDA successes in addressing these barriers. An unmet target may conceal that USDA monitoring activities prevented noncompliance.Data assessment metrics to meet the target allow for an actual number in the range $3.4-$3.8 (billions).

Data Assessment of Performance Measure 1.3.4

USDA uses a performance tracking system to collect and analyze actual performance data. The data are collected from the Department's network of overseas offices and headquarters staff. The staff conducts trade compliance and enforcement activities. This work provides trade negotiation support USTR

- **Completeness of Data** - Data for successfully retaining and assuring U.S. trade access to export markets are projected estimates based on results posted during the first three quarters of FY 2011.
- **Reliability of Data** – Data are reliable and used by agency officials to highlight successes in the trade policy arena.
- **Quality of Data** - In addition to audits and internal control review of the performance tracking system, an established procedure is maintained to review each reported success for verification and the prevention of double counting.

Challenges for the Future

The prevention and resolution of SPS and TBTs are essential for U.S. agricultural products to receive the full benefits of market liberalization gained through multilateral trade negotiations. As developing countries become increasingly active in the global trading system and as U.S. trading partners, their ability to develop and implement transparent, science-based regulatory systems is increasingly vital to the long-term viability of U.S. agriculture and our food supply.

Meat and poultry exports continue to be hampered by a variety of unjustified SPS barriers including those related to animal diseases, maximum residue limits (MRLs) for veterinary drugs, zero-tolerance pathogen standards, and slaughter and processing plant approvals, particularly foreign insistence on plant-by-plant approvals. Many of these problems manifest themselves in foreign export certification requirements that are neither science based nor consistent with international guidelines. The largest single technical trade issue of concern to USDA remains the normalization of beef trade after the market closures caused by the findings of *Bovine Spongiform Encephalopathy (BSE)* in 2003.

Trade barriers related to biotechnology also require increasing attention from USDA. U.S. development and approval of biotechnological innovations in agriculture often outpaces foreign approvals. To date, the most broadly accepted new technology has been genetically engineered (GE) crops (soybeans, corn, and cotton) and products derived from these crops (oils, meal, and feed). Together, they comprise about one-third of total U.S. agricultural exports. In addition, it is estimated that some 80 percent of processed foods sold domestically contain ingredients and oils from GE crops. USDA efforts to overcome barriers to GE products include the advancement of science-based regulations, efforts to ensure adherence to and enforcement of existing global commitments governing trade, and coalition-building with other countries interested in the safe use of agricultural biotechnology.

Finally, country-by-country variation in maximum residue limits (MRLs) for pesticides poses a significant ongoing risk to U.S. fruit and vegetable exports to many countries. While the U.S. is a global leader in developing and approving safer and more effective pesticides, their approval in other countries and by Codex Alimentarius often lags. Codex Alimentarius operates within the United Nations Food and Agricultural Organization and the World Health Organization to establish international food standards that protect consumer health and ensure fair trade practices.

1.3.5 Value of risk protection coverage provided through Federal Crop Insurance Corporation (FCIC)-sponsored insurance; and

1.3.6 Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance

Overview

The Department offers a variety of effective risk-management tools for agricultural producers. These tools, in turn, provide economic stability to agricultural and rural communities. They help farmers and ranchers protect their livelihood in times of natural disasters or other uncontrollable conditions.

USDA's Federal crop insurance program is overseen by FCIC. This corporation promotes the economic stability of agriculture through a sound system of crop insurance, and by providing the means for the research and experience helpful in devising and establishing such insurance. The Department's program provides actuarially sound risk management insurance products to reduce agricultural producers' economic losses due to natural disasters or low prices. The Department partners with private crop insurance companies that market and service individual policies. Both parties share the risk. This partnership is governed by the Standard Reinsurance Agreement (SRA), which was renegotiated in FY 2010 to save an estimated $6 billion over 10 years. SRA is a cooperative financial agreement reached between FCIC and private-sector insurance companies.

The Federal crop insurance program is a valuable tool for agricultural producers and a good value for the taxpayer. Widespread flooding and record-breaking drought occurred during the 2011 crop year. The program responded with billions of dollars of payments to insured producers throughout the country. Moreover, many banks require farmers and ranchers who seek operating loans to show proof of crop insurance as collateral for the loans, reinforcing the value of crop insurance.

In 2011, a simplified crop insurance policy offering yield and/or revenue protection in place of several different policies made the selection process simpler for producers. It also made administering policies simpler for the approved crop insurance companies and their agents who deliver the program on USDA's behalf.

FCIC also proposed replacing Group Risk Protection Insurance regulations for eight different crops with a new Area Risk Protection Insurance (ARPI) program. ARPI offers producers a choice of area revenue protection, area revenue protection with the harvest prices exclusions, or area yield protection. These offerings fall within one basic provision and the applicable crop provisions. These changes will reduce the amount of information producers must understand to determine the best risk management tool for their operation and will improve the provisions to better meet the needs of policyholders.

USDA has also implemented initiatives to increase awareness and service to beginning, small, and limited resource farmers and ranchers, and other underserved groups and areas. The Department partners with public and private agricultural organizations, land grant colleges and universities, community-based organizations, farmers and ranchers, Hispanic Serving Institutions, and other stakeholders. USDA provides technical program assistance and risk management education on strategies associated with economic, legal, production, marketing, human resources, and labor risks. The current SRA provides additional incentives for insurance companies to provide service to these populations located in underserved states.

Analysis of Results

USDA met its target for the value of normalized risk protection provided to producers. It exceeded its target value for actual risk protection provided. The results are attributed to a significant rise in commodity prices and the continued high level of participation by producers of the major crops. The performance measures illustrate the normalized and real dollar values of FCIC coverage in force within the agricultural economy. The actual value performance measure (1.3.5) also shows the amount of potential collateral provided to qualify for commercial loans. The normalized value performance measure (1.3.6) restates measure 1.3.5 using constant commodity prices. This measure removes the effects of market volatility from the value of coverage, providing a clearer picture of market penetration of the Federal crop insurance program. Since the 2000 crop year, the normalized value has increased by approximately $21 billion, while the real value has increased by approximately $76 billion. While there are a number of factors that influence these figures, including market-price increases and inflation, both represent a major growth in the amount of the agricultural economy insured via the FCIC-sponsored insurance. During the 2011 crop year, which covered parts of both FY 2010 and FY 2011, the economic risk of American agricultural producers was reduced by approximately $76 billion through Federal crop insurance coverage.

Annual Performance Goals, Indicators, and Trends		2007	2008	2009	2010	Fiscal Year 2011		
						Target	Actual*	Result
1.3.5	Value of FCIC risk protection coverage provided through FCIC sponsored insurance ($billions)	$67.3	$89.9	$79.6	$77.9	$102.6	110.9	Exceeded
1.3.6	Normalized value of FCIC risk protection coverage provided through FCIC sponsored insurance ($billions)	$50.6	$51.6	$51.4	$51.9	$52.4	$56.3	Met

Rationale for Met Range: Annual targets for this measure have consistently seen a variation of plus or minus 4.4 percentage points. USDA's value projection target is based on projections developed in November 2010, forecasted participation, and conditions current at that time. The baseline model uses the latest information from the crop insurance program and combines it with Department baseline projections for major crops. These crops include corn, wheat, soybeans, sorghum, barley, rice, and cotton. In making the projections, the model holds various factors constant, such as premium rates and average coverage level. The model assumes that all non-major crops produce yields consistent with USDA projections for major crops. The baseline model is a tool for developing budget projections contained in Presidential budget requests. The budget and performance projections for the crop insurance program depend on baseline projections from numerous agencies.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual*	Result
• **Completeness of Data**—The data used in conjunction with performance information are based on actual information reported through the end of the third quarter. To provide the annual data, USDA projects the results for the fourth quarter of the fiscal year based on prior year performance. Analysis has shown that normally 99 percent of the final actual data will be reported to the Department during the first quarter of the next fiscal year. USDA receives the actual data from insurance companies. It then maintains data through two integrated processing systems that validate the information. The data then is sent through the system to generate all accounting functions. These processing systems ensure that data received are accurate, errors are corrected quickly, and timely monthly accounting reports are provided. • **Reliability of Data**—USDA deems this information to be reliable. The insurance companies receive data from the producers and transmit them to the Department. Once received, USDA takes extensive steps to verify the data's accuracy and validity. The Standard Reinsurance Agreement (SRA) also provides reinsured companies with disincentives for not following prescribed guidelines and procedures. • **Quality of Data**—Data are projected based on historical performance. The target information uses data dependent upon the baseline projections from numerous USDA agencies. To the extent that any of the Department's projections are inaccurate, the projection of value will also be inaccurate.							

Challenges for the Future

USDA's challenge is to maintain the core crop insurance products that provide the farm financial safety net for the vast majority of producers and rural communities. At the same time, the Department must expand and improve insurance coverage and other risk management solutions, particularly for beginning producers, underserved States, areas, communities, and crops without specific coverage. The Department continues to explore ways to deliver more crop and livestock products. This research includes reviewing and approving private-sector insurance products reinsured by FCIC for underserved areas and various specialty crops. The current SRA also provides additional incentives for insurance companies to provide service in underserved States.

Further development and pilot implementation of the Acreage/Crop Reporting Streamline Initiative (ACRSI) can help reduce producer reporting burden and improve accuracy in reporting across agencies. ACRSI is designed to streamline common reporting and processes within USDA. The Department is also addressing the management systems and financial information technology costs associated with operating and maintaining existing program data needs, and servicing service new and revised products.

1.3.7 Percent of industry compliance with the Packers and Stockyards Act

Overview

USDA measures its overall performance by annually measuring regulated entities' compliance with the Packers and Stockyards Act (P&S). P&S prohibits unfair, deceptive, unjustly discriminatory, and fraudulent practices. It also bans regulated businesses from engaging in select anti-competitive practices.

The performance measure encompasses activities the Department conducts that directly or indirectly influence industry compliance. The overall performance rate is a composite index of 5 program-wide audit and inspection activities with the sample size set to yield 90-percent confidence when inferred to the population of regulated entities. The index includes:

- Poultry dealer contract payment practices compliance reviews;
- Financial audits of the custodial accounts maintained by livestock markets;
- Financial audits of the prompt pay records of livestock dealers, markets, and packers;
- Inspection of all scales and weighing practices in all packing plants purchasing more than 1,000 head of livestock per year; and
- Inspection of carcass evaluation devices and practices for packing plants purchasing more than 1,000 head of livestock per year.

The aggregated industry compliance rate index reflects the statutory and regulatory compliance of the regulated industry with the P&S.

Analysis of Results

This performance measure was unmet. Industry compliance with P&S fell to 76 percent, sustaining 2008's improvement over the 75 percent rate of 2007. Results of the individual component inspections and audits that comprise the aggregate index show some expected variation on a year-to-year basis when compared to past compliance rates. The two areas of significance are the regulated livestock markets' usage of custodial accounts, 70 percent compliance compared to 72 percent in 2010, and the poultry contract compliance review. The poultry contract compliance review is itself a composite index consisting of the four areas of review: record maintenance, contract term compliance, trade practice, and prompt payment. For the first three areas, USDA has no administrative enforcement authority. Recent Federal court rulings have decided that a violation requires a showing of harm to industry competition. Because these are business practices directed towards individual poultry growers without any likely harm to competition, the U.S. Department of Justice has ruled that such referral cases will not be prosecuted. The recent addition of new poultry regulations and the lack of administrative enforcement authority for the first three areas resulted in a low 53-percent compliance level. However, examining the poultry payment provision, upon which the Department does have administrative authority, the compliance rate is 68 percent.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
1.3.7 Percent of industry compliance with the Packers and Stockyards Act	75%	80%	80%	80%	81%	76%	Unmet
Rationale for Met Range: An acceptable tolerance range for the performance index is plus-or-minus 5 percentage points. This accounts for the variabilty that can result in the composite index due external factors, such as the overall health of the economy.							

Data Assessment of Performance Measure 1.3.7

While the year-end value of 76-percent compliance scored significantly higher than the third quarter compliance rate of 71 percent, it missed the targe. The measure is subject to pressures from economic fluctuations and to some extent this has been a factor in a weaker than expected compliance.

- **Completeness of Data**— The industry compliance rate is a composite index taken as the simple average from five compliance areas: 1) the percent compliance of prompt payment by livestock markets, dealers, and packers; 2) custodial account compliance of livestock markets; 3) livestock scale checks for packers slaughtering more than 1,000 head of livestock; 4) livestock scale checks of livestock markets, dealers, and live poultry dealers; and 5) poultry contract payment compliance reviews. The data represent a complete statistical sample to achieve a 90-percent confidence level for the industry as a whole based on the samples of each of the 5 sample areas.
- **Reliability of Data**— The compliance levels for random sample audits done with a 90-percent confidence level for these respective five areas was 82 percent (4 percent std. dev.), 67 percent (3 percent std. dev), 87 percent (2 percent std. dev.), 83 percent (4 percent std. dev.), and 80 percent (4 percent std. dev.). The standard deviations suggest the data are highly relable.
- **Quality of Data**— In addition to the standard deviation of the estimates, which is based on additional Monte Carlo analysis of the data and, indicates that the estimated compliance measures are subject to relative low varaibility, an independent review of the sampling process is conducted to ensure that established standard operation procedures are followed during the on-site sampling process. Monte Carlo analysis is a computerized mathematical technique that allows people to account for risk in quantitative analysis and decision making.

Descriptions of Actions for Unmet Measures

While the fourth-quarter value of 76 percent compliance scored higher than the third-quarter compliance rate of 71 percent, the total missed the target by 1 percentage point. The measure is subject to pressures from economic fluctuations, which have been a factor in lower than expected compliance numbers. The industry compliance rate is a composite index taken as the simple average from 5 compliance areas including: 1) the percent compliance of prompt payment by livestock markets, dealers, and packers; 2) custodial account compliance of livestock markets; 3) livestock scale checks for packers slaughtering more than 1,000 head of livestock; 4) livestock scale checks of livestock markets, dealers, and live poultry dealers; and 5) poultry contract payment compliance reviews. Industry compliance fluctuates with the economy.

Challenges for the Future

P&S compliance is determined by conducting random sample reviews either as financial audits or trade practice inspections throughout the year. The data from the compliance reviews in general are summarized as an index that measures three business practices and two financial practices for industry P&S compliance. While additional focus on activities to achieve industry compliance has resulted in increased compliance, general economic conditions within the industry will also affect year-to-year compliance. Weak economic conditions may increase the incentive for industry non-compliance more quickly in the financial components than in the business practice areas. As budget constraints impose a smaller enforcement presence, a challenge will be to effectively allocate existing resources to best meet the varying enforcement needs. To the degree that the compliance measure only has a 4-year history, understanding the interaction of these variables and the overall compliance rate will be a challenge USDA confronts in future years.

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

America's prosperity is inextricably linked to the health of its lands and natural resources. Forests, farms, ranches, and grasslands offer enormous environmental benefits as a source of clean air, clean and abundant water, and wildlife habitat. These lands generate economic value by supporting the vital agriculture and forestry sectors, attracting tourism and recreation visitors, sustaining green jobs. They are also of immense social importance, enhancing rural quality of life, sustaining scenic and culturally important landscapes, and providing opportunities to engage in outdoor activity and reconnect with the land.

Federal, tribal, State, and private lands face increasing threats from climate change, catastrophic wildfires, intense floods and drought, air and water pollution, aggressive diseases and pests, invasive species, and development pressures. These threats result in land and water conversion and reduced wildlife habitat. At the same time, there are immense opportunities to capture and increase the environmental, economic, and social benefits these lands provide. USDA plays a pivotal role in protecting and restoring America's forests, farms, ranches, and grasslands while making them more resilient to threats and enhancing natural resources. The Department partners with private landowners to help protect the Nation's 1.3 billion acres of farm, ranch, and private forestlands. As public land stewards, USDA works to conserve and restore 193 million acres of National Forests and Grasslands in the National Forest System. The Department also partners with Federal, tribal, and State Governments, and non-Governmental organizations to assist land and natural resource managers and connect people to the Nation's magnificent lands.

USDA is also a key player in the President's America's Great Outdoors Initiative to build a 21st century conservation agenda, based on the experience and ideas of people from across the country. The goal of the initiative is to conserve natural resources, both public and private, while reconnecting Americans to the outdoors.

OBJECTIVE 2.1: RESTORE AND CONSERVE THE NATION'S FORESTS, FARMS, RANCHES AND GRASSLANDS

2.1.1: Conservation Reserve Program restored wetland acreage

Overview

USDA's Conservation Reserve Program (CRP) allows producers to plant long-term, resource-conserving covers to improve the quality of water, control soil erosion, and enhance wildlife habitat on land. In return, the Department provides participants with rental payments and cost-share assistance. Contract terms run between 10 and 15 years. CRP is designed to restore and enhance wetland areas, increase sediment trapping efficiencies, improve water quality, prevent soil erosion, and provide habitat for waterfowl and other wildlife.

The program includes several initiatives for wetland restoration and enhancement. CRP wetland initiatives include a 500,000-acre Floodplain Restoration Initiative, a 250,000-acre Bottomland Hardwood Timber Initiative, a 250,000-acre Non-Floodplain and Playa Wetland Restoration Initiative, and a 150,000-acre Prairie Pothole Duck Nesting Habitat Initiative.

Analysis of Results

USDA has CRP contracts with landowners covering 2.21 million acres of wetlands as of July 2011, exceeding its FY 2011 target of 2.05 million acres. The Department has made substantial progress in protecting watershed health and enhancing soil quality. Total CRP enrollment stands at 31.3 million acres. These acres annually reduce soil erosion by 325 million tons, and nitrogen, phosphorus, and sediment by more than 85 percent, and sequester over 44 million metric tons of carbon dioxide.

CRP also contributes to increased wildlife populations, and has added more than 2 million ducks to the Prairie Pothole Region annually, protected Sage Grouse populations in Eastern Washington and Lesser Prairie Chicken populations in the Great Plains, and increased ring-necked pheasant and other grassland bird populations.

Performance Measure	2007	2008	2009	2010	2011 Target	2011 Actual	Results
2.1.1 CRP restored wetland acreage (millions of acres)	2.08	1.98	2.04	2.05	2.05	2.21*	Exceeded

*The FY 2011 result is estimated based on three quarters of actual data and a fourth-quarter projection.

Rationale for Met Range: Data assessment metrics to meet the target allow for an actual number in the range of 2.00-2.10 million acres, as the threshold is +/-.05

Data Assessment of Performance measure 2.1.1

The data source for this measure is the National CRP Contract Data Files

- **Completeness of Data** - The targets and actual data are annual. Data are based on estimated results through September 30, 2011. The measure reports national acres under contract with the following wetland practices: Wetland Restoration, Marginal Pastureland Buffers, Bottomland Trees, and Shallow Water Areas for Wildlife, and Farmable Wetlands Programs. There are no known data limitations. Acres reported include associated upland buffers.
- **Reliability of Data** – USDA considers the data to be reliable. CRP is authorized through FY 2012.
- **Quality of Data** - The Department is looking into quantifying the environmental functions provided by CRP wetland restoration. When available, these estimates may also be used to track performance.

Challenges for the Future

In FY 2010, the Food, Conservation, and Energy Act of 2008 dropped CRP enrollment authority to no more than 32 million acres. FY 2011 enrollment is expected to end at about 31.3 million acres. The 6.5 million acres of CRP expiring in FY 2012, combined with relatively high commodity prices, will present USDA with a challenge in maintaining CRP's conservation benefits.

The Department remains strongly committed to attaining its conservation objectives. Special focus will be placed on accelerating the protection of clean, abundant water resources, one of USDA's Agency Priority Goals. USDA will seek new wetland contracts for more than 50,000 acres in FY 2012 and pursue contracts covering 40,000 acres to fulfill riparian buffer and grass filter strip goals. The Department will also continue to support initiatives designed to improve wildlife habitat, including the 350,000-acre upland bird buffer, the 150,000-acre Duck Nesting Habitat Initiative, and the State Acres for Wildlife Enhancement initiative (an 850,000-acre initiative announced in FY 2007 to improve habitat for endangered, threatened, or high-priority fish and wildlife species). In addition, USDA will continue the 250,000-acre initiative to restore the longleaf pine.

2.1.2 CTA: Cropland with conservation applied to improve soil quality; and

2.1.3 EQIP: Cropland with conservation plans applied to improve soil quality

Overview

USDA assists private landowners and managers in improving soil quality. Soil is the foundation for maintaining working productive farms and ranches. The Department measures the impact of maintaining or enhancing sustained production of a safe, healthy, and abundant food supply. The two primary focuses for soil quality on cropland are reducing erosion and increasing organic matter. Reducing soil erosion saves the "topsoil" — the rich upper layer that supports the majority of the plant's life cycle. Intensive agricultural work can reduce soil organic matter (carbon) over time. This process reduces the soil's ability to efficiently hold nutrients and water. Maintaining and increasing the percentage of organic matter in our soils is vital to retaining the ability to feed ourselves as a nation. Conservation practices that improve soil quality keep the soil from eroding off the land, improve water infiltration, reduce soil temperature, and increase soil carbon. USDA establishes technical specifications for conservation practices. These specifications ensure that public investment for conservation is in accordance with scientific data demonstrating the desired outcome.

Analysis of Results

USDA met this performance measure. The Department offers various conservation planning efforts and programs. In turn, agricultural producers apply various conservation practices and implement recommended best management practices. This work led to measurable progress in reducing soil erosion, improving water quality by reducing sedimentation, and improving organic matter content in agricultural soils by sequestering carbon.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.1.2 Cropland with conservation applied to improve soil quality (CTA - millions of acres)	7.3	8.3	7.6	8.2	7.7	7.0	Met
2.1.3 Cropland with conservation plans applied to improve soil quality (EQIP - millions of acres)	5.3	5.6	4.8	4.8	4.8	4.3	Met

Rationale for Met Range: Estimated performance October 1, 2010 through September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 6.9 (90 percent) – 8.5 (110 percent) for CTA and 4.3 (90 percent) – 5.3 (110 percent) for EQIP.

The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts) and the Performance Results System (PRS).

- **Completeness of Data**—The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in NCP by a qualified conservation planner, and certified as complete and final by the State conservationist by September 30 of each fiscal year.
- **Reliability of Data**—For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from the NCP and ProTracts. Conservation practices are planned in consultation with the customer and included in conservation plans stored in NCP. Periodic reviews are conducted to assess the accuracy of reported data.
- **Quality of Data**—Overall, quality of the data is good. Field staffs, trained and skilled in conservation planning, and application suited to the local resource conditions, report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.

Challenges for the Future

Improved soil quality on America's cropland is vital to meeting the challenges of the future, especially with respect to climate change. Organic matter increases the capacity of the soil to take in and hold onto water. Thus during periods of heavier rainfall, more water is retained by the soil. During periods of lesser rainfall the water can be extracted by the plant, much in the same manner as a sponge releases water when squeezed. Increasing organic matter through carbon sequestration reduces the amount of carbon dioxide (considered a greenhouse gas) in the atmosphere, possibly mitigating impacts of carbon emissions elsewhere.

Demands for agricultural products, food, fiber, and energy continue to increase as populations grow. These demands can easily compromise soil heath and quality, reducing its ability to produce at previous levels. Sustainable agricultural, producing agricultural products in a manner so that the natural resources are maintained or enhanced, is necessary to meet the demands of tomorrow.

2.1.4 CTA: Grazing land and forest land with conservation applied to protect and improve the resource base; and

2.1.5 EQIP: Grazing land and forest land with conservation plans applied to protect and improve the resource base

Overview

Grazed forest, range, and grasslands comprise nearly 55 percent of the Nation's total land area. Applying properly planned conservation practices to improve and protect these lands is essential to maintaining the productive working farms and ranches necessary to provide for sustainable production of sufficient food and fiber for an ever-increasing population. In turn, the health and prosperity of the rural communities that depend on agriculture is insured. Maintaining the ability to produce a cheap and bountiful supply of food and fiber will allow Americans to continue to have the lowest percentage of annual income spent on food, clothing, and shelter of any nation in the world.

Analysis of Results

USDA met the targets for these measures. These conservation practices benefit the public with sustained grazing and forest land ecological health while making the resource base more resilient to climate. These benefits include improved water quantity and off-site water quality, by reduced run-off and soil erosion, increased carbon sequestration, and reduced competition from invasive species on native plants.

Forest land, range, and grasslands further enhance the quality of rural life through such additional environmental benefits as clean air and abundant wildlife habitat.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.1.4 Grazing land and forest land with conservation applied to protect and improve the resource base (CTA – millions of acres)	12.2	16.5	16.0	17.6	15.6	16.4	Met
2.1.5 Grazing land and forest land with conservation plans applied to protect and improve the resource base (EQIP – millions of acres)	16.5	16.9	17.2	17.5	15.7	15.2	Met
Rationale for Met Range: Estimated performance October 1, 2010, through September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 14.0 (90 percent) – 17.2 (110 percent) for CTA and EQIP.							
The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts) and the Performance Results System (PRS).							

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
• **Completeness of Data**— The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in NCP by a qualified conservation planner, and certified as complete and final by the State conservationist by September 30 of each fiscal year. • **Reliability of Data**— For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from the NCP and ProTracts. Conservation practices are planned in consultation with the customer and included in conservation plans stored in NCP. Periodic reviews are conducted to assess the accuracy of reported data. • **Quality of Data**— Overall, quality of the data is good. Field staffs, trained and skilled in conservation planning, and application suited to the local resource conditions report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.							

Challenges for the Future

Producers' willingness and ability to implement conservation measures on private forest land, range, and grasslands is affected by economic conditions, climate variability, drought, and invasive species. An uncertain economic climate will increase the threat of conversion of these lands to non-agricultural uses.

In many areas, especially in the west, watersheds and landscapes include public land managed by several Federal agencies intermingled with private, State and Tribal lands. Protecting the natural resources in these areas requires cooperation among a large number of stakeholders, especially when taking a watershed approach.

2.1.6 FRPP: Prime, unique, or important farmland protected from conversion to non-agricultural uses by conservation easements

Overview

Prime, unique and important farmland is critical to sustainable food production and the nation's food security. Farmland has the best combination of physical and chemical characteristics for producing food and fiber. USDA maintains productive working farms and ranches by providing the financial and technical assistance to protect prime, unique, and important farmland from conversion to other uses. Through the Farm and Ranch Protection Program (FRPP), the Department partners with private farm and ranch land owners, State and local Governments, and non-profit organizations to preserve working farms permanently.

Analysis of Results

USDA met its goal. The farms and ranches enrolled in FRPP ensure the preservation of open space along with the natural amenities they provide.

Support and participation among State, tribal, local entities, non-Governmental organizations, and landowners was strong and resulted in leveraging $2 for every Federal dollar invested. USDA also develops conservation plans for those acres accepted into FRPP. The Department reviews and monitors the cooperative agreements and easements, and processes payments.

Annual Performance Goals Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011 Target	Actual	Result
2.1.6 FRPP: Prime, unique, or important farmland protected from conversion to nonagricultural uses by conservation easements (thousands of acres)	53.6	38.3	38.2	53.9	45.0	51.0	Exceeded

Prior year data for 2007 and 2008 recomputed for FY11 with no change in "met" status.

Rationale for Met Range: Estimated performance October 1, 2010, through September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 40.5 (90 percent) – 49.5 (110 percent).

The sources of data for this measure is National Easements Staging Tool (NEST) and the Performance Results System (PRS).

- **Completeness of Data**— The performance reported for these measures is based on actual data reported for FY 2011. All easements have been recorded at the courthouse as of the closing date. The data are certified as complete and final by the State Conservationist by September 30 of each fiscal year.
- **Reliability of Data**— For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from the NCP and NEST. Periodic reviews are conducted to assess the accuracy of reported data.
- **Quality of Data**— Overall, quality of the data is good. State and National staff trained in easement acquisition and agreement management oversee the quality of the program and all FRPP operations.

Challenges for the Future

The value of farmland is increasing. This rise may decrease the amount of prime, unique, and important farmland acreage FRPP can protect. Although local farmland protection programs have grown in the last decade, the demand for agricultural easements outpaces available funds. Economic and budget challenges in State and local Governments will affect their ability to match FRPP funds.

2.1.7 WHIP: Non-Federal land with conservation applied to improve fish and wildlife habitat quality

Overview

Nearly 70 percent of the fish and wildlife habitat in the U.S. is on privately owned lands. USDA provides private landowners financial and on-site technical assistance. This assistance helps them assess the quality of wildlife habitat practices necessary to restore or enhance that habitat, and a management plan to sustain the habitat.

Analysis of Results

USDA exceeded the performance target. The expanded wildlife initiatives generated additional interest this fiscal year, bringing about more participation. In addition, USDA received more allocation for the program, along with streamlined operations that contributed to a 98-percent rate of contract obligation. More than 1.2 million acres of habitat were improved for wildlife on Federal and State Threatened and Endangered Species Lists, and other species of concern through focused initiatives.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011 Target	Actual	Result
2.1.7 WHIP: Non-Federal land with conservation applied to improve fish and wildlife habitat quality (thousands of acres)	388.8	316.9	335.4	876.9	1,000	1,200	Exceeded

Rationale for Met Range: Measure definition was revised in FY 2010 from 3 wildlife management practices to the full suite of 17 practices used to provide improvements to wildlife habitat. While these practices have always been used for wildlife habitat improvement, they were excluded from the measure definition. Values for FY 2007 through FY 2009 are estimates based on the revised definition. They reflect the long-term use of these practices. Estimated performance runs from October 1, 2010, through September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 900,000 (90 percent) – 1,100,000 (110 percent).

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result

The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts), and the Performance Results System (PRS).

- **Completeness of Data**— The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in NCP by a qualified conservation planner, and certified as complete and final by the State Conservationist by September 30 of each fiscal year.
- **Reliability of Data**— For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from the NCP and ProTracts. Conservation practices are planned in consultation with the customer and included in conservation plans stored in NCP. Periodic reviews are conducted to assess the accuracy of reported data.
- **Quality of Data**— Overall, quality of the data is good. Field staffs, trained and skilled in conservation planning, and application suited to the local resource conditions, report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.

Challenges for the Future

USDA works with other agencies and private organizations to provide producers with technical and financial assistance, information and other resources to evaluate and encourage the adoption of conservation measures, and management practices beneficial to wildlife. Many wildlife projects are supported by a combination of Federal, State, local, and private funds. With State and local budget issues continuing, constraints may impact project evaluations and implementation. Commodity prices, economic conditions, weather, and developmental pressures can impact the ability and willingness of agricultural producers to invest in wildlife habitat unless there are clearly multiple benefits, like improved grazing conditions, as well.

2.1.8 Acres protected from conversion through easements and fee-simple purchases

Overview

USDA is working with farmers, ranchers, and forest landowners to maintain working lands and preserve open space. Conservation across a landscape is essential to address large-scale conservation issues, such as resilience to climate change, conservation of water resources, reduction of wildfire risk, and protection of at-risk species. Conservation also ensures that traditional uses of private lands and public values of forest resources are protected for future generations.

Analysis of Results

USDA did not meet the target for this measure. The Department makes strategic investments to purchase land or conservation easements. These projects are focused where public benefits are highest, the conversion to non-forest uses is likely, watershed and critical habitat are protected, wetlands are maintained, cultural resources are preserved, and previous conservation investments are leveraged.

Annual Performance Goals, Indicators and Trends		2007	2008	2009	2010	Fiscal Year 2011		
						Target	Actual	Result
2.1.8	Acres protected from conversion through easements and fee-simple purchases (thousands of acres, cumulative)	1,574	1,727	1,924	2,225	2,494	2,245 (estimated)	Unmet

Rationale for Met Range: A variance within 5 percent of the target would be considered met for this measure. Actual accomplishment is projected to be closer to a 10-percent variance.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
Data Assessment of Performance Measure 2.1.8							
• **Completeness of Data** — Values shown are estimated FY 2011 data. • **Reliability of Data** — All data for land acquisition programs are reported through the Forest Legacy Information System and the Land Status Record system within the National Forest System. Forest Legacy and land acquisition program managers collect, compile and analyze the data. • **Quality of Data** -- The data for open space conservation are reliable and of good quality.							

Descriptions of Actions for Unmet Measures

Annual acres protected vary due to the difficulty of predicting the timing of real estate transaction closings. Landowner preferences play a large role. Although the demand was met, it was not as high as the target.

Challenges for the Future

Since real estate negotiations are very unpredictable, it can take longer for a project to be completed than was originally predicted. In addition, real estate transactions typically take about 2 years to close, so there can be a time lag between annual funding and accomplishments.

OBJECTIVE 2.2: PROTECT AND ENHANCE AMERICAS WATER RESOURCES

2.2.1 CTA: Comprehensive nutrient management plans applied (CTA, number of plans); and

2.2.2 EQIP: Comprehensive nutrient management plans applied (EQIP, number of plans)

Overview

USDA assists landowners and managers in keeping the water, soil, nutrients, and pesticides on-site. The Department measures success in this objective through the number of Comprehensive Nutrient Management Plans (CNMP) applied during the fiscal year. A CNMP is an integrated set of conservation practices, which together address the agricultural sources of nutrients that could be carried offsite. These elements include feed and fertilizer, secure storage, nutrient inputs, and erosion control. CNMP, when fully implemented, helps maximize use of nutrient resources, i.e. manure, and protect ground and surface water quality.

Analysis of Results

The targets for both CTA and EQIP measures were met. Almost 3,000 CNMPs were applied during 2011. These efforts resulted in millions of acres of conservation practices applied to improve surface and groundwater quality. The impact of these plans and practices is the direct reduction of nutrients and sediment in ground and surface water. This process reduces the number of watersheds that are listed by the U.S. Environmental Protection Agency as having impaired water quality.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.2.1. CTA: Comprehensive nutrient management plans applied (number of plans)	1,911	1,745	1,485	1,349	1,350	1,230	Met
2.2.2 EQIP: Comprehensive nutrient management plans applied* (number of plans)	2,490	2,520	2,019	1,739	1,500	1,350	Met
*Language differs from Annual Performance Plan due to a typographical error in the Plan. The measure "CNMPs Applied" will become a legacy measure after FY 2011. A more accurate measure of USDA impacts on water resource protection on agricultural lands will be used beginning in FY 2012.							

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
Rationale for Met Range: Estimated performance runs from October 1, 2010, to September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 1,215 (90 percent) – 1,485 (110 percent) for CTA, and 1,350 (90 percent) – 1,650 (110 percent), for EQIP.							
The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts) and the Performance Results System (PRS). • **Completeness of Data**— The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in NCP by a qualified conservation planner, and certified as complete and final by the State conservationist by September 30 of each fiscal year. • **Reliability of Data**— For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from NCP and ProTracts. Conservation practices are planned in consultation with the customer and included in conservation plans stored in NCP. Periodic reviews are conducted to assess the accuracy of reported data. • **Quality of Data**— Overall, quality of the data is good. Field staffs, trained and skilled in conservation planning, and application suited to the local resource conditions, report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.							

Challenges for the Future

The quality of ground and surface waters to support intended uses is a continuing concern, as is the supply of these waters to meet expanding demand. Since CNMPs are reported only after all identified practices are installed, postponing installation of one or more practices will seriously impact performance relative to anticipated targets. In most cases, low- or no-cost agronomic and management practices are applied on schedule. It is the capital costs associated with engineered practices for which there is no immediate financial return that are most impacted by an uncertain economy. The installation of completed and integrated CNMPs is getting increasingly difficult for economic reasons. Additionally, there are a limited number of producers that are willing to pursue a complete CNMP. USDA is developing a more accurate measure of water quality outcomes from its work with producers. It will be developing baselines and targets for this measure in 2012.

2.2.3 CTA: Priority landscapes with high-impact targeted conservation practices applied to improve water quality

Overview

USDA ensures that national forests and private working lands enhance water resources, and are conserved, restored, and made more resilient to climate change. Secretary Vilsack has identified protecting the nation's water resources as one of his top conservation objectives. He also has elevated it as one of USDA's High Priority Performance Goals (HPPGs) that the President is spotlighting in a special initiative. This initiative is designed to publicly track Government-wide performance. To accelerate the protection of clean, abundant water resources, the Department implemented high impact targeted (HIT) practices in priority watersheds. These HIT practices represent an integrated approach to achieve measurable results in water quality and water use efficiency as measured by the 2-year HPPG for water (FY 2010 and FY 2011):

To measure this goal's progress, USDA focused on landscapes of national interest: Chesapeake Bay, Mississippi River, Great Lakes, and Bay Delta-Sierra Nevada basins. They were selected based on a combination of scientific principles and a collaboration of Federal, State and local officials. In these four priority watershed basins, the Department focused and measured the investment in conservation activities that improve water quality.

Analysis of Results

USDA has met its performance target for HIT practices in priority watersheds. The Department used existing funding and programs in targeted areas to protect the water supply.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.2.3 CTA: Priority landscapes with high impact targeted conservation practices applied to improve water quality (millions of acres)	N/A	N/A	N/A	1.9	2.0	1.8	Met
Rationale for Met Range: Estimated performance runs from October 1, 2010, to September 30, 2011. Data assessment metrics to meet the target allow for an actual number in the range 1.8 (90 percent) – 2.2 (110 percent).							

The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts) and the Performance Results System (PRS).

- **Completeness of Data** — The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in the NCP by a qualified conservation planner
- **Reliability of Data** — For FY 2011, the data reported for these performance measures were calculated based on information retrieved from the NCP through a spatial layer of priority landscape boundaries and sorted by priority area. While the data are reliable, as they are based on NCP applied and certified practices, the spatial layer boundaries were not housed in the same database as the NCP and ProTracts data. A special query and data collation was needed, requiring an update to the data calculation methodology in FY 2012.
- **Quality of Data** — Overall, quality of the data is good. Field staffs, trained and skilled in conservation planning, and application suited to the local resource conditions report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State, and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.

Challenges for the Future

Attention is now turning toward developing a collective three-agency performance metric for water conservation. To do this, USDA uses the multi-agency Conservation Effects Assessment Project to quantify the environmental benefits of conservation practices. Watershed-based assessments are directed at evaluating interactions among practices and hydrology in the landscape. With additional knowledge of the dynamic relationship between conservation activities undertaken on individual farms and ranches and the resulting off-site benefits, the Department can more effectively utilize its programs on the ground, and measure outcomes of public investment.

2.2.4 WRP: Wetlands created, restored or enhanced

Overview

The continental U.S. has lost more than 50 percent of the historical 220 million wetland acres that once existed. Some States have lost more than 90 percent of their wetland acreage. Protection and restoration, creation or enhancement of wetland ecosystems is important in protecting source water and improving water quality. This work also provides fish and wildlife habitat, sequesters carbon, stores floodwaters, and maintains surface water flows during seasonal dry periods. The greatest potential for wetland restoration exists on private lands since more than 70 percent of our land is owned privately.

Analysis of Results

USDA met the target. Restoration, creation, or enhancement of wetlands and their associated functions and values directly impacts the protection and enhancement of America's water resources. This process reduces impairments to all bodies of water. Healthy and productive wetland ecosystems filter sediment and other pollutants from surface and ground water. They also slow run-off, aid ground water re-charge, and reduce the overall temperature in surrounding waters.

These restored, created, or enhanced wetlands also provide critical habitat for wildlife, especially species listed as threatened or endangered. More than one-third of listed threatened and endangered species depend on wetlands — home to almost one-third of plant species. A study by the U.S. Fish and Wildlife Service (FWS) examined the effect of wildlife land restoration in North Dakota, South Dakota, and northeastern Montana. FWS estimated that the duck population grew by an average of 2 million birds annually between 1994 and 2004. This 30-percent increase compares to the same area without USDA's assistance.

Wetlands are a valuable source of recreational benefits. They generate billions of dollars annually in wetland-related hunting, fishing, and non-consumptive wildlife related activities.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.2.4 WRP: Wetlands created, restored or enhanced (thousands of acres)	149.3	128.9	106.4	129.1	125.0	115.0	Met

Rationale for Met Range: Data assessment metrics to meet the target allow for an actual number in the range 112,500 (90 percent) – 137,000 (110 percent).

The sources of data for all performance measures are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts), and the Performance Results System (PRS).

- **Completeness of Data**— The performance reported for these measures is based on actual data reported for FY 2011. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered into the system. All conservation practices that are applied have been certified in the NCP by a qualified conservation planner, and certified as complete and final by the State conservationist by September 30 of each fiscal year.
- **Reliability of Data**— For FY 2011, the data reported for these performance measures were calculated within PRS based on information validated and retrieved from the NCP and ProTracts. Conservation practices are planned in consultation with the customer and included in conservation plans stored in NCP. Periodic reviews are conducted to assess the accuracy of reported data.
- **Quality of Data**— Overall, quality of the data is good. Field staff, trained and skilled in conservation planning, and application suited to the local resource conditions, report performance where the conservation work is occurring. Error checking enhancements and reports within the PRS application maintain data quality allowing users at local, State and national levels to monitor data inputs. Data on the linkage of programs and conservation practices applied are accurate because the conservation program responsible for applying each practice is documented in the conservation plan developed in Toolkit. The same land unit may benefit from the application of more than one conservation practice and program. Where multiple practices are applied with multiple programs on the same land unit, each program is credited under the performance measure.

Challenges for the Future

Commodity prices, economic conditions, weather, and developmental pressures can impact the ability and willingness of agricultural producers to restore and protect wetland and habitat areas. In hard or uncertain economic times, producers are less willing to make long-term commitments regarding the use of their land, particularly when it requires removing land from direct production of food and fiber.

2.2.5 Acres of High Impact Targeted (HIT) practices implemented on National Forest Service (NFS) lands and private lands in priority landscapes to protect clean, abundant water

Overview

USDA is applying high impact targeted (HIT) practices to accelerate the protection of clean, abundant water resources. HIT practices include such actions as implementing soil and water improvements, maintaining and decommissioning roads, reclaiming abandoned mines, establishing vegetation in burned over areas, reducing hazardous fuels, and treating insect and disease issues within forested landscapes. These actions are focused in landscapes of national importance, which include the Bay–Delta, Sierra Nevada, the Great Lakes, the Chesapeake Bay, and the Mississippi River.

Analysis of Results

The target was unmet. The target of 600,000 acres for FY 2011 was established in 2010, based on an earlier version of Landscapes of National Interest. The earlier version assumed a higher number of contributing national forests. In subsequent refinements, the HPPG water team dropped some key areas of potential FS contribution.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.2.5 Acres of HIT practices implemented on NFS and private lands in priority landscapes to protect clean, abundant water (millions of acres)	N/A	N/A	N/A	.41	.60	.33	Unmet

Data Assessment of Performance Measure 2.2.5

The data for HIT practices acres are reliable and of good quality. USDA watershed and other program managers collected, compiled, and analyzed the data.

Rationale for Met Range: The target of 600,000 acres for FY 2011 was established in 2010, based on an earlier version of landscapes of national interest. The earlier version assumed a higher number of contributing national forests. In subsequent refinements, the High-Priority Performance Goal (HPPG) water team dropped some key areas of potential contribution. Based on the current boundaries, the 2010 target of 410,000 acres may also be a more appropriate level for FY 2011. The Department is on track to achieve this level.

- **Completeness of Data** — Values shown are estimated FY 2011 data.
- **Reliability of Data** — All data for HIT practices were reported through several systems of record and are pulled from the Performance Accountability System. (PAS). Program staff calculates the final acre total, which is the sum of acres treated and recorded under several measure codes in PAS.
- **Quality of Data** — The quality of these data is monitored continuously, and being improved with focused training and policy direction on reporting requirements. Data are projected based on historical performance and year-to-date actual accomplishments.

Descriptions of Actions for Unmet Measures

USDA adjusted its priority after the target was established, which resulted in less acreage eligible to be counted under this measure. An adjusted target level for subsequent years—based on new boundaries—will more accurately reflect all contributions to the USDA HIT practices measure. A more encompassing measure, one of the President's High Priority Performance Goals, includes the acreage represented by the measure above, as well important acreage in more populous areas with crucial need for clean water. The High Priority measure was met, and is discussed in the Management's Discussion and Analysis section of this report (Section 1).

Challenges for the Future

The Department continues to work with its partner agencies to identify a meaningful outcome measure. The measure would better demonstrate the long-term impact of HIT practices on priority landscapes. It also would better determine ways to translate those outcomes into tangible benefits for the general public. USDA is also working on improving its monitoring of the priority landscapes to better ensure achievement of its long-term goals in protecting clean water.

2.2.6 Annual economic contribution of recreation on NFS lands

Overview

USDA provides a variety of outdoor recreation opportunities on America's National Forest System (NFS) lands and water. These activities generate substantial economic benefits to the country. Visitors spend money on goods and services associated with outdoor recreation participation and Department program expenditures to provide and maintain recreational infrastructure. This spending helps contribute to or sustain significant employment in rural communities across America.

Spending by recreation visitors to national forests and grasslands is considered to support rural economies when it occurs within about 50 miles of the forest or grassland. Visitors generally purchase goods and services for their recreational activities. Expenditures supporting local employment may include hiring outfitter and guide services for whitewater rafting and big game hunting, alpine and cross country ski area fees, camping expenses, and the purchase of supplies, such as groceries, fishing tackle, and bicycle, canoe, or other equipment rentals.

Analysis of Results

USDA met this performance target according to the established criteria.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.2.6 Annual economic contribution of recreation on NFS lands (thousands of jobs)	N/A	238	238	238	238	238	Met
Rationale for Met Range: The annual economic contribution of recreation on NFS lands, measured in thousands of jobs, is updated on a 4-year cycle due to the complexity of assessing job impacts, and the periodicity of new data to recalculate the modeled effects. This outcome measure is highly dependant on recreation visitor participation in the opportunities provided on NFS lands substantially influenced by external factors outside the agency's control, such as the overall economy, motor fuel prices, and weather. The measure will retain its "Met" status throughout the first 4-year update cycle after which the economic contribution of recreation on NFS lands will be reassessed. Due to the overwhelming influence of external factors impacting this measure, a minimum threshold change of -10 percent would be required to trigger a revision in status to "Unmet" for the initial year of an update cycle. In subsequent years through the balance of the 4-year measure update cycle, future targets will be adjusted to the revised economic contribution job estimate.							

Data Assessment of Performance Measure 2.2.6

The data for the economic contribution of recreation are reliable and of good quality. The IMPLAN economic software and data system, an input-output model of the U.S. economy, is applied to estimate the job effects. USDA recreation and other program managers collected, compiled, and analyzed the data.

- **Completeness of Data** — Values shown are estimated FY 2011 data.
- **Reliability of Data** — National Visitor Use Monitoring (NVUM) provides statistically reliable estimates of visitation and visitor use characteristics.
- **Quality of Data** — Recreation visitation and spending profiles are drawn from NVUM program data. These data update visitation estimates on individual national forests on a 5-year cycle and regional and national estimates every year.

Challenges for the Future

While recreational activity supported by national forests has a substantial impact on the local economic well being of rural forest and grassland dependent communities, USDA faces limitations in the ability to affect the results exclusively through management of recreation resources. This outcome measure is significantly influenced by external factors such as the overall economy, weather, snowfall, motor fuel prices, and landscape disturbances like forest fires. In addition, higher levels of recreation activity, which increase economic contribution, may require greater management investment to sustain natural resources and infrastructure.

2.3.1 Acres of WUI fuels treated to reduce the risk of catastrophic fire

Overview

USDA's hazardous fuel reduction program conducts fuel reduction treatments on lands to restore and maintain fire-adapted ecosystems and reduce wildfire risk. Fuels treatments are focused on activities to mitigate hazard and enhance the ability to control fires in the Wildland Urban Interface (WUI). WUI is an area within or adjacent to an at-risk community that is identified in recommendations to the Secretary of Agriculture in a Community Wildlife Protection Plan (CWPP). CWPPs are designed to enable communities to determine the best ways to reduce the risk of wildfire. Funding is focused in communities that have identified acres to be treated in CWPPs, and invested in implementing local solutions to protect against wildland fire.

Analysis of Results

USDA met the target for this measure. WUI treatments have become more expensive and increasingly more complex. This is due to the treatment proximity to communities and infrastructure, and the associated air quality regulations and safety concerns. The Department provides cost-effective protection to communities and resources by shifting its focus to the highest priority areas. As a result of a more focused application of resources, the FY 2011 target was met.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.3.1 Acres of WUI fuels treated to reduce the risk of catastrophic fire (millions of acres)	1.138	1.944	2.190	1.955	1.600	1.520	Met

Figures for fiscal years 2007-2010 have been recomputed since the FY10 report, but prior year met/unmet status was not affected.

Rationale for Met Range: Acres treated as of August of 2011, and projections based on historical averages of acres treated during the fourth quarter, indicate that USDA will meet this target.

Data Assessment of Performance Measure 2.3.1

The data for hazardous fuels treatments are reliable, of good quality, and certified by the respective line officer. USDA wildfire and other program managers collected, compiled, and analyzed the data.

- **Completeness of Data** — Values shown are estimated FY 2011 data.
- **Reliability of Data** — All data for hazardous fuels were reported through the National Fire Plan Operations Reporting System. USDA and the U.S. Department of Interior land-management agencies co-developed the system. Its data are collected, compiled, and analyzed by program managers, and certified by the respective line officer.
- **Quality of Data** — Data quality has been assessed at about 90 percent for project data in all regions. The quality of these data is monitored continuously, and being improved with focused training and policy direction on reporting requirements. Data are projected based on historical performance and year-to-date actual accomplishments. If information is not entered into the systems of record immediately upon completion of the project, the quality of the projection will be compromised. USDA uses clear business rules and program direction to ensure the timely entry of project completions. In FY 2010, USDA redesigned its data entry system to increase overall product quality.

Challenges for the Future

In FY 2012, USDA will focus on complex high-priority work in WUIs where CWPPs or equivalent plans have been completed. WUI treatment costs per acre are more than four times the cost per acre for other areas because most of it is done mechanically – by hand crews or with machinery. There is no economy of scale when working on lands adjacent to or in between homes.

2.3.2 Percentage of acres treated in the Wildland Urban Interface (WUI) that have been identified in Community Wildlife Protection Plans

Overview

USDA works with other Federal and State foresters, local communities, and non-Governmental organizations in developing CWPPs. This collaboration helps establish clear objectives for hazardous fuel reduction and wildfire prevention efforts. There are also other equivalent plans and efforts to help make a community more fire adapted in the WUI where treatments are effective and important.

Analysis of Results

USDA did not meet the performance target. The Department focuses on treating hazardous fuels acres identified in CWPPs. It works closely with communities at risk in the WUI. While the accomplishments for this measure have trended upward in recent years, the Department failed to reach the FY 2011 ambitious target of 75 percent.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.3.2 Percentage of acres treated in the WUI that have been identified in Community Wildfire Protection Plans	25%	36%	41%	45%	75%	51.8%	Unmet

Data Assessment of Performance Measure 2.3.2

- **Completeness of Data** — Values shown are estimated FY 2011 data.
- **Reliability of Data** — All data for hazardous fuels were reported through the National Fire Plan Operations Reporting System. USDA and the U.S. Department of the Interior land-management agencies co-developed the system. Its data are collected, compiled, and analyzed by program managers, and certified by the respective line officer.
- **Quality of Data** — The data for hazardous fuels treatments are reliable, of good quality, and certified by the respective line officer. USDA wildfire and other program managers collected, compiled, and analyzed the data.

Descriptions of Actions for Unmet Measures

USDA will continue treating hazardous fuel acres identified in CWPPs to achieve the incremental accomplishments needed to meet this ambitious target. While the accomplishments for this measure have trended upward in recent years, the Department failed to reach the FY 2011 target of 75 percent. We make the best investment of resources for the best overall results, which sometimes requires us to focus on areas that do not have CWPPs.

Challenges for the Future

An even greater emphasis on high priority WUI treatments is planned. These treatments will take place in more costly and complex areas.

2.3.3 Cumulative Acres in NFS that are in a desired condition relative to fire regime

Overview

USDA develops and implements hazardous fuels reduction and ecosystem restoration projects to reduce the risk of unnaturally severe fire, and make lands more resilient. Emphasis is specifically placed on restoring or maintaining National Forest System lands in a condition that is within their natural (historical) range of variability in vegetation characteristics, fuel composition, and fire frequency, severity of effects, and pattern. The Department also strategically and safely manages wildfire, and promotes the appropriate use of prescribed fire to restore fire as a natural ecological process on the landscape, improve forest and habitat conditions, and reduce fuel loads and unnaturally severe fire risk.

Analysis of Results

USDA met the target for this measure. A variety of factors influence the ability to meet this goal, including weather, resource availability, and the number of treatments required. It often takes multiple treatments to move an area toward its desired condition, and it may take repeated entries over time to move an area to the desired condition.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
2.3.3 Cumulative Acres in NFS that are in a desired condition relative to fire regime (millions of acres)	N/A	58.323	58.500	58.770	59.611	59.185 (estimated)	Met
Rationale for Met Range: Acres treated as of August and projections based on historical averages of acres treated during the fourth quarter indicate that the Department will meet this target (the current year-end projection is within 1 percent of the target).							

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
Data Assessment of Performance Measure 2.3.3							
• **Completeness of Data** — Values shown are estimated FY 2011 data. • **Reliability of Data** — This measure is derived from the Forest Activity Tracking System database by hazardous fuels program managers. It is calculated so that it accounts for cumulative changes from year to year. • **Quality of Data** -- The data for desired condition relative to fire regime are of good quality. USDA wildfire and other program managers collected, compiled, and analyzed the data.							

Challenges for the Future

Rising costs, such as fuel and aviation, contribute to increased expenditures, not all of which could be offset by cost management actions. Other integrated accomplishments will decrease due to reduced budgets in programs that contribute to this target. These reductions will affect progress towards the desired conditions.

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

A productive agricultural sector is critical to increasing global food security. For many crops, a substantial portion of domestic production is bound for overseas markets. USDA helps American farmers and ranchers use efficient, sustainable production, biotechnology, and other emergent technologies to enhance food security around the world and find export markets for their products.

Food security is measured by the availability of food and the ability to purchase food. A family is considered food secure when its members do not live in hunger or fear of starvation. Food security in foreign countries is affected by a number of factors, including the extent of the domestic food supply; the proportion of a nation's total volume of commodities used for such nonfood uses as feed or fuel; post-harvest losses due to waste and decay; the ability to finance food and agricultural imports; population income levels; and the proportion of income that must be devoted to food.

The Department is working to ensure U.S. agricultural resources contribute to enhanced global food security; enhance America's ability to develop and trade agricultural products derived from new technologies; and promote sustainable and productive agricultural systems that enable food-insecure nations to feed themselves.

Objective 3.1: Enhance America's Ability to Develop and Trade Agricultural Products Derived from New Technologies

3.1.1 Cumulative number of genetically engineered plant lines reviewed by USDA and found safe for use in the environment

Overview

USDA oversees a science-based regulatory framework for the safe development and use of genetically engineered (GE) organisms, and facilitates the review and acceptance of agricultural biotechnology products at home and in foreign markets. USDA regulates the importation, interstate movement, and field release of GE organisms that may pose a pest risk to plant health.

The number of new crops, traits, and combinations tested due to biotechnology related advancements increased by approximately 28 percent in FY 2011. The Coordinated Framework for the Regulation of

Biotechnology ensures that complex decisions regarding GE products are coordinated with other agencies. These agencies include the U.S. Environmental Protection Agency and the U.S. Food and Drug Administration (FDA). USDA also complies with regulations that safeguard the environment, such as the National Environmental Policy Act (NEPA). NEPA requires all Federal agencies to consider the effects of their projects and programs on the environment.

This measure shows the number of GE organisms no longer regulated by USDA. Once a GE organism is issued a determination of non-regulated status, the developer is free to sell the product without oversight, making it available to growers for commercial use. Thus, new and innovative GE technologies can enter the marketplace. Safe GE crops can enter markets to meet the needs of both grower and consumer choices.

Analysis of Results

USDA exceeded the target by approving six GE plant lines. In the *FY 2012 Budget Summary and Annual Performance Plan* in the President's budget, the Department set a goal to approve 4 GE plant lines in FY 2011. The Department also approved and published six petitions for herbicide-tolerant alfalfa and sugar beets, amylase corn, "seed production technology" (SPT) corn, insect resistant cotton, and an altered-colored rose. The approval brings the cumulative total to 87 plant lines reviewed and found safe. SPT is an innovative, proprietary seed production process that is expected to dramatically increase the efficiency of hybrid seed production.

The biotechnology regulatory program is currently reviewing 24 petitions for non-regulated status, including 7 new submittals. The Department is also working to improve its environmental review processes for petitions for non-regulated status. These improvements will allow USDA to reach determinations of non-regulated status more quickly, making agricultural products available to producers and growers. The Department analyzed its petition process; recommended improvements to the petition review process; and has scheduled implementation of the recommendations for FY 2012. This will result in more timely and consistent review of petitions for non-regulated status. It also will ensure that all determinations are made in accordance with the Plant Protection Act (PPA) and NEPA. PPA consolidated all or part of 10 USDA plant health laws into 1 comprehensive law, including the authority to regulate plants, plant products, certain biological control organisms, noxious weeds, and plant pests.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
3.1.1 Cumulative number of genetically engineered plant lines reviewed by USDA and found safe for use in the environment	74*	76*	78*	81	85	87	Exceeded

* USDA revised the calculation methodology for this performance measure and discovered that a previous deregulation of a plant line was accounted for in the wrong fiscal year – that data for 2007 was off by one and the following fiscal years were adjusted accordingly.

Data Source: Data regarding the cumulative number of genetically engineered (GE) plant lines reviewed by USDA are available at http://www.aphis.usda.gov/biotechnology/not_reg.html . The Department conducts a thorough scientific analysis and considers public comments for each submitted petition. Once USDA determines whether to deregulate a crop, it publishes the determination and associated environmental documents in the *Federal Register* and on its Web site. Petition determination numbers increase by one once the Department has published them in the *Federal Register.*

The cumulative number of GE plant lines reviewed by the USDA and found safe for use in the environment is an indicator of the GE technologies that can be commercialized by developers. The Department established a target to increase the number of deregulation decisions because there are implications of deregulation decisions on GE developers and agricultural producers who may choose the technology. The FY 2011 target was to have 85 petitions published by the end of FY 2011and 87 petitions were published by that time.

Challenges for the Future

USDA supports the safe and appropriate use of science and technology, including biotechnology, to help meet the agricultural challenges and consumer needs of the 21st century. Feeding the growing world population by 2050 will require doubling food production and improving distribution, according to the United Nations Food and Agricultural Organization. Accomplishing this goal will necessitate significant increases in the amount of food produced per acre, or crop yield. The Department plays a key role in assuring that products produced through biotechnology are safe to be grown and used in the U.S. Once these products enter commerce, USDA supports bringing these and other products to the worldwide marketplace. In the face of these pressures, the Department must maintain a regulatory system that balances safety and security needs in the face of rapid advances in technology.

Biotechnology advances spark debate among the different sectors of agriculture. This debate creates a challenge in balancing the needs of competing agricultural industries. The rapid adoption of GE crops has coincided with the rapid expansion of demand for organic and other non-GE products. These increases have brought the issue of biotechnology and coexistence to the forefront of political issues. Sectors of the population will continue to scrutinize the development of GE agricultural products and the ability to effectively regulate them.

USDA is committed to strategies designed to strengthen coexistence. The Department supports all forms of agriculture – conventional, organic, and genetically engineered – to meet the need for food security, energy production, carbon offsets, and the economic sustainability of farms. USDA ensures public participation in its regulatory decision making, and continued discussions with diverse groups and interested stakeholders, including GE, organic, and non-GE sectors. The Department will communicate with consumer interests regarding possible approaches to coexistence and support grower and consumer choices. Agricultural issues are almost always complex and rarely lend themselves to simple solutions. Meeting these challenges requires and increased investment in resources, and cooperation from many different players to ensure an effective solution.

Biotechnology is an ever-changing field of science and the cost of developing GE products is significant. Technology continues to expand and develop, presenting challenges for the regulatory system. As GE organisms (animals, plants, or insects) develop in other countries and are imported into the U.S., it is important to have adequate domestic regulatory systems in place to address their safety. In turn, it is important to coordinate with other countries to allow the U.S. to export GE products.

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

Nutrition is the link between agriculture and the Nation's health. USDA made strong progress in advancing its nutrition and health goal. The Department's leadership of the Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. In addition, the cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans* and the HealthierUS initiative. Key 2011 accomplishments include:

- **Promoting access to the Supplemental Nutrition Assistance Program (SNAP).** SNAP is the Nation's largest nutrition assistance program, serving 45.2 million people. The latest information on the rate of participation among eligible people showed that, in 2009, 72 percent of all who were eligible participated, as compared with 54 percent in 2001.
- **Promoting Nutrition Education by Using the MyPlate Food Guidance System.** *MyPlate*—a network of nutrition education tools that translates the Dietary Guidelines for Americans into understandable concepts for consumers—offers the American public an individualized approach to nutritional well-

being and active living. ChooseMyPlate.gov's Web-based educational tools help Americans assess and personalize their diet and physical activity plans. The newest tool was the MyPlate for Preschoolers (ages 2 to 5 years old) to help parents use MyPlate to help their young children eat well, be active, and be healthy. Consumers continue to respond enthusiastically to this educational approach. Thus, CNPP continues to develop new educational tools to promote nutrition education to specific population groups to help stem the trends in obesity and nutrition-related diseases. In 2011, transitions occurred with the release of the 2010 Dietary Guidelines for Americans in January 2011, and ChooseMy Plate.gov in May 2011.

- **Continuing to ensure that SNAP benefits are accurately issued.** The SNAP payment accuracy rate for FY 2010, announced in June 2011, was 96.19 percent, a new record high that reflects effective partnerships with State administering agencies, and extensive use of policy options to streamline program administration while improving access for working families.

USDA continued to improve the quality of Americans' diets through research-based nutrition enhancements to the Nation's food supply, and better knowledge and education to promote healthier food choices. The Department pursued national policies and programs to ensure that everyone has access to a healthy diet regardless of income, and that the information is available to support and encourage good nutrition choices.

USDA's success in promoting public health through good nutrition and the effectiveness of its nutrition assistance education programs relies heavily on research. This research provides critical knowledge of what we need to eat to stay healthy and how that knowledge can be conveyed to the public in a manner that leads to true changes in our diets. Research also supports development of new healthy and tasty food products providing another avenue for helping consumers eat well.

OBJECTIVE 4.1: INCREASE ACCESS TO NUTRITIOUS FOODS

4.1.1 Participation levels for major Federal nutrition assistance programs SNAP

Overview

The Supplemental Nutrition Assistance Program (SNAP) is the foundation of America's nutrition assistance program system. SNAP provides benefits that can be used to purchase food at authorized retailers for preparation and consumption at home. It makes resources that can be used for food available to most households with little income. Benefit levels are based on the Thrifty Food Plan, a representative healthful and minimal-cost meal plan that shows how a nutritious diet may be achieved with limited resources. The amount received by a household depends on its income, expenses, and size.

Analysis of Results

USDA met the target for this performance measure. Average monthly participation reached 44.3 million in 2011 (Oct 2010-June 2011), within the range (43.2 million-45.4 million) for the 2011 target of 45.0 million.

Program participation increased more than 5 percent. The Department's efforts to support and encourage SNAP participation included:

- Continued efforts with States to develop outreach strategies. Forty-five out of 53 State agencies — up from 40 in FY 2009 — now have formal outreach plans or other documented outreach activity;
- Supported innovative State practices to promote access by simplifying the application process. Thirty States use an Internet-based application filing system. A total of 47 States allow telephone interviews. A total of 27 States use call centers; and
- Provided numerous strategies to help States manage workloads because of increasing participation and decreasing State resources due to the economic downturn. These strategies include policy waivers, a

workload management matrix tool, a program access toolkit, and the encouragement of broad-based categorical eligibility (42 States) to improve access to applicants and simplify policies for State administration.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.1.1 Participation levels for the major Federal nutrition assistance programs (millions per month): Supplemental Nutrition Assistance Program Avg.(monthly) participation (millions per month)	26.5	28.4	33.5	40.3	45.0	44.3	Met

Rationale for Met Range: The actual number represents information as of June 30. Thresholds for 4.1.1 reflect the margin of error in forecasts of future participation. For SNAP participation, results from 2 independent assessments suggest that predictions of the number of SNAP participants are accurate to within plus-or-minus 7.5 percent on average.

This percentage thus allows for actual performance that meets the target range of 43.2-45.4 million for SNAP.

Data Assessment of Performance Measure 4.1.1

SNAP participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. The Department reviews data posted by regional personnel into NDB. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible

- **Completeness of Data**— Figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through June 30, 2011, as available September 2011.
- **Reliability of Data**— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies, and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.
- **Quality of Data**— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.

Challenges for the Future

Studies and analyses show that one reason that SNAP-eligible people do not participate is because they may be unaware of their eligibility. Efforts to improve access to and promote awareness of SNAP, and improve policy and operations that make applying easier are ongoing challenges.

The quality of program delivery by third parties—hundreds of thousands of State and local Government workers and their cooperators—is critical to USDA's efforts to reduce hunger and improve nutrition. Proper program administration, including timely determination of eligibility, is of special concern.

4.1.2 Improve SNAP payment accuracy

Overview

Ensuring that SNAP and other Federal nutrition assistance programs are administered with integrity is central to USDA's mission. Waste and abuse draw scarce resources away from those who need them the most. Just as importantly, the programs are ultimately not sustainable without public confidence that benefits go to those who qualify, are used appropriately, and achieve their intended purposes. The Department seeks to increase food security and reduce hunger in a manner that inspires public confidence that taxpayer dollars are used wisely.

Designed to respond to economic conditions, participation in the program has recently grown and benefits have increased, yet USDA remains strongly committed to program integrity. The Department takes its stewardship responsibilities for tax payer dollars seriously through an established Quality Control (QC) system and long-standing support for payment accuracy initiatives. USDA continuously works to improve payment accuracy through partnerships with States, and regulatory and statutory requirements for a system that rewards exemplary program performance while holding low-performing States accountable. It also uses an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary QC data. Actions then are taken by regional offices to address these situations in the individual States.

Analysis of Results

SNAP payment accuracy reached a record-high 96.19 percent in 2010, the latest for which data are available. The number reflects the excellent performance by State agencies in administering the program. This combined rate reflects 3.05 percent in overpayments and .76 percent in underpayments for a total of 3.81 in erroneous payments.

Forty-seven States had a payment accuracy rate greater than 94 percent, including 23 States with rates greater than 96 percent. This is the same number of States with 94 percent accuracy and 6 less States with 96 percent accuracy than in the previous year.

Annual Performance Goals Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.1.2 Improve SNAP Payment Accuracy Rate	94.4%	95.0%	95.6%	96.19%	95.6%	N/A	Deferred

FY 2011 data will be available in 2012.

Rationale for Met Range: The 95.0 percent confidence interval around the estimate of payment accuracy is ±.33.

- For 2011, this confidence level allows for actual performance that meets the target in the range 95.31 – 95.97 percent.

Data Assessment of Performance Measure 4.1.2

SNAP, formerly the Food Stamp Program, uses annual payment accuracy data from the Quality Control (QC) process to support program management. The data are based upon statistically valid methodology. The QC process uses a systematic random sampling of SNAP participants to determine a combined payment error rate for each State. The combined error rate is composed of over-issuances and under-issuances of SNAP benefits. A regression formula is applied to the results of the reviews to calculate official error rates. State agencies review selected cases monthly to determine the accuracy of the eligibility and benefit-level determination. The process includes a client interview and verification of all elements of eligibility and the basis of issuance. Federal reviewers validate a sample of the State's reviews by conducting a re-review. The process has proven to be a sound method of calculating reliable data.

- **Completeness of Data**—The most current data available for this measure are for FY 2010. The payment accuracy rate of 96.19 percent exceeded the performance goal/measure target. FY 2011 performance will be deferred until next year's report.
- **Reliability of Data**— QC data are valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The U.S. Government Accountability Office and the Office of Inspector General also use it regularly.
- **Quality of Data**— As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is frequently cited as an important, high-quality indicator of program performance.

Challenges for the Future

The most critical challenge impacting future success is continuing resource limitations for State agencies. 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 difficult program environment.

4.1.3 Participation levels for the major Federal nutrition assistance programs

Overview

The National School Lunch Program (NSLP) and the School Breakfast Program (SBP) support schools in ensuring access to nutritious food for the children they serve. The programs provide per-meal reimbursement to State and local Governments for meals and snacks served. All meals must meet Federal nutrition standards to qualify for reimbursement.

NSLP served lunches and snacks in more than 100,700 schools and residential child-care facilities. More than 66 percent of meals are served to low-income children for free or at reduced price.

SBP helps school children start the day ready to learn by serving breakfast in more than 88,700 schools and residential child-care facilities. Nearly 84 percent of meals are served free or at reduced price to low-income children.

Analysis of Results

In FY 2011, USDA and its program delivery partners sustained effective access to school meals. The increased use of direct certification for free school meals for children enrolled in means-tested programs such as SNAP or the Temporary Assistance for Needy Families (TANF) program has helped to provide easy access to school meal benefits. During the 2009-10 school year, 82 percent of school districts used direct certification, up from 78 percent in the prior year. TANF provides financial assistance for children and their parents or relatives who are living with them.

NSLP participation levels reached 31.8 million in FY 2011; within the Met range (30.5 million-33.7 million) for the 2011 target of 32.1 million. Participation increased slightly from FY 2010, continuing the trend of increases in recent years. Average SBP participation levels reached 12.1 million in FY 2011; within the Met range (11.8 million – 13.0 million) for the 2011 target of 12.4 million. These numbers also continue a trend of increases during the last several years.

Annual Performance Goals Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day)							
• National School Lunch Program	30.5	30.9	31.6	31.7	32.1	31.8	Met
• School Breakfast Program	10.1	10.6	11.0	11.7	12.4	12.1	Met

Rationale for Met Range: Thresholds for 4.1.3 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2011, this percentage range allows for actual performance that meets the targets in the range of 30.5-33.7 million for the National School Lunch Program and 11.8-13.0 million for the School Breakfast Program.

Data Assessment of Performance Measure 4.1.3

School meals participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.

- **Completeness of Data**— Figures for NSLP and SBP are based on 9-month (school year) averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through June 30, 2011, as available September 2011.
- **Reliability of Data** — Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.
- **Quality of Data** — As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.

Challenges for the Future

While almost all school children have access to federally-subsidized school lunches, significantly fewer schools operate school breakfast programs. USDA will continue to pursue strategies to ensure that all students are able to start the day with a nutritious breakfast, at home or at school.

As with other nutrition assistance programs, the Department relies on its partnerships with third parties—hundreds of thousands of State and local Government workers and their cooperators— to sustain effective school meals program delivery.

4.1.4 Participation Levels for the Major Federal Nutrition Assistance Programs (millions per month) WIC Program

Overview

The Special Supplemental Nutrition Program for Women, Infants and Children (WIC) is a critical component of the nutrition assistance safety net. WIC's major objective is to address the nutrition needs of low-income pregnant, breastfeeding, and postpartum women, infants, and children up to 5 years of age found to be at nutritional risk.

Analysis of Results

USDA met this measure.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month): WIC Program (average)	8.3	8.7	9.1	9.2	9.3	8.9	Met

Rationale for Met Range: Range of tolerance was established to be 8.9 to 9.6. WIC participation data for FY 2011 show the birth rate is down and therefore less participation in the program than estimated in prior fiscal year.

Data Assessment of Performance Measure 4.1.4

WIC participation data are drawn from USDA administrative records. State agency reports are certified accurate and submitted to regional offices. There, they are reviewed for completeness and consistency. If the data are acceptable, the regional analyst posts them to the National Data Bank (NDB) Preload System. NDB is a holding area for data review prior to release. Otherwise, regional-office personnel reject the report and the State agency is contacted. Data posted by regional personnel into NDB are reviewed at USDA. If data are reasonable and consistent with previous reports, they will be downloaded to NDB for public release. If not, USDA works with regional offices and States to resolve problems and inconsistencies. This process of review and revision ensures that the data are as accurate and reliable as possible.

- **Completeness of Data**— Figures represent 12-month, fiscal year averages. Participation data are collected and validated monthly before being declared annual data. Reported estimates are based on data through June 30, 2011, as available September 2011.
- **Reliability of Data**— Participation-data reporting is used to support program financial operations. All of the data are used in published analyses, studies and reports. They also are used to support dialogue with and information requests from the Government Accountability Office, the Office of Inspector General, and the Office of Management and Budget.
- **Quality of Data**—As described above, the data used to develop this measure are used widely for multiple purposes, both within and outside USDA. The measure itself is reported in stand-alone publications as an important, high-quality indicator of program performance.

Challenges for the Future

Ensuring that adequate, timely funding is available to USDA's program partners to support participation among all eligible applicants is an ongoing challenge. The Department and its partners must continue to work together to manage funds carefully and maintain efficient operations to serve all those in need.

OBJECTIVE 4.2: PROMOTE HEALTHY DIET AND PHYSICAL ACTIVITY BEHAVIOR

4.2.1 Application and usage level of nutritional guidance tools.

Overview

Good nutrition and regular physical activity are important throughout the life cycle and can help reduce the rate of overweight and obesity in the U.S. population, especially among the Nation's children. Good nutrition and physical activity are also essential to helping prevent diet-related chronic diseases, such as diabetes, cardiovascular disease, and high blood pressure. Thus, achieving and sustaining appropriate body weight across the lifespan is vital to maintaining good health and quality of life.

USDA is committed to using Federal nutrition policy and information—both based on the most recent, credible science—to encourage the U.S. population to develop and maintain healthy diets and active lifestyles that benefit each individual, each family, and the Nation. As USDA Secretary Thomas Vilsack said at the January, 2011 release of the 2010 *Dietary Guidelines for Americans*, "We are at a time when the majority of adults and one in three children is overweight or obese; this is a crisis that we can no longer ignore." USDA uses the Dietary Guidelines — established jointly with the U.S. Department of Health and Human Services — to form the basis of Federal nutrition policy, education, outreach, and food-assistance programs.

The Department depends on the Nutrition Evidence Library (NEL) to develop the sound assessment of nutritional science on which to base the *Dietary Guidelines for Americans* (available at www.dietaryguidelines.gov). ChooseMyPlate.gov is the electronic portal to plain-language guidance and advice for Americans to apply the *Dietary Guidelines* for improving their overall health. USDA uses NEL to conduct transparent systematic reviews of the science that forms the conclusions on which nutrition policy is based. This science-based resource is available at www.nutritionevidencelibrary.gov. It uses electronic tools, print materials, and other resources to communicate the importance of healthy eating and physical activity to consumers. The MyPlate icon and guidance materials and tools allow the Department to empower the American public with actionable information to make healthful food choices and to achieve healthy and active lifestyles. USDA also continues to encourage "information multipliers"—community and national strategic partners—to extend the reach and impact of nutrition guidance messages, both with Federal nutrition assistance programs and with the general public.

Analysis of Results

The goal for this performance measure was unmet. A transition occurred with the release of the 2010 *Dietary Guidelines for Americans* this past year. During this transition, materials were being developed and electronic tools were being enhanced. In addition, historical data on usage of educational materials and electronic tools show that schoolchildren, college students, and educational professionals are a large audience for the use of the *Dietary Guidelines* materials and the electronic toolkits. Thus, USDA expects a more positive result during non-transition years.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.2.1 Application and usage level of nutrition guidance tools(billions of pieces of nutrition guidance distributed) Baseline 2006 = 1.5	2.6	3.2	3.5	1.5	3.0	1.7	Unmet
Rationale for Met Range: The precision of USDA's tracking system and forecasting allows for actual figures to be used to determine the degree to which the 2011 target range of 2.8 to 3.2 billion is met. Thresholds reflect trends of "hits" at the former MyPyramid.gov, the new ChooseMyPlate.gov, and www.nutritionevidencelibrary.gov, as well as the distribution of *MyPlate* and *Dietary Guidelines* print materials.							

Data Assessment of Performance Measure 4.2.1

Data on the application and usage level of nutrition guidance tools are drawn from electronic records associated with MyPlate.gov, survey analysis, and inventory records of print materials.

- **Completeness of Data**—Data related to MyPlate.gov are collected instantaneously, indicating the number of e-hits to the Web site and the number of registrations to MyPlate Tracker. However, data for October-December 2010 were unavailable for all parts of the site due to system problems. Estimates based on prior year performance were used for this portion of the performance period. For print materials, data from national headquarters represent counts of what USDA distributed.
- **Reliability of Data**— The number of hits is instantaneously recorded, the online survey is continual and well-tested, and the number of distributed print materials is tracked.

Annual Performance Goals, Indicators and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
• **Quality of Data**—The data are used to report on the success of the MyPlate Food Guidance System. Because of the simultaneous recording of MyPlate.gov usage, and the thoroughness and continual nature of the customer satisfaction survey, usage and customer satisfaction levels are a high-quality indicator of the degree to which USDA promotes, and customers respond to, interactive tools and print materials designed to help Americans personalize their diets. With a change in the system used to record MyPlate.gov usage, the Department will again be able to rely on the quality of the data to report whether performance goals have been met.							

Description of Actions for Unmet Measures

This measure shows a combined output of:

- Printed nutrition materials that were requested and distributed; and
- "Hits," or visits to these Web sites: the former MyPyramid.gov and its replacement, the new ChooseMyPlate.gov, and www.nutritionevidencelibrary.gov.

The transition from MyPyramid.gov to ChooseMyPlate.gov resulted in a decline in the number of "hits" received. The target, which is based on demand, was set prior to the planning of the conversion to a new, updated Web site, and, thus, was not met due to site development and implementation issues. The number of "hits" in FY 2012 is expected to rise, since the conversion is now complete.

Challenges for the Future

Individuals and families make choices every day about what they will eat and drink and how physically active they will be. Today, Americans must make these choices within an environment that promotes overconsumption of calories and discourages physical activity. The ability of existing nutrition guidance and promotional materials to achieve behavior change remains challenging. Physical activity and other lifestyle issues also significantly impact body weight and health.

Crafting understandable, science-based, consistent, and consumer-friendly nutrition messages and nutrition education programs in ways that promote positive behavioral change to help people make better food choices will continue to be challenging. The relationships between choices people make and their attitudes towards and knowledge of diet/health links are key factors that must be addressed. The data that can address this information gap, however, are limited. Work is planned to develop helpful metrics to measure the success of communications and promotion programs.

OBJECTIVE 4.3 PROTECT PUBLIC HEALTH BY ENSURING FOOD IS SAFE

4.3.1 Reduce overall public exposure to Salmonella from broiler carcasses;

4.3.2 Reduce total illnesses from all regulated products; and

4.3.3 Increase the percentage of establishments with a functional Food Defense Plan (large, small and very small establishments)

Overview

Each year, one in six Americans experiences a foodborne illness.[1] To reduce and prevent these illnesses, USDA uses a farm-to-table approach to ensure the safety of the food supply. The Department invests in its workforce and data infrastructure to protect consumers by reducing the incidence of food contaminants, and quickly identifying and preventing outbreaks. Effective food safety inspections and enforcement depend upon timely, quality data and analysis.

[1]Scallan E, Hoekstra RM, Angulo FJ, Tauxe RV, Widdowson M-A, Roy SL, et al. Foodborne illness acquired in the United States—major pathogens. Emerg Infect Dis [serial on the Internet]. [*September 6, 2011*]. http://www.cdc.gov/EID/content/17/1/7.htm

USDA ensures that meat, poultry, and processed egg products are safe, secure, wholesome, and correctly labeled and packaged. Currently, the Department's efforts are focused on preventing illnesses from *Salmonella, Listeria monocytogenes (Lm)*, and *E. coli* O157:H7. These three bacterial pathogens are known to cause human illness, hospitalization, and even death.

USDA is also working to better verify that effective food safety systems are being implemented in Department-regulated slaughter and processing establishments. USDA trains inspection personnel and has developed an automated system to alert inspectors about potential food safety problems through effective inspection data analysis according to risk. These actions give inspection personnel greater and timelier access to establishment performance data.

USDA uses three key measures to assess its performance to ensure that food is safe:

- Increase the percentage of federally inspected establishments in "Category 1," reducing overall public exposure to generic *Salmonella* from broiler carcasses. Establishments are placed in Category 1 if they demonstrate consistent process control in USDA *Salmonella* verification testing[2];
- Total illnesses from all Food Safety and Inspection Service (FSIS)-regulated products: *Salmonella*, *Lm*, and *E. coli* O157:H7 (All-Illness Measure). The All-Illness Measure is used to assess efforts to reduce *Salmonella*, *Lm,* and *E. coli* O157:H7 illnesses from USDA-regulated products. Of the illnesses attributed to USDA-regulated products in the third quarter of 2011, 99 percent of illnesses came from *Salmonella*, .83 percent from *Lm*, and .16 percent from *E. coli* O157:H7. This is the equivalent of 1 illness for every 351,885 servings of meat and poultry products consumed annually[3]; and
- Increase the percentage of federally inspected establishments (large, small, and very small establishments) with a functional food defense plan. USDA measures the industry adoption of functional food defense plans. These plans assist industry in preventing intentional contamination of food products, thereby protecting public health and reducing the negative economic impact on the food infrastructure.

Analysis of Results

The target for 4.3.1 was unmet. However USDA did meet its goal for 4.3.2, and exceeded its goal for 4.3.3.

4.3.1 Reduce overall public exposure to *Salmonella* from broiler carcasses

USDA employs a "category" system to measure the Salmonella performance of establishments producing raw products. Selection of the category system was partially based on the long-term evidence from USDA regulatory samples (collected between 1998 and 2004). USDA compares how many establishments are in Category 1 from one quarter to the next and from one year to the next. Category 1 represents the best performance attainable – establishments with results from their two most recent completed sample sets that are, at a minimum, at or below half of the performance standard or baseline guidance. Category 2 represents establishments found to have *Salmonella* positives at a rate between half the standard and the standard level. Category 3 represents establishments that have exceeded the performance standard or baseline guidance on the most recent USDA test set. As more establishments attain Category 1 status, the Department believes that fewer people will be exposed to *Salmonella* from raw classes of USDA-regulated products.

4.3.2 Reduce total illnesses from all regulated products

The Department calculates a measure that estimates all foodborne illnesses for *Salmonella*, *Lm*, and *E. coli* O157:H7 from USDA-regulated products. Objectives for this measure are set using a combination of data

[2]USDA has tightened its *Salmonella* performance measure for broilers, which will require a downward adjustment to a lower percentage attained for the FY 2015 performance goal for *Salmonella* broiler carcasses in the first quarter of FY 2012.

[3]Data for this measurement is obtained using FSIS illness estimates and food availability data from ERS. ERS data are available at the following Web site: http://www.ers.usda.gov/Data/FoodConsumption/app/reports/displayCommodities.aspx?reportName=Total%20meat&id=39#startForm

from published case rates from the U.S. Centers for Disease Control and Prevention's (CDC) FoodNet data and National Outbreak Reporting System outbreak data. These case rates are aligned with Healthy People 2010 goals. Healthy People 2010 is an initiative designed to decrease the rate of diseases caused by microorganisms transmitted mainly by food. To measure progress in meeting these objectives, USDA uses Pathogen Verification Testing to estimate the total number of foodborne illnesses from *Salmonella*, *Lm*, and *E. coli* O157:H7.

4.3.3 Increase the percentage of establishments (large, small and very small establishments) with a functional Food Defense Plan

The food defense measure was developed with the goal of increasing the number of establishments with a functional food defense plan, which USDA considers an important measure for preventing intentional product adulteration. Such plans should be developed, written, implemented, assessed, and maintained by establishments if they are to be considered functional. The Department has developed guidance materials to assist in the development and understanding of what constitutes a food defense plan for establishments. This performance metric is measured by the annual USDA Food Defense Plan Survey which is based on data about industry's voluntary adoption of food defense plans. Results from the first survey, conducted in August 2006, established a baseline adoption rate of food defense plans by industry of 34 percent of all establishments (large, small, and very small). USDA's goal for the adoption of food defense plans by FY 2015 is that 90 percent of all establishments will voluntarily implement a functional plan.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.3.1 Reduce overall public exposure to *Salmonella* from broiler carcasses	73%	83%	82% in Category 1	83.6% in Category 1	92% in Category 1	87% in Category 1	Unmet
4.3.2 Reduce total illnesses from all regulated products	598,087	656,702	615,014	584,335	571,406	510,230	Met
4.3.3 Percent of establishments with a functional food defense plan	39%	46%	62%	73.6%	74%	75%	Exceeded
• Large Establishment	91%	96%	96%	97%	90%	96%	
• Small Establishment	53%	64%	72%	82%	78%	84%	
• Very Small Establishment	21%	25%	49%	64%	63%	65%	

Rationale for Met Range: 4.3.1 —USDA measures its *Salmonella* performance in terms of a percentage of broiler chicken establishments that are in *Salmonella* performance Category 1. Establishments are placed in Category 1 if they demonstrate consistent process control in Department verification testing. USDA selected the 92 percent goal because it represents an ambitious objective to be achieved.

4.3.2 — USDA measures its performance for *Salmonella, Listeria monocytogenes* and *E. coli* O157:H7 in terms of a volume-adjusted percent-positive rate for each pathogen in the Department's Hazard Analysis and Critical Control Point (HACCP) verification testing. USDA is working to reduce the number of foodborne illnesses. Hence, the FY 2011 'actual' number is 61,176 illnesses lower than the set target. Up to April 2010, the performance standards were anchored to 1999 illness data and objectives were set for each pathogen using the Healthy People Goals for 2010. USDA shifted to using CDC FoodNet data for setting objectives, which are pathogen-specific case rates updated annually to calculate foodborne illnesses. These case rates are superior data as they are an up-to-date, actual measure of foodborne illness. Another shift in methodology occurred in August 2010 when, at the request of the CDC, USDA shifted to using only simple foods when calculating pathogen-specific attribution fractions. The simple foods methodology only takes illnesses from simple foods, such as chicken or steak, into account when calculating the pathogen-specific attribution fraction, rather than using complex (chicken salad sandwich, for example) plus simple foods.

4.3.3 — Data from 2007-2008 represent the percentage of facilities with a written plan, while the data from 2009-2011 represent the percentage of facilities with a functional plan, as defined above. USDA has been working with establishments to encourage them to voluntarily adopt functional food defense plans. USDA established a goal of getting 90 percent of industry to adopt food defense plans by 2015.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
Data Assessment of Performance Measure 4.3.1, 4.3.2, and 4.3.3							

Through consultations with its stakeholders, USDA continuously examines the Nation's changing food safety system and practices. The Department articulates a long-term view in regard to its performance and the benefits to public health. USDA also monitored its performance against the Healthy People 2010 for these three critical pathogens — *Salmonella, Lm* and *E. coli* O157:H7. The Department developed an attribution model to determine what percentage of all *Salmonella, Lm, and E. coli* illnesses result from USDA-regulated contaminated products. These data quality statements reflect data collected for performance measures 4.3.1 and 4.3.3.

- **Completeness of Data** — Results are based upon USDA's laboratory results analyzed as of June 30, 2011. They are the best available indication of the third quarter of FY 2011 results. Quarterly and annual data are based on sampling at a range of establishments, from very small to large.
- **Reliability of Data** — The data are reliable because they are based on testing and verification from USDA's field service laboratories for regulated establishments. Each sample is subjected to highly specific verification testing. The primary goal of these sampling programs is to monitor how well each establishment is maintaining control of food safety through its HAACP, sanitation, and supporting programs. USDA recognizes that its verification testing samples for Salmonella in raw classes of product and for Lm in ready-to-eat foods are biased in favor of being collected at establishments with poor process controls and/or higher volume. This factor likely results in over-estimates in public exposure to these two pathogens. This factor is not the case for E. coli O157:H7 because USDA programs sample every establishment and take into account establishment production volume.
- **Quality of Data** — USDA collects pathogen verification samples at a range of establishments and testing is conducted to verify establishment pathogen reduction activities.

Descriptions of Actions for Unmet Measures

The Department did not meet the FY 2011 goal of reducing overall public exposure to Salmonella from broiler carcasses, though the poultry industry (broiler and turkey carcass establishments) improved performance in the second quarter (results were 85 percent) and third quarter (87 percent).

USDA has developed new tightened performance guidance based on results from the year long Nationwide Young Chicken Microbiological Baseline completed in mid-2008. This baseline data-collection program is designed to estimate the prevalence and quantitative level of bacteria on broiler carcasses. It also obtains microbiological data for use in the development of risk assessments.

A Federal Register notice announcing the new guidance policies was published in May 2010 with a targeted implementation of July 2010. USDA published a *Federal Register* notice responding to the comments received in March 2011 providing for implementation in July 2011, due to the substantive nature of the comments. The Department will track the regulated industry's overall progress in meeting the USDA Salmonella performance target and will continue to post summary results of its Salmonella verification-testing program on its FSIS Web site.

USDA is reviewing all not-ready-to-eat (NRTE) *Salmonella*-related policies and associated issuances and developing new measures to assess whether these policies are being implemented effectively. The Department will develop outcome measures around the key NRTE *Salmonella*-related policies and associated issuances to determine their contribution to the larger All-Illness Measure. In addition, USDA is developing a Salmonella risk profile for poultry that will focus on areas within pre-harvest and post-harvest for which policies for Salmonella reduction could be most effectively developed and applied.

Challenges for the Future

Ensuring the safety of the Nation's food supply is a significant challenge that requires a strong and robust infrastructure coupled with sound science. USDA uses a data-driven, scientific approach to food safety, incorporating public health data critical to combating the evolving threats to public health. Educating producers about best practices on the farm, and educating retailers and the public on best food handling practices are important tools for USDA to utilize.

While the Department firmly believes that its day-to-day activities directly impact the prevention of foodborne illness in this country, it is often challenging to link USDA activities, such as pathogen verification testing, to reductions in foodborne illness.

USDA is also a key partner in the President's Food Safety Working Group (FSWG), which is co-chaired by Agriculture Secretary Tom Vilsack. As part of FSWG's recommendation to intensify efforts to meet the performance goal of reducing *Salmonella* illnesses, the Department implemented a new, lower *Salmonella* performance standard for broilers in July 2011, as mentioned above. This new standard lowers the acceptable number of positives in a verification set of 51 samples from 12 to 5. The new standard was based on results from the 2008 Nationwide Young Chicken Microbiological Baseline. The aim is to reduce the occurrence of *Salmonella,* thereby diminishing the public's exposure to it in USDA-regulated products.

Another food safety challenge is that small and very small establishments often lack the technical knowledge to design and implement food safety systems. To assist these establishments, USDA has released a *Compliance Guide for Poultry Slaughter* to reduce *Salmonella* and *Campylobacter* exposure. This guide includes the most recent information available on technologies to reduce those pathogens' occurrence in USDA-regulated products. As consumers are increasingly purchasing raw poultry products in 'parts' rather than whole birds, USDA has also initiated a nationwide young chicken parts microbiological baseline study to learn more about the public's possible exposure to *Salmonella.*

In its work to control *Lm* and meet illness reduction goals, USDA is continually challenged as illnesses may occur due to re-contamination in retail slicing operations, or during the distribution process. While the Department performs surveillance activities at the retail level, it is performing a joint survey with the U.S. Food and Drug Administration to determine the levels of *Lm* in ready-to-eat foods at retail delis. This survey is designed to improve surveillance methods. This study will provide information that can be used to develop new actions to control *Lm* at retail facilities in the future. USDA also maintains a risk-based sampling program for *Lm* in regulated establishments. It is designed to identify and address establishments with poor sanitation where *Lm* could be harbored.

The Department is also working to improve its trace back of production in response to positive *E. coli* O157:H7 test results. USDA is working on a new traceback methodology that it will begin using when the Department's verification sampling of raw beef product tests presumptive positive for *E. coli* O157:H7. USDA is working to ensure that its policies evolve to address a broader range of pathogens, beyond *E. coli* O157:H7. This work will ensure that public health and food safety policy corresponds with the demonstrated advances in science and data about foodborne illness to best protect consumers.

Finally, the Department's "Food Safe Families" campaign, developed in partnership with the Ad Council, seeks to increase public awareness about the relationship between safe food handling practices and the prevention of foodborne illness. By promoting the "Clean, Separate, Cook, and Chill" food handling behaviors, USDA hopes to reduce foodborne illness attributed to improper in-home food preparation. However, to more precisely determine the extent to which consumer food handling practices contribute to the overall incidence of foodborne illness in the U.S., additional research is needed.

Objective 4.4: Protect Agricultural Health by Minimizing Major Diseases and Pests to Ensure Access to Safe, Plentiful, and Nutritious Food

4.4.1 Value of damage prevented and mitigated annually as a result of selected plant and animal health monitoring and surveillance efforts

Overview

USDA ensures access to a diverse supply of fruits, vegetables, meat, and poultry. The Department protects the agriculture production system and defends against plant and animal pests and diseases. Several programs contribute towards preventing and easing economic and environmental damage to U.S. agricultural resources. The Department's monitoring and surveillance programs assist with documenting the health status of U.S. agricultural products. This work results in the prevention and early detection of plant and animal pests and diseases. USDA also conducts various pest and disease programs to limit the damage caused by known pests and diseases. Together, these efforts contribute towards the Nation's overall agricultural health. USDA monitors the health status of agricultural resources and quickly detects and responds to pests and diseases to prevent their spread.

Analysis of Results

USDA met the target for this performance measure by preventing and mitigating $1.11 billion in damage to agricultural resources. Several efforts contributed towards meeting the target. USDA enhanced the Nation's capabilities of finding and responding to plant and animal diseases. This work pre-empted any potentially significant damage to the agricultural production system and food supply. The Department's animal health monitoring and surveillance efforts focus on finding diseases quickly, tracing them to their origin, and preventing their spread.

There were no significant outbreaks of animal diseases in FY 2011. As a result of the increasing diversity of livestock and poultry rearing facilities in the U.S., a more flexible animal disease traceability system is needed to effectively respond to animal disease concerns, and minimize harm to producers. To replace the original effort—the National Animal Identification System, which was perceived as being too intrusive—in February 2010, USDA announced a new approach to animal disease traceability. The Department gathered input from the public. It then developed a comprehensive understanding of how to design and deliver an animal disease traceability program. In August 2011, USDA published a proposed rule on traceability that is more flexible than the previous system. The new system allows States, tribes, territories, and producers to use their expertise to develop the animal disease traceability approach that works best for them. Detecting an animal disease before many animals have been exposed to it limits the spread of the disease. The system allows for more timely eradication and management efforts. The Department estimates that a half week delay in intervention can increase total costs by $135 million, including production and trade losses related to a major disease event. Therefore, the monitoring and surveillance activities are crucial to minimizing and preventing damages to the U.S. livestock industry, and ensuring access to a variety of meat and poultry products.

USDA also continues to help ensure the availability of fresh fruits like grapes through controlling such pests as the European Grapevine Moth (EGVM). EGVM is a significant pest of grapes and other specialty crops. It damages grape production when larvae feed on the flowers and berries. Subsequent fungal infection causes further damage. High population densities of EGVM can destroy entire vineyards, resulting in a total loss of grapes at harvest. The Department believes that many of the impacts have been avoided due to the rapid response to the initial discovery of the pest. USDA, State, county, and university cooperators continue to conduct survey and regulatory activities, as well as education and outreach efforts. Growers in affected areas also conducted treatments to suppress the moth. Regulatory controls, extensive surveys, and grower treatments conducted in 2010 reduced populations by more than 99 percent. Survey, regulator, and treatment activities are continuing and have been effective. Between February and August 2011, the program detected 143 moths, compared to 100,665 moths detected during the same time period in 2010.

Annual Performance Goals, Indicators, and Trends	2007	2008	2009	2010	Fiscal Year 2011		
					Target	Actual	Result
4.4.1 Value of damage prevented and mitigated annually as a result of selected plant and animal health monitoring and surveillance efforts ($ billions)	1.37	1.38	1.05	1.07	1.11	1.11	Met
Rationale for Met Range: The value of the agricultural resources protected can vary year to year and are disease and commodity specific. A threshold boundary equal to the economic assumptions for a given year should be considered acceptable.							

Data Assessment of Performance Measure 4.4.1

- **Data Source:** Data for animal health programs are entered by State partners into a USDA database. They are verified by agency officials to document the results of surveillance efforts, and document the health status of the U.S. herd. Data for plant health programs are maintained in the Cooperative Agricultural Pest Survey program database. The estimated value of savings is a calculation of the costs associated with conducting monitoring and surveillance programs, versus potential losses of not having these programs in place.
- **Completeness of Data** — USDA maintains the databases and results are entered directly into the system. Should a pest or disease be detected, the agency keeps its Web site up to date – detection and response efforts to plant and animal pests and diseases are updated daily at: http://www.aphis.usda.gov/. The pests and diseases of highest concern are easily identified from the agency's Web site.
- **Reliability of Data** — The surveillance results are used by both internal managers and external partners and stakeholders as an authoritative source of information.
- **Quality of Data** — USDA ensures the information reported on its Web site accurately reflects the status of U.S. plant and animal health.

Challenges for the Future

USDA is faced with prioritizing and determining an appropriate Federal response to an increasing number of agricultural health threats. This requires it to continually prioritize the list of major pest and disease threats. Such threats are increasing domestically and around the world. In addition, the Department's monitoring and surveillance efforts will need to be adjusted to respond to these threats to protect agricultural resources and help ensure that America has access to nutritious foods.

Selected Results in Research, Extension, and Statistics

USDA engages in scientific research and extension work that helps farmers and others involved in producing food and fiber, and statistical analysis designed to aid understanding of agricultural issues. This important facet of USDA's role supports its mission through its strategic goals, as outlined below. The examples provided are a small selection from a large effort to further our understanding.

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

Effects of Increased Biofuels on the U.S. Economy in 2022. Achieving greater energy security by reducing dependence on foreign petroleum is a goal of U.S. energy policy. The Energy Independence and Security Act of 2007 calls for a Renewable Fuel Standard (RFS-2). RFS-2 mandates that the U.S. increase the volume of biofuel that is blended into transportation fuel from 9 billion gallons in 2008, to 36 billion gallons by 2022. Long-term technological advances are needed to meet this mandate. USDA research examined how meeting RFS-2 would affect various key components of the U.S. economy. If biofuel production advances with cost-reducing technology and petroleum prices continue to rise as projected, the RFS-2 could provide significant economic benefits. The actual level of benefits (or costs) to the U.S. economy depends importantly on future oil prices and whether tax credits are retained in 2022. If oil prices stabilize or decline from current levels and tax credits are retained, then benefits to the economy would diminish. See: http://www.ers.usda.gov/Publications/ERR102/ERR102_ReportSummary.pdf

Extension and Research Programs are Creating Jobs. The total economic impact of 1 dairy animal is about $14,000. The price includes the ripple effects from the milk being produced on the farm through the creation of a product for human consumption. The USDA-funded University of Missouri Extension provided educational programs to increase the knowledge and understanding of pasture-based dairy systems, including classroom and on-farm workshops, discussion groups and mass media. In 2010, a new pasture-based dairy was started. Additionally, several other producers began work toward establishing systems as the economy improves. As a result of such recent extension programs, growth in Missouri by new grazing dairies created $100 million in new investment, generated $40 million in annual milk sales, added $124 million in total output, and added 1,100 additional jobs to the State.

Atlas of Rural and Small Town America. USDA has placed new emphasis on mobilizing local and regional assets that foster economic growth and prosperity. The Department is also deploying resources to better serve the strategic planning and development needs of rural communities nationwide. This new approach to public investment and regional collaboration has increased demand for comprehensive, accessible, and interactive rural data tools to support Federal, regional, and local development efforts. USDA responded to the challenge by designing and implementing the Atlas of Rural and Small Town America. This Web-based mapping and data access service brings together more than 80 demographic, economic, and agricultural statistics for every county in all 50 States. It assembles statistics in four broad categories, on people, jobs, agriculture, and geography that can be mapped or downloaded in an Excel file for later analysis. See: http://www.ers.usda.gov/Data/RuralAtlas/index.htm.

Facing the Future in a Global Economy. Fruit and vegetable production is a labor-intensive process. More than half of the hired workers employed by growers are believed to be unauthorized immigrants. Reforms to immigration laws, if they reduce the labor supply, may increase the cost of farm labor. USDA research assessed how particular fruit and vegetable commodities might adjust if labor rates increased. Analysis of case studies suggests a range of possible adjustment scenarios. These scenarios include increased mechanization for some crops, reduced U.S. output for a few crops, and the increased use of labor aids to improve labor productivity for others.

Development of High Oleic Acid Soybeans. Soybean oil can be improved for its nutritional value in human foods, and industrial biodiesel use by altering its fatty acid composition. Vegetable oils with high oleic acid contents are desirable for the health benefits of the monounsaturated fatty acids. These acids have recently made olive and canola oils very popular. High oleic acid content also dramatically improves oxidative and temperature stability of the oil, and improves cold flow properties in diesel engines. USDA scientists in Columbia, Missouri, identified and combined mutant alleles of two soybean fatty acid desaturase genes. This experiment created a high oleic acid soybean oil. The researchers developed a technology to directly select the 16 genes conferring the desired fatty acid profile, which accelerated the rate at which new soybean varieties containing this important trait can be made available to producers.

Water Savings from Conservation Tillage of Peanuts and Cotton. USDA scientists in Dawson, Georgia, demonstrated that the use of conservation tillage for peanut and cotton lowered crop water usage by 20 percent versus conventional tillage, while crop yield and quality were maintained. Conservation tillage also resulted in lower emissions and lower production costs.

STRATEGIC GOAL 2: ENSURE OUR NATIONAL FORESTS AND PRIVATE WORKING LANDS ARE CONSERVED, RESTORED, AND MADE MORE RESILIENT TO CLIMATE CHANGE, WHILE ENHANCING OUR WATER RESOURCES

Cooperative Extension is Conserving the Nation's Forests State by State. Healthy, sustainable forests are critical to New Hampshire's forest products industry, forest-related tourism, and recreation industries. These industries contribute more than $2 billion annually to the State's economy. USDA-funded extension foresters referred 406 landowners owning 33,026 acres to licensed foresters who wrote forest stewardship plans on more than 15,210 acres. More than 550 coverts cooperators and natural resource stewards are actively involved in conservation in their communities. Volunteers contributed more than 18,000 hours in 2010. Extension funding provided cost-share dollars for practices that improve and protect forestland, wildlife habitat, and water quality, and act as the catalyst for the forest products industry in New Hampshire. These funds provided a financial stimulus for the forest-based economy during challenging market conditions. Six communities used information from New Hampshire's Wildlife Action Plan in natural resource inventories and conservation plans. Two towns are collaborating on land conservation projects along town boundaries. More than 10,500 acres of forest and field have been permanently protected as a result of assistance provided by the Department-funded University of New Hampshire Cooperative Extension.

Climate Change Policy and the Adoption of Methane Digesters on Livestock Operations. Methane digesters—biogas recovery systems that use methane from manure to generate electricity—have not been widely adopted in the U.S. because costs have exceeded benefits to operators. Burning methane in a digester reduces greenhouse gas emissions from manure management. A policy or program that pays producers for these emission reductions—through a carbon offset market or directly with payments—could increase the number of livestock producers who would profit from adopting a methane digester. An economic model developed by USDA illustrates how dairy and hog operation size, location, and manure management methods, along with electricity and carbon prices, could influence methane digester profits. The model shows that a relatively moderate increase in the price of carbon could induce significantly more dairy and hog operations, particularly large ones, to adopt a methane digester. Thus, greenhouse gases would decrease significantly. See: http://www.ers.usda.gov/Publications/EB16/EB16.pdf

Reducing Greenhouse Gases. USDA-funded agricultural researchers in Wisconsin evaluated the effectiveness of using portable soil moisture sensors to manage crop irrigation. Potato growers participating in a related summer project got hands-on experience with soil moisture sensors. Additionally, 280 vegetable growers and crop consultants increased their knowledge of managing groundwater with this method. Eliminating, through use of soil moisture sensors, the need to apply 1 inch of water to irrigated land would save 27,000 gallons of water for each acre of vegetables grown, or 5.3 billion gallons in central Wisconsin alone. Cost savings for not needing to pump that inch of water ($4.00 per acre-inch) would amount to around $785,000. If overwatering could be avoided, nutrient and pesticide leaching into the groundwater, and the release of the greenhouse gas nitrous oxide into the atmosphere would be minimized.

Nitrogen in Agricultural Systems: Implications for Conservation Policy. While nitrogen is critical to crop production, large amounts of it can damage water, terrestrial, and atmospheric resources. USDA research finds that about two-thirds of U.S. cropland is not meeting three criteria for good nitrogen management related to the rate, timing, and method of application. Several policy approaches, including financial incentives, nitrogen management as a condition of farm program eligibility, and regulation, could induce farmers to improve their nitrogen management and reduce nitrogen losses to the environment.

Sediment and Nutrient Benefits of Conservation Reserve Program (CRP) Land Use Conversion Quantified. While billions of dollars have been invested to remove cultivated lands from production for conservation purposes via CRP, the resulting environmental benefits have rarely been quantified. USDA scientists in Oxford, Mississippi, showed that, in the Mississippi Delta, converting 280 hectares of cropped land to trees reduced sediment concentrations and nutrient loads in runoff by an order of magnitude relative to adjacent sites with similar topography and soils that were under reduced tillage crop production. A single hectare is roughly 10,000 square meters. Associated positive impacts on the water quality of the receiving water body, Beasley Lake, have also been measured. These findings support future federal investment in the CRP.

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

Food Security Assessment, 2011-2012. USDA analysis finds that the number of food-insecure people in developing countries is estimated to decline by almost 9 million, from 861 million in 2010 to 852 million in 2011. That number is projected to fall by 16 percent, or nearly 140 million over the next decade. Food security in Asia and the Latin America and the Caribbean region is projected to improve, whereas food security in Sub-Saharan Africa is expected to deteriorate. See: http://www.ers.usda.gov/Publications/GFA22/GFA22_ReportSummary.pdf

Aquaculture for the World. Aquaculture is expected to provide sources of income from new products and add value to existing commodities in Micronesia. USDA-funded extension agents in Micronesia facilitated public displays of products, from aquaculture projects, to hands-on training, and on-site visits, and broadcasted information via local radio stations. Communities have now been educated on the importance and contribution of aquaculture for the country's food security and economic development. Of special note are pearl and sea cucumber projects that have received immediate attention from domestic and overseas stakeholders, and international journals on high quality products and skill training methodologies.

Trade and Global Climate Change Analysis. A USDA-funded researcher at Oregon State University explored how global climate change will affect the location of agricultural production and patterns of trade. This activity identified various roles of certain countries in international trade transactions, with attention to making the transitions and alleviating the costs associated with climate change. This research found that countries' welfare would decline only very modestly if yield amounts decreased, and international trade was unrestricted. It would appear that increased variability is here, and that freer international agricultural trade is a straightforward, low-tech way by which the U.S. can adapt to it.

Distillers Dried Grains with Solubles (DDGS) as a High-Protein, High-Fiber Food Additive. USDA researchers, in collaboration with South Dakota State University, conducted studies using various blends of DDGS (a co-product of ethanol production) in Asian flat breads (naan and barbari). DDGS, which cost only $0.05/pound, were found to replace corn-based food ingredients, which cost $3/pound, at levels up to 20 percent with only minimal reductions in bread performance and consumer acceptability. The successful commercial use of DDGS as a human food ingredient represents an opportunity to increase the value of DDGS. See: http://www.ers.usda.gov/Publications/FDS/2011/09Sep/FDS11I01/FDS11I01.pdf

Assessment of Afghanistan Agricultural Statistics Capacity. Afghanistan's Ministry of Agriculture, Irrigation, and Livestock (MAIL) and its Central Statistics Organization struggle to collect, analyze, and disseminate the basic statistical information necessary to understand and react to food and agricultural conditions in the country. USDA conducted an assessment of Afghanistan's agricultural statistics program during FY 2011, and offered a path for improving the capacity of the program. Based on this initial assessment, the Department contracted with Purdue University to enhance the planning, data collection, and analysis of agricultural statistics to improve outcomes for the Afghan people. See: http://www.fas.usda.gov/country/Afghanistan/FAS%20Afghanistan%20Fact%20Sheet_11.10.10.pdf

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

Household Food Security in the United States. Food security for a household means that it can access, at all times, enough food for an active, healthy life. To inform policy makers and the public about the extent to which U.S. households consistently have economic access to enough food, USDA publishes an annual statistical report on household food security in the U.S. The latest report, "Household Food Security in the

United States, 2010," based on data from the December 2010 Food Security Survey and published in FY 2011, provides the most recent statistics on the food security of U.S. households. It documents how much was spent for food, and the extent to which food-insecure households participated in Federal and community food assistance programs. Results show that 85.5 percent of American households were food secure throughout 2008. The remaining 14.5 percent of households were food insecure at least some time during that year. See: http://www.ers.usda.gov/publications/err125/.

Food Desert Locator. The USDA Food Desert Locator is an Internet-based mapping tool (www.ers.usda.gov/data/fooddesert) that pinpoints the location of "food deserts," or low-income communities that lack ready access to healthy food, around the country. It provides data on population characteristics of census tracts where residents have limited access to affordable and nutritious foods. This tool is has been used by USDA, Wal-Mart. and other firms to identify underserved areas for future investment in large grocery stores.

Year-Round Spawning Achieved with Pompano. Lack of sustained year-round production of juveniles for grow-out operations is one of the foremost bottlenecks of marine finfish aquaculture. Spawning induction protocols were developed and tested. Spawning performance of Florida pompano broodstock, measured as number of eggs, fertilization, egg quality, and hatch rate was quantified through a 12-month period. Spawning was achieved in 10 months of the year having an average production of 1.9 million eggs/year with no discernable diminishment in egg quality over time. This work demonstrates that Florida pompano seedstock can be produced year-round from a small population of broodstock, overcoming one of the key bottlenecks to marine finfish aquaculture.

How Much Do Fruits and Vegetables Cost? Federal dietary guidance advises Americans to consume more vegetables and fruits because most fail to consume the recommended quantities or variety. Food prices, along with taste, convenience, income, and awareness of the link between diet and health, shape food choices. USDA analysis of prices at retail stores of 153 commonly consumed fresh and processed fruits and vegetables showed that average prices ranged from less than 20 cents to more than $2 per edible cup equivalent. Research also showed that, in 2008, an adult on a 2,000- calorie diet could satisfy recommendations for vegetable and fruit consumption in the *2010 Dietary Guidelines for Americans* (amounts and variety) at an average price of $2 to $2.50 per day, or approximately 50 cents per edible cup equivalent. See http://www.cnpp.usda.gov/dietaryguidelines.htm.

Starch-Oil Composite Gel Fat Replacer for Ground Meat Applications. This technology was developed by scientists in Peoria, Illinois, and commercialized resulting in the large-scale production of a fat-replacer gel, and reduced-fat ground beef patties. Use of the gel enables the conversion of 93 to 95 percent lean beef, which tends to yield a chewy and dry cooked patty, to a low-fat alternative which consistently provides tenderness, juiciness, and flavor. Similar results of this technology were also demonstrated in meatballs and pork sausages. The company plans to expand the marketing of the low-fat patties to large volume institutional customers as well as broaden the product line to include emulsified meat products, such as frankfurters and lunch meats. The availability of this technology, which delivers significant fat (and calorie) reduction while enhancing product quality, will ultimately enable progress in addressing consumer obesity, and increasing the acceptance of healthier alternatives to traditionally high fat foods.

Increasing Efficiency in the Food Safety System. Several food safety recall events stemming from bulk food products have demonstrated the need for more precise food safety management. It also calls for the improved ability to trace products through their supply chain. Systems were developed by USDA-funded Iowa State University scientists for process mapping, geo-location of traceable units, bulk grain tracking, and cost-benefit analysis that simplified quality or food safety/quality management systems (QMS or FS/QMS). This work allowed collaborating grain firms to report significant economic benefits for operational improvements/efficiencies. Additionally, enhanced public health through compliance to new food safety legislation results from organized QMS or FS/QMS. This has large implications for the ways in which food safety, quality management, and occupational safety compliance support each other (and at significant cost savings to organizations). Savings in the billions of dollars from reduced redundant audits could result through development of a uniform audit schema around the ISO22000 Standard.

Toxigenic *E. coli* in Produce Growing Areas in California. Many outbreaks of fresh produce-associated foodborne illness have been linked to California's Salinas Valley, which has been called "the salad bowl of the world." The initial source of the contamination in outbreaks of *E. coli* O157 linked to leafy greens produced in the Salinas Valley remains unknown. There has been a need to establish a baseline for the environmental prevalence of *E. coli* O157 and non-O157 *E. coli* in this important agricultural region. In collaboration with the University of California Davis, USDA researchers at Albany, California, isolated more than 3,000 strains of *E. coli* O157 and non-O157:H7 *Shiga*-toxin-positive *E. coli* from 12,000 samples from water, animals and their feces, crops, and soil. They have determined the pathogens' genotypes and virulence gene profiles. The Department has submitted data to the U.S. Food and Drug Administration, and CDC PulseNet. While data indicate that O157 and non-O157 *E. coli* prevalence varies considerably among sources, with the highest prevalence associated with cattle feces (7 percent and 33 percent, respectively), other animal species are also a significant source of the pathogens. This information, which provides the industry and public health agencies with the first scientific data for *E. coli* in the Salinas Valley, will be used to develop good agricultural practices for produce production.

Too Much Disinfectant Is a Bad Thing. Disinfectants are routinely used in the commercial rearing of livestock and poultry as a means of keeping facilities clean and healthy for both animals and the personnel working in the facilities. Very little is known about how pathogenic or food-poisoning microorganisms associated with animals and their surroundings can become resistant to disinfectants. USDA researchers at College Station, Texas, and Clay Center, Nebraska, showed that a significant percentage of the *E coli* O157:H7 bacteria isolated from living cattle, cattle-processing plants, and ground beef resisted the effects of some common disinfectants used in cattle-rearing facilities. The work also showed that, if disinfectant used in the animal facilities was applied at higher than recommended levels, *E. coli* resistance posed an even bigger problem. The study's impact for the cattle industry was important because it showed that disinfectants must be used wisely in animal production facilities. Proper usage ensures that their positive effects are not offset by certain harmful bacteria becoming even more problematic in animal production and human food safety.

The National Plant Diagnostic Network (NPDN) to develop links to laboratories in every State. NPDN provides a nationwide network of public agricultural institutions with a cohesive, distributed system. This system will quickly detect high-consequence pests and pathogens introduced into agricultural and natural ecosystems, identify them, and immediately report them to appropriate responders and decision makers. See: http://www.npdn.org/.

Priority Goal Summaries

Priority Goals

As part of the Administration's efforts to operate in a goal-focused, data-driven way, USDA identified nine outcome focused, near-term priority goals. This initial set of priority goals was identified in the FY 2011 President's Budget. Consistent with the GPRA Modernization Act of 2010, USDA is selecting its new priority goals, which will be included with the FY 2013 President's Budget. The nine goals that USDA pursued for FY 2010 and 2011 are set out below.

Reduce Non-Tariff Trade Barriers and increase U.S. agricultural exports

Goal Statement

By the end of 2011, reduce non-tariff trade barriers for 5 major markets and increase agricultural exports in those markets by $2 billion.

Overview and Progress Summary

Foreign trade barriers limit exports, thereby reducing farm income and preventing job growth throughout rural America. USDA's Economic Research Service estimates that, in 2009, every $1 billion worth of agricultural exports supported an estimated 8,400 jobs throughout the economy. While U.S. farmers and ranchers are among the most productive and efficient in the world, they face complex, frequently unfair obstacles in the global marketplace, where 95 percent of the world's consumers live. USDA's negotiators, its overseas representatives, and its technical experts work to overcome barriers to U.S. agricultural exports, contributing directly to the prosperity of communities across America through increased sales, higher commodity prices, and job growth.

Overcoming market barriers requires exceptional coordination across USDA, as well as with other agencies of the U.S. Government, the private sector, and officials of foreign countries who share our views. The strategy for achieving this goal entails the interagency identification of key issues and markets through vehicles like USDA's Global Market Strategy (GMS). To overcome each non-tariff barrier to U.S. agricultural exports, USDA draws on a toolbox that ranges from exchanges of technical information, to high level political dialogue, and formal dispute settlement proceedings in the World Trade Organization.

USDA exceeded the trade goal by working with the US Trade Representative and other partners to reduce trade barriers in 9 major markets, facilitating $1.03 billion in additional trade for FY 2010. FY 2011 trade data, available in late November 2011, are expected to show that the Department significantly exceeded its $2 billion goal. Achievements included the lifting of import bans, favorable decisions from international bodies on pesticide residues and biotech products, and USDA continuing to support grant proposals for resolution of technical trade issues.

Increase the Number of Provinces in Afghanistan that Are Deemed "Generally Food Secure."

Goal Statement

Increase the average number of provinces in Afghanistan that are deemed "Generally Food Secure" from an annual average of 11 in 2008 to an annual average of 14 in 2011, in support of the President's Afghanistan and Pakistan Strategy. As a result, 41 percent of Afghanistan's provinces will be food secure.

Overview and Progress Summary

Approximately 80 percent of the Afghan labor force is employed in the agriculture sector. There is significant need for technical assistance to provide competitive alternatives to illicit crops, while also strengthening sustainable agricultural production and addressing food insecurity. Agricultural programs that enable growth across the entire value chain will enable Afghanistan to become more stable and economically viable. Afghanistan's ability to produce, distribute, and access the food needed to sustain the population is a vital component of USDA efforts in Afghanistan. A fully functional Agriculture Ministry with the ability to implement and oversee agricultural reconstruction projects, employ competent personnel from the national-level to district-level who are able to provide expertise to Afghan farmers, and implement a science based agricultural regulatory regime all contribute to improving food security.

Agricultural experts from a wide range of USDA agencies have been deployed to support the Government of Afghanistan's agricultural programs throughout the country and implement U.S. technical assistance, capacity building, and agricultural support programs. These experts engage both Afghan farmers and Ministry of Agriculture, Irrigation, and Livestock (MAIL) personnel at all levels providing expertise on improved agronomic practices, water utilization, marketing techniques, and other agricultural practices to increase productivity and income of Afghan farmers. Milestones for this goal have focused on the deployment of USDA's agricultural experts, the training of Afghans, and wheat crop productivity.

With an average of 16 provinces considered food secure in 2011, USDA reached the target for this priority goal. USDA made a positive impact in Afghanistan by training and assisting 25,261 Afghan farmers, exceeding the milestone of 20,000 farmers by June 2011. USDA built capacity within the Afghan Agriculture Ministry by working with Afghan officials responsible for 79 Districts, exceeding the milestone of 70 Districts.

Accelerate the Protection of Clean, Abundant Water Resources

Goal Statement

By the end of 2011, accelerate the protection of clean, abundant water resources by implementing high impact targeted (HIT) practices on six million acres of national forest and private working lands in priority watersheds.

Overview and Progress Summary

Protecting the nation's water resources is an urgent priority that has been widely recognized by the agricultural and business communities, local and state government, and leading scientific experts. Eighty-seven percent of America's surface supply of drinking water originates on lands that USDA impacts in some way. The Department plays a key role in addressing the challenges facing this nation's water resources, and has an array of statutory authorities, expertise and tools with which to take action. Secretary Vilsack has identified protecting and enhancing water resources for humans and the environment as one of his top conservation and USDA objectives.

The strategy for this priority goal has been to ensure that limited resources are strategically targeted to improve water quality and availability. A team was created to identify priority landscapes, define HIT practices, and use science and local expertise to apply these HIT practices. The team ensured that participating USDA agencies — the Forest Service, the Natural Resources Conservation Service, and the Farm Service Agency — worked together to make best use of resources. USDA exceeded this priority goal by implementing HIT practices on 6.7 million acres by the end of FY 2011.

Strengthen USDA's program for the regulation of genetically engineered (GE) plants

Goal Statement

Strengthen USDA's biotechnology regulatory program by enhancing compliance and improving the petition process for non-regulated status, while working toward the prevention of unauthorized releases.

Overview and Progress Summary

USDA oversees a science-based regulatory framework for the safe development and use of genetically engineered (GE) organisms. USDA's Animal and Plant Health Inspection Service (APHIS) regulates the importation, interstate movement, and field release of GE organisms that may pose a pest risk to plant health. APHIS has safely authorized more than 31,000 permit and notification applications involving GE organisms. APHIS evaluates the potential risk associated with a GE organism to ensure it is unlikely to pose a risk to plant health or the environment before authorizing its movement or field testing. If an organization can demonstrate that the newly developed and tested biotechnology derived organism does not pose a risk to plant health, APHIS conducts a thorough scientific analysis to determine whether to issue a determination of nonregulated status, often a first step towards making a GE organism available to growers for commercial use.

Implementing this goal included the following:

- Improving APHIS' ability to create timely and high-quality documents in support of the National Environmental Policy Act (NEPA) requirements;
- Completing a process analysis to improve the efficiency of the petition process, thereby increasing the number of petition determinations;

- Increasing the number of participants in the Biotechnology Quality Management System (BQMS) Program to enable universities, small businesses, and large companies to develop sound management practices to help prevent unauthorized releases of regulated articles;
- Strengthening the biotechnology inspection and compliance program by increasing inspections of regulated permittees and notifiers; and
- Collaborating with other USDA agencies to address critical biotechnology issues.

USDA has met or exceeded five of six performance metric targets for this goal. Accomplishments included publishing (cumulatively) 15 determinations on biotechnology petitions in the Federal Register between FY 2007 and FY 2011, including 6 in FY 2011, and conducting 828 biotechnology compliance inspections in FY 2011. USDA strengthened the biotechnology compliance program by enrolling a total of 18 companies in the BQMS program, falling slightly short of the goal of 20 companies after two companies withdrew. The 18 enrolled entities account for more than 90 percent of all notifications and permits processed by USDA. In addition, USDA conducted a process improvement review for the petition review function, and anticipates implementing changes based on the findings from the review in FY 2012. Also in FY 2011, USDA initiated a NEPA pilot project to test new approaches to developing environmental documents and how these approaches improve the quality, timeliness, and cost of the process.

Improve Food Sold in Schools

Goal Statement

By 2011, partner with local schools, propose national standards and take other actions that will result in improved quality of food sold in schools throughout the school day.

Overview and Progress Summary

Improving the quality of food at schools ultimately relies on high-quality program delivery in more than 100,000 schools across the nation. Therefore, USDA's implementation strategy for this goal focuses on setting standards and providing technical assistance and collaboration opportunities to support schools and the state agencies responsible for school meals programs.

To pursue this goal, the Department has been working to:

- Update and implement improved school meals nutrition standards, based on Institute of Medicine (IOM) recommendations to conform to *Dietary Guidelines for Americans.* USDA will complete proposed and final rulemaking within 2 years, work with Congress to increase State program resources conditioned on improved meal quality, and provide technical assistance and support to implementing schools;
- Improve the quality of other foods offered and sold at schools under current authority, by rapidly expanding the number of HealthierUS School Challenge schools;
- Make available and promote more nutritious USDA commodity foods for use in the school meals programs, and encourage the use of more locally-grown produce through the Farm to School Initiative;
- Propose science-based national standards for all foods sold at school based on IOM recommendations; and
- Promote effective implementation of local wellness policies, by engaging State, local, and school food service leaders, providing guidance and technical assistance to communities, and seeking authority for national monitoring and compliance.

USDA exceeded its key target to expand the number of schools in the HealthierUS School Challenge. As of September 30, 2011, there were 1,631 certified schools, well above the target of 1,350. These schools must meet rigorous standards for the quality of the food they offer at school. USDA is updating nutrition standards for federally-subsidized school meals to ensure consistency with the *Dietary Guidelines for*

Americans. In January, 2011, the Department published a proposed rule to update school meals nutrition standards based on IOM recommendations.

Reduce the Number of Households with Children Who Experience Very Low Food Security

Goal Statement

By the end of 2011, reduce the number of households with children who experience very low food security by 100,000.

Overview and Progress Summary

USDA's nutrition assistance programs form the first line of the Nation's defense against hunger. While these programs serve millions of low-income Americans, some who need benefits do not participate – they are not aware of their eligibility, do not realize the size and value of the benefits available to them, or find the application process too difficult. About 20 percent of all households with food insecurity among children in 2006-07 did not participate in any of the major nutrition assistance programs.

USDA's Food and Nutrition Service (FNS) is taking actions to end childhood hunger, both by making our existing programs as effective as possible and through our participation in broader efforts which include other federal agencies and our stakeholders. Key partners include the Agricultural Marketing Service and Farm Service Agency within USDA, as well as the Department of Health and Human Service and Department of Education. Core actions include:

- Increasing participation rates in USDA nutrition programs through outreach, customer service improvements, media activities, and research and analysis to identify reasons for participation gaps;
- Streamlining applications, and making other policy and operational changes to programs and policies to make for easier access to nutrition assistance programs, especially for children;
- Engaging state, local, and community leaders; forming partnerships with allied organizations, advocacy groups, and local, state, and Federal communities;
- Identifying and publicizing issues surrounding childhood hunger;
- Utilizing media to communicate food sources for families in need; and
- Conducting research to better understand the characteristics and circumstances of children with low and very low food security to inform outreach, partnership, and policy initiatives.

USDA's indicators suggest it did not achieve the target of 100,000 fewer children with very low food security. The number of households with low food security among children is estimated at 434,000 while the fourth quarter FY 2011 target was 350,000. Annual survey data for 2010, however, show a lower prevalence of very low food security among children than predicted by the quarterly estimates. Since the quarterly estimates are based only on changes in unemployment and food prices, this difference may show the positive impact of nutrition assistance programs in addressing food insecurity.

USDA successfully delivered all 11 milestones for this goal. Accomplishments include awarding Hunger Free Community Grants and launching a partnership to end child hunger. The Department also strengthened the Summer Food Service Program through incentives to extend the duration of program operations; funding for enrichment activities at summer sites; non-congregate meals-on-wheels in rural areas, and "backpack" food packages for consumption over weekends.

Creating Access to Healthy and Affordable Food

Goal Statement

By the end of 2011, evaluate USDA-supported strategies that made healthy food available to low-income Americans to demonstrate private and public sector efforts that can increase the availability of healthy foods.

Overview and Progress Summary

Research suggests that a scarcity of healthy foods makes it more difficult for residents of low-income neighborhoods to adhere to a nutritious diet. Neighborhood residents with better access to supermarkets and limited access to convenience stores tend to have healthier diets and lower levels of obesity.

USDA estimates that 23.5 million people, including 6.5 million children, live in low-income areas that are more than a mile from a supermarket. As the department that houses the nation's nutrition programs, funds projects that provide underserved areas with greater access to fresh produce, and conducts research on how food systems impact consumers, USDA is a key partner in increasing access to healthy food in underserved communities.

USDA is on target to achieve the priority goal on healthy and affordable food. USDA is completing a Healthy Food Access Report that evaluates food access strategies. Over the course of the past 2 years, USDA's interventions in food deserts and support for increasing healthy food access have been organized into three broad categories: retail, infrastructure, and education. USDA has been an active partner in the Tri-Agency effort to improve access to healthy food with the Departments of Treasury and Health and Human Services to increase retail outlets for healthy food access in underserved communities. The USDA has also prioritized investments in infrastructure to increase healthy food access through various programs and projects across agencies and mission areas including Rural Development (RD), the Agricultural Marketing Service (AMS), and the National Institute of Food and Agriculture (NIFA). Finally, the Department has developed a suite of educational tools and platforms, including the Food Desert Locator, the SNAP Retail Locator and the Food Environmental Atlas to help identify communities in need. Likewise, the USDA has funded projects directed at education and skill building in targeted underserved communities through AMS, NIFA and FNS.

Reduce Number of *Salmonella* Illnesses

Goal Statement

By 2011, reduce the case rate due to *Salmonella* in USDA's Food Safety and Inspection Service (FSIS) regulated products to 5.3 cases per 100,000. Compared to the baseline period, this represents a reduction of approximately 22,600 illnesses and an illness cost reduction of $404 million as a result of FSIS regulated establishments reducing the presence of *Salmonella*.

Overview and Progress Summary

The overarching goal of FSIS is to reduce the burden of foodborne illness in the population from meat, poultry, and processed egg products. FSIS seeks to reach this goal by enforcing the provisions of the Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act. One major focus area for FSIS is the reduction of *Salmonella* in the products inspected by the Agency.

Salmonella is the leading known cause of bacterial foodborne illness and death in the U.S. *Salmonella* lives in the intestinal track of humans and other animals, including birds. *Salmonella* contamination of raw meat and poultry products occurs during the slaughter operation. Currently, such contamination cannot be eliminated, but can be measurably minimized. *Salmonella* present on and in raw meat and poultry products can survive and cause illness if the product is not cooked thoroughly before consumption, or if the product is improperly handled so as to cause cross contamination with other foods or through food contact surfaces.

During the period of time FSIS spent working on the Food Safety Priority Goal, the Agency attained the majority of its Priority Goal milestones. This effort resulted in advancements in the fight against *Salmonella* illnesses. The Agency implemented the *Salmonella* Initiative Program in establishments, published a *Federal Register* Notice on the program, published tighter performance standards for Salmonella, began phased-in implementation of a new Public Health Information System (PHIS) and trained personnel on this system, and began conducting baseline studies relating to *Salmonella* prevalence on hogs, chicken parts and pre-pasteurized egg products. USDA and the Department of Health and Human Services also jointly launched a national multimedia campaign, including national television ads by the Ad Council, to help families prevent foodborne illness.

Despite these efforts, many of which are longer-term in nature, the third-quarter, FY 2011 target for reducing *Salmonella* was not met. CDC data lags real time by at least one full fiscal year quarter. CDC reports a case rate of 6.28 cases of *Salmonella* per 100,000 people as compared to a goal of 5.32 cases. Due to the data lag, FSIS will not be in a position to definitively report on whether the Agency has achieved its FY 2011 Food Safety Priority Goal, until early calendar year 2012.

Create Strong Local and Regional Communities

Goal Statement

By 2011, increase the prosperity of rural communities by concentrating and strategically investing in 8-10 regions, resulting in the creation of strong local and regional economies, with a particular emphasis on food systems, renewable energy, broadband-based economies, and rural recreation.

Overview and Progress Summary

USDA's Regional Innovation Initiative (RII) has catalyzed, developed and sustained innovation and entrepreneurship in rural and urban economies. The initiative is intended to speed the development of innovative cluster-based economic growth. Data collected during this initiative will substantiate the value of cluster-based economic development in achieving greater productivity, innovation, higher wage jobs, entrepreneurship, regional diversity and economic activity. RII process focuses diverse resources to:

- Promote rural prosperity by encouraging regional collaboration; and
- Prioritize investments, policy and implementation throughout the Department.

The Regional Innovation Team (RIT), lead by the Rural Development mission area, aims to link, leverage and align existing national, regional and local organizations to implement the RII. RIT's mission is to deploy USDA's programs to each of USDA's targeted RIIs, as well as direct regions to other federal programs that they may benefit from. The RIT group has representation from several USDA mission areas and seeks to increase networks, knowledge and exchanges among targeted region participants. RIT's outreach includes live and virtual seminars, educational and networking events.

In FY 2011, USDA made great strides through this goal to foster, develop and sustain innovation and entrepreneurship in rural and urban economies. The Department developed a portfolio of targeted regional innovation projects for the RII, all derived from the Rural Business Opportunity Grant (RBOG) program. The regional projects are in California, Iowa, North Dakota, South Carolina, the Pacific Northwest, Vermont, and tribal lands in Washington State.

Accomplishments of the regional projects include:

- **California** — expanding rural-urban collaboration for movement of farm goods and biofuels and related infrastructure deployment;
- **Iowa** — providing one-year business training for new food producer businesses;
- **North Dakota** — engaging more than 400 people in community and economic development to sustain and empower a rural network of community leaders;
- **South Carolina** — increasing the number of agribusiness projects that have considered marketing in the targeted region;
- **Pacific Northwest** — increasing connections between producers, consumers, and emergency food assistance;
- **Vermont** — developing links with other programs to address goat milk producer's needs; and
- **Washington tribal lands** — completing a draft feasibility study for the use of woody biomass in the Quinault Indian Nation.

Selected FY 2011 Program Evaluations

Performance Measure	Title	Findings and Recommendations/Actions	Availability
1.3.1	"American Recovery and Reinvestment Act Direct Farm Operating Loans" (Phase 2) (PDF), (Report No: 03703-2-TE, Issued January 2011	Overall, for these 120 borrowers, the Office of Inspector General (OIG) found that FSA generally made direct operating loans to eligible producers and for eligible purposes. The agency had adequate control over its loan-making process. Also, its employees generally complied with FSA's operating procedures for processing loans. While OIG also found agency employees involved in processing these loans sometimes did not follow all of FSA's procedures, the deficiencies were not considered significant.	http://www.usda.gov/oig/webdocs/03703-2-TE.pdf
1.3.2	"American Recovery and Reinvestment Act Spending for Farm Service Agency Information Technology" (PDF), (Report No: 03703-01-IT, Issued March 2011	OIG found that FSA should develop procedures to ensure it has supporting documentation for all transactions made with its Recovery Act funds. FSA will work with the servicing agencies to improve the language in the reimbursable agreements. This will ensure that FSA has the necessary supporting financial documentation for all transactions executed against these agreements, whether using Recovery Act funding or other funding accounts.	http://www.usda.gov/oig/webdocs/03703-01-IT.pdf
2.1.8	"Forest Service Legacy Program" (OIG Report issued April 2011)	Summary: The Forest Legacy Program (FLP) is a Federal program that supports States' efforts to protect environmentally sensitive forest lands. States voluntarily participate in the program. FLP focuses on the acquisition of partial interests in privately owned forest lands through conservation easements. Conservation easements are legally binding agreements that transfer a negotiated set of property rights from the landowner to the State without removing the property from private ownership. Most FLP conservation easements restrict development, require sustainable forest practices, and protect other values. Findings/Recommendations: FS needs to strengthen its oversight of the appraisal process, ensure States meet the annual monitoring requirement, strengthen controls over accounting and record keeping, and standardize conservation agreements. FS will develop and implement a national conservation easement review policy to incorporate recommendations.	http://www.usda.gov/oig/webdocs/08601-56-SF.pdf
2.2.5	"Forest Service Invasive Species Program" (OIG Report issued September 2010)	Summary: As part of the Forest Service's (FS) mission to sustain the health, diversity, and productivity of the Nation's forests and grasslands, the agency is responsible for preventing the introduction of invasive species into the lands it manages, and combating those invasive species that have already been introduced. The Office of Inspector General (OIG) initiated this audit to assess FS' controls over the administration of its invasive species program, and evaluate the efficiency and effectiveness of the agency's efforts to control these threats to the health of the Nation's forests.	http://www.usda.gov/oig/webdocs/08601-7-AT.pdf

Performance Measure	Title	Findings and Recommendations/Actions	Availability
		Findings/Recommendations: Develop an adequate, cohesive internal control environment for managing the invasive species program. Develop a plan for inventorying all invasive species, including the risk each species poses and the efficacy of available treatments. Document all of the invasive species program's internal policies and procedures. Develop and implement controls for reporting accurately how much the agency is spending to combat invasive species, both locally and nationally. Revise the agency's overall strategy for the invasive species program, and establish a control for revising that strategy once every 5 years. Implement a monitoring plan to assess the invasive species program and related internal controls. Develop a standard for how many acres should be affected by each of the agency's treatments, and require the regions to follow those standards when reporting performance results. Conduct an overall review of the agency's information systems for the invasive species program, and take steps to ensure that the systems are adequate to report valid data.	


Section 3

Financial Statements, Notes, Supplemental and Other Accompanying Information


Message from the Chief Financial Officer

The Office of the Chief Financial Officer leads the U.S. Department of Agriculture (USDA) with fiscally sound, cost-effective program delivery. Our efforts are supported by reliable financial management information and infrastructure. Because we are accountable to the American taxpayer, we strive for peak performance in all facets of the Department. We continually adjust our operations to improve the quality of services we provide to the American people.

The purpose of Sections 3 and 4 of this Fiscal Year 2011 Performance Accountability Report is to provide factual data that clearly characterize our accomplishments in managing USDA resources with maximum efficiency. Sections 3 and 4 include detailed information regarding:

- Financial Statements;
- Audit Reports;
- Findings and Recommendations;
- Balance Sheets;
- Supplemental Notes; and
- Other Accompanying Information.

Through the leadership and collaborative efforts of USDA managers, employees, business partners, and stakeholders, we have made significant strides in fiscal year 2011, advancing the Department's impressive record of excellence in financial management.

Highlights of USDA's significant progress in financial management during FY 2011 include:

- Received another clean financial audit opinion;
- Continued implementation of a core financial system to replace USDA's 9 general ledger systems;
- Of the 29 agencies and offices that form the Department, 25 have implemented the Financial Management Modernization Initiative system;
- Completed the assessment of internal control over financial reporting as required by Office of Management and Budget Circular A-123, Appendix A, "Internal Control over Financial Reporting." As a result of testing, USDA identified 307 new control deficiencies. In FY 2011, the Department also closed 46 business-process corrective action plans and 165 general-computer-control plans of action and milestones from prior years' assessments;
- Reduced USDA's total inventory of open audits by 20 percent;
- Reduced USDA's inventory of audits open 1 or more years without final action by 34 percent;
- Reduced improper payments from 5.37 percent to 5.26 percent; and

- Provided cost-effective and secure payroll, and other administrative services reliably and accurately Government-wide through our National Finance Center.

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

We remain proud of the accomplishments of our hard working employees at USDA. All of us are committed to the sound management of resources under our stewardship. We look forward to more financial management improvements in fiscal year 2012.

Jon M. Holladay

Jon M. Holladay
Acting Chief Financial Officer
November 15, 2011

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

DATE: NOV 15 2011

AUDIT NUMBER: 50401-0001-11

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

ATTN: Kathy Donaldson
Audit Liaison Officer

FROM: Phyllis K. Fong
Inspector General

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010

This report presents the results of our audits of the Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2011 and 2010. The report contains an unqualified opinion on the financial statements as well as the results of our assessment of the Department's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in exhibit D.

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

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

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Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010 (Audit Report 50401-0001-11)

Executive Summary

Purpose

Our audit objectives were to determine whether (1) the consolidated financial statements present fairly, in all material respects, in accordance with accounting principles generally accepted in the United States of America, the assets, liabilities, and net position, net cost, changes in net position, and combined budgetary resources; (2) the internal control objectives over financial reporting were met; (3) the Department complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements; and (4) the information in the 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 Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer located in Washington, D.C., and its National Finance Center located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices.

Results in Brief

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA, as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

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

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

We believe that these two significant deficiencies are material weaknesses.

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

Key Recommendations

As discussed in its *Federal Managers' Financial Integrity Act Report on Management Control*, the Department has plans to address the majority of the weaknesses discussed in the report. The recommendations in this report are limited to additional improvements needed in financial management with respect to oversight of the accounting functions performed for the Foreign Agricultural Service and reconciliations of intradepartmental activity.

Agency Response

The Department concurs with the two material weaknesses and finding related to compliance with laws and regulations in the report. It generally agrees with the recommendations and will develop corrective action plans with milestones within sixty days.

OIG Position

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

Independent Auditor's Report

Jon M. Holladay
Acting Chief Financial Officer
for Office of the Chief Financial Officer

We have audited the accompanying consolidated balance sheets of the Department of Agriculture (USDA), as of September 30, 2011 and 2010, and the related consolidated statements of net cost; changes in net position; and the combined statements of budgetary resources (hereinafter referred to as the "consolidated financial statements") for the fiscal years then ended. The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements. In connection with our fiscal year 2011 audit, we also considered USDA's internal control over financial reporting and tested USDA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

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

The Findings and Recommendations section presents the material weaknesses in internal control and instances of noncompliance with laws and regulations, as of and for the year ended September 30, 2011. Exhibit A of this report presents the audit reports related to the fiscal year 2011 financial statements. Exhibit B summarizes the current year status of prior year audit recommendations. Exhibit C provides an update to previously reported instances of noncompliance with laws and regulations. USDA's response is presented in its entirety in exhibit D.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA, as of September 30, 2011 and 2010, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

USDA made certain reclassifications to prior year amounts to conform to the current year presentation for two of its reporting components. As discussed in Note 1 to the consolidated financial statements, in fiscal year 2011, the Risk Management Agency (RMA) reclassified the Federal Crop Insurance Corporation from earmarked funds to other funds, consistent with the change in accounting principle made in fiscal year 2010. The balance sheet, statement of changes in net position, and related earmarked funds note (Note 18) reflect this change. As discussed in Note 1, RMA also reclassified liabilities covered by budgetary resources to liabilities not covered by budgetary resources as a result of this change (Note 12). Additionally, as discussed in Note 1, the Commodity Credit Corporation reclassified other financing sources on the statement of changes in net position and related reconciliation of budgetary resources obligated to net cost of operations note (Note 31) to comply with the U.S. Department of the Treasury's General Fund Receipt Account Guide. Furthermore, as discussed in Note 32, the

Department disclosed a subsequent approval of a legal settlement that occurred on October 27, 2011.

USDA's Management's Discussion and Analysis (MD&A) and required supplementary information (including stewardship information) contains a wide range of information, some of which is not directly related to the financial statements. This information is not a required part of the consolidated financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America and the Office of Management and Budget (OMB) Circular A-136. We have applied certain limited procedures, consisting principally of comparing this information for consistency with the financial statements and making inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information and, accordingly, we express no opinion on it.

The information in the Other Accompanying Information section is presented for purposes of additional analysis, as required by OMB Circular A-136, and is not required as part of the financial statements. This information has not been subjected to auditing procedures and, accordingly, we express no opinion on it.

Internal Control Over Financial Reporting

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

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

In our fiscal year 2011 audit, we noted certain matters involving the internal control over financial reporting, and its operation, that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

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

We believe these two deficiencies are also material weaknesses. These weaknesses are discussed in this report in Findings and Recommendations, Section 1, *Material Weaknesses in Internal Control Over Financial Reporting.*

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

Compliance and Other Matters

We performed tests of USDA's compliance, as described in the Responsibilities section of this report. Our tests disclosed one instance of noncompliance with laws and regulations that is required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04, as amended. Specifically, the results of our tests of the Federal Financial Management Improvement Act of 1996 (FFMIA) disclosed instances, described in more detail in Finding 3 in the Findings and Recommendations section of this report, where USDA's financial management systems did not substantially comply with Federal financial management system requirements, applicable Federal Accounting Standards, and the U. S. Standard General Ledger (SGL) at the transaction level.

Additionally, during fiscal year 2011, we identified instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), regarding the design of program internal controls related to reporting improper payments. A separate report will be issued with further details on the Department's compliance with IPERA.[4]

Furthermore, in fiscal year 2010, we reported two instances of noncompliance with the Anti-Deficiency Act that were required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04, as amended. These violations have been reported to the President, U.S. Congress, and OMB (see exhibit C).

Responsibilities

Management's Responsibilities

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

Auditor's Responsibilities

Our responsibility is to express an opinion on the fiscal years 2011 and 2010 consolidated financial statements of USDA based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Bulletin 07-04, *Audit Requirements for Federal Financial Statements*, as amended. Those standards and OMB Bulletin 07-04, as amended, require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit

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

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

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

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws and regulations, contracts and agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts. We also obtained reasonable assurance that USDA complied with certain provisions of other laws and regulations specified in OMB Bulletin 07-04, as amended, including requirements referred to in FFMIA, except for those that, in our judgment, were clearly inconsequential. We limited our tests of compliance to the provisions described in the preceding sentences and did not test compliance with all laws and regulations applicable to USDA. However, providing an opinion on compliance with laws and regulations was not an objective of our audit and, accordingly, we do not express such an opinion.

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

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

Phyllis K. Fong
Inspector General

November 14, 2011

Findings and Recommendations

Section 1: Material Weaknesses in Internal Control Over Financial Reporting

Finding 1: Improvements are Needed in Overall Financial Management

During fiscal year 2011, USDA made further improvements in its financial management. For example, exhibit B describes actions taken by the Department relating to abnormal balances and obligations. Also, the Department continued implementation of its Financial Management Modernization Initiative to improve financial performance through a modern financial system that provides maximum support to the Department and its agencies. However, we noted areas where further improvements are needed.

- In fiscal year 2011, we again attempted to perform an audit of the Natural Resources Conservation Service's (NRCS) Financial Statements (Audit Report 10401-0001-11, *NRCS' Financial Statements for Fiscal Year 2011*, dated November 8, 2011). NRCS was again unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the NRCS consolidated financial statements, as of and for the year ended September 30, 2011, particularly with respect to beginning net position balances and current year activity; obligations incurred, including incurred expenses and undelivered orders; leases; real and personal property; recoveries of prior year unpaid obligations; advances to others; and stewardship land. NRCS was unable to complete corrective actions and make adjustments, as necessary, to these and other financial statement amounts prior to the completion date of the audit engagement.

- During fiscal year 2011, the Foreign Agricultural Service Agency (FAS) initiated the transition of its accounting functions to a new service provider. Due in part to the delay in the official transition, there were significant delays in receiving sufficient and appropriate evidence in support of FAS' accounting transactions recorded in the financial system. Additionally, FAS stated in its FMFIA assurance statement to the Department that it was unable to certify its second and third quarter unaudited financial statements, and therefore could not provide reasonable assurance that management controls were operating effectively. As a result FAS also reported noncompliance with FFMIA, as discussed in Finding 3.

OMB Circular A-123, *Management's Responsibility for Control,* states that management has a fundamental responsibility to develop and maintain effective internal control. It further states that internal control over financial reporting is a process that provides reasonable assurance regarding the reliability of financial reporting, which includes the assertion that documentation for internal control, all transactions, and other significant events is readily available for examination.

Inability to provide documentation in support of accounting transactions in a timely manner indicates lack of accountability over financial reporting and diminishes the reliability of the financial statements.

- Our review of inactive unliquidated obligations[5] (ULO) disclosed improvements have been made. However, we continued to find that obligations were not always valid because agencies did not effectively monitor and review ULOs. We nonstatistically selected 100 ULOs from 13 agencies for which no activity had occurred for over 1 year.[6] We determined that 22 ULOs were invalid because no future expenditures were expected. In addition, we found 8 ULO balances were valid obligations that would have been paid off in prior fiscal years if they had been properly monitored. These obligations inappropriately remained open, in part because USDA agencies failed to bill for or submit final payments to other USDA agencies.

We also performed a review of the June 30, 2011 obligation certifications required by the Department. We determined that 4 of the 6 agencies selected for review inappropriately certified to the validity of their balances. Documentation provided to support agencies' reviews and certifications showed incomplete and inaccurate reviews were performed.

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2011-07, *Yearend Closing*, dated June 22, 2011) requires an annual review of ULOs. Departmental Regulation 2230-1, *Reviews of Unliquidated Obligations*, dated April 21, 2009, further requires quarterly reviews and certifications as to the validity of ULO balances from agency Chief Financial Officers (CFO).

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

In its *FMFIA Report on Management Control* for 2011, USDA continued to report a material weakness relating to the lack of consistent review and follow-up on ULOs. The Department indicated that several corrective actions have already been taken, such as reviewing quarterly certifications by agency CFOs and working with agencies to complete cleanup of obligations recorded in the Financial Management Systems. The Department plans additional corrective actions, such as drafting a memorandum to obtain leadership commitment to properly monitor and review obligations, as well as continuing to work with agencies to complete cleanup of obligations. The Department estimates that all corrective actions will be completed in fiscal year 2012.

- In fiscal year 2011, the Department issued updated guidance to USDA agencies to improve the process for reviewing, researching, and timely implementing action to correct abnormal balances. However, we again identified abnormal balances[7] in the USDA fiscal yearend trial balance that were not fully researched and corrected. For fiscal year 2011, we noted 55 abnormal account balances, totaling about $415 million (absolute value) at yearend. According

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

[6] Nonstatistical selection from activity as of May 31, 2011.

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

to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error. In addition, abnormal balances increase the risk of material misstatement on the financial statements.

- Additionally, in fiscal year 2011 we noted that USDA agencies were not adequately researching and reconciling intradepartmental activity. Transactions occurring between USDA agencies are required to be identified, reconciled, and reported to facilitate eliminations of intradepartmental balances for the consolidated financial statements.[8] OCFO established a minimum reconciliation threshold of $250,000 by reciprocal accounts.[9] We noted that throughout the fiscal year several agencies were unable to reconcile intradepartmental balances to this threshold. Our review of fourth quarter activity found 49 balances above the threshold with a balance of approximately $56 million (absolute value).

According to the Department, the elimination of intradepartmental activity for the consolidated financial statements requires that the same amount must exist in each trading partner's general ledger in reciprocal accounts. In cases where agencies fail to confirm balances to their trading partners, or confirm without researching the amounts and accounts, the process could result in material misstatements of the consolidated financial statements.

- In fiscal year 2011, we again identified improper payments[10] made by the Farm Service Agency through its various farm assistance programs. A separate report will be issued with further details regarding these improper payments.

Because of actions planned or in process by the Department, the only recommendations made herein relate to the oversight of FAS accounting functions and reconciliations of intradepartmental activity.

Recommendation 1

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

Recommendation 2

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

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[8] Office of the Chief Financial Officer (OCFO) Bulletin 2002-002, *Positive Confirmations of Trading Partner Balances*, dated June 4, 2002.

[9] OCFO instructions for the preparation for fiscal year 2011 Consolidated Financial Statements.

[10] An improper payment is any payment that should not have been made or that was made in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements. Incorrect amounts are overpayments and underpayments.

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

We performed an independent evaluation of the Department's IT security program and practices, as required by the Federal Information Security Management Act of 2002 (FISMA). We also performed reviews of the 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.[11]

In fiscal year 2011, both OCIO/NITC and OCFO/NFC sustained unqualified opinions on their control environments. Additionally, in fiscal year 2011, the Department finished deploying a suite of network monitoring and detection tools that, once fully implemented, will provide the foundation for enterprise-wide security monitoring, detection, and protection.

Although improvements continue to be made in the Department's IT security, our FISMA report notes that many long-standing weaknesses remain. Since 2001, the Office of Inspector General has reported material weaknesses in the design and effectiveness of the Department's overall IT security program. Our fiscal year 2011 FISMA report provides details on the weaknesses we continued to note in the design and effectiveness of the Department's overall IT security program.[12]

In its *FMFIA Report on Management Control* for 2011, USDA again reported an overall IT material weakness relating to deficiencies in the internal control design and operating effectiveness for logical access controls/personnel security, configuration management, physical access and environmental protection, and contingency planning. As noted in its FMFIA report, the Department indicated that corrective actions have been taken, such as ensuring key IT security controls are tested annually for all systems and the institutionalization of the Risk Management Framework (which provides increased real-time security control assessment and continuous monitoring). The Department has additional corrective actions planned in fiscal year 2012.

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

[11] See exhibit A for information regarding the cited reports.

[12] Audit Report 50501-0002-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2011 Federal Information Security Management Act* (November 2011).

Section 2: Noncompliance with Laws and Regulations

Finding 3: Lack of Substantial Compliance with FFMIA Requirements

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

During fiscal year 2011, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not substantially compliant with FFMSR, applicable accounting standards, SGL at the transaction level, and FISMA requirements.

As noted in its MD&A, USDA plans to continue efforts to meet the FFMIA and FISMA objectives. 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.

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

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

1. The Commodity Credit Corporation's (CCC) funds control management system does not provide for full funds control at the transaction level. CCC is working towards implementing programs that will enable full funds control at the transaction level. Corrective action is scheduled for completion by September 30, 2012. In addition, the operating systems required to support some CCC applications are no longer supported by the vendor. Thus, CCC is unable to comply with FFMSR. CCC is continuing the development of the "Modernize and Innovate the Delivery of Agricultural Systems" project which includes retirement of the CCC legacy systems. Corrective action is scheduled for completion by March 30, 2013.

2. NRCS did not comply with FFMSR, Federal accounting standards, and SGL at the transaction level. Corrective actions are scheduled for completion by November 30, 2013. In addition, deficiencies were found in NRCS' general and application access controls. NRCS is working to improve general and application access controls. Corrective actions are scheduled for completion by September 30, 2012.

3. In fiscal year 2011, FAS identified serious deficiencies in its financial management operations. As a result, FAS was unable to assure that its financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. FAS is working to complete a thorough test of new procedures to evaluate operational effectiveness in fiscal year 2012.

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

Abbreviations

ADA .... Anti-Deficiency Act
CCC............................. Commodity Credit Corporation
CFO............................. Chief Financial Officer
FAS .... Foreign Agricultural Service
FFMIA .... Federal Financial Management Improvement Act of 1996
FFMSR......................... Federal Financial Management Systems Requirements
FISMA .... Federal Information Security Management Act of 2002
FMFIA .... Federal Managers' Financial Integrity Act of 1982
FSA .... Farm Service Agency
IPERA .... Improper Payments Elimination and Recovery Act of 2010
IT .... Information Technology
MD&A .... Management's Discussion and Analysis
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
OMB .... Office of Management and Budget
RMA .... Risk Management Agency
SGL............................. Standard General Ledger
Treasury .... U.S. Department of Treasury
ULO .... Unliquidated Obligations
USDA.......................... Department of Agriculture

Exhibit A: Audit Reports Related to the Fiscal Year 2011 Financial Statements

The following is a list of reports which are related to the Office of Inspector General's audit of the Department of Agriculture's fiscal year 2011 financial statements.

Audit Number	Audit Title	Release Date
05401-0001-11	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2011 and 2010	November 2011
06401-0001-11	Commodity Credit Corporation's Financial Statements for Fiscal Years 2011 and 2010	November 2011
08401-0001-11	Forest Service's Financial Statements for Fiscal Years 2011 and 2010	November 2011
10401-0001-11	Natural Resources and Conservation Service's Financial Statements for 2011	November 2011
11401-0002-11	Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center	September 2011
27401-0001-21	Food and Nutrition Service's Financial Statements for Fiscal Years 2011 and 2010	November 2011
50501-0002-12	U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2011 Federal Information Security Management Act	November 2011
85401-0001-11	Rural Development's Financial Statements for Fiscal Years 2011 and 2010	November 2011
88501-0001-11	Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Information Technology Center	September 2011

Exhibit B: Summary of Prior Year Recommendations

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

Finding 1: Improvements Are Needed In Overall Financial Management

Recommendation 1

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

Departmental Status

During fiscal year 2011, the Department issued the Office of the Chief Financial Officer Bulletin 11-02, *Controls Over Abnormal Balances*, to update Departmental guidance to U.S. Department of Agriculture agencies to improve the process for reviewing, researching, and timely implementing action to correct abnormal balances. This recommendation remains open.

OIG Results

The Material Weakness continues to exist, as discussed in Finding 1.

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

Finding 1: Improvements Are Needed In Overall Financial Management

Recommendation 1

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

Departmental Status

During fiscal year 2011, the Department worked with agencies to complete cleanup of obligations recorded in the Foundation Financial Information System and the Financial Management Modernization Initiative. In addition, the Department continued to monitor obligations via monthly corrective actions status reports and review of quarterly Chief Financial Officers' certifications. The Department estimates that all corrective actions will be completed in fiscal year 2012.

Exhibit B: Summary of Prior Year Recommendations

OIG Results

The Material Weakness continues to exist, as discussed in Finding 1.

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

Finding 1: Improvements Are Needed In Overall Financial Management

Recommendation 1

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

Departmental Status

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

OIG Results

The Material Weakness continues to exist, as discussed in Finding 1.

Exhibit C: Status of Prior Year Noncompliance Findings

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

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

Reported Noncompliance

The Department reported a lack of substantial compliance with the FFMIA of 1996 requirements. The Department reported that it was not substantially compliant with the Federal Financial Management Systems Requirements (FFMSR), applicable accounting standards, the U.S. Government Standard General Ledger (SGL) at the transaction level, and the Federal Information Security Management Act (FISMA) of 2002 requirements.

Status

In fiscal year 2011, the Department continued to report substantial noncompliance with FFMSR, applicable standards, SGL at the transactions level, and FISMA requirements, as discussed in Finding 3.

Finding 4: Anti-Deficiency Act Violations (ADA)

Reported Noncompliance

The Department reported ADA violations in its fiscal year 2010 statement of assurance included in the Performance and Accountability Report relating to Rural Development, as well as the Commodity Credit Corporation (CCC) and Farm Service Agency (FSA). Details follow:

- Rural Development reported ADA violations in fiscal year 2010 regarding Rural Utilities Services' Broadband Program. These violations involved eight broadband loans from fiscal year 2004 with an aggregate loan amount of $170 million. Using the fiscal year 2010 subsidy rate, the budget authority associated with the undisbursed balance of these loans was approximately $7 million as of October 1, 2009.

- CCC and FSA reported ADA violations in fiscal year 2010 regarding the Biomass Crop Assistance Program. The violations involved CCC entering into contracts administered by FSA for matching agreements that extended beyond the period of performance authorized by the Office of Management and Budget (OMB).

Exhibit C: Status of Prior Year Noncompliance Findings

Status

The ADA violations were reported to the President, U.S. Congress, and OMB on August 5, 2011 by Rural Development and October 3, 2011 by CCC.

Exhibit D: Agency Response

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW
Washington, DC
20250

NOV 14 2011

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

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

Jon M. Holladay

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2011 and 2010, Audit Report No. 50401-1-11

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2011 and 2010.

We concur with the two material weaknesses and findings related to compliance with laws and regulations in the report. We generally agree with the recommendations in the report and will develop corrective action plans with milestones to address the findings within 60 days.

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

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

Consolidated Balance Sheet

As of September 30, 2011 and 2010
(In Millions)

	2011	2010
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 74,126	$ 75,805
Investments (Note 5)	138	154
Accounts Receivable, Net (Note 6)	224	288
Other (Note 11)	2	83
Total Intragovernmental	74,490	76,330
Cash and Other Monetary Assets (Note 4)	248	161
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	8,001	7,320
Direct Loan and Loan Guarantees, Net (Note 7)	92,042	89,405
Inventory and Related Property, Net (Note 8)	51	47
General Property, Plant, and Equipment, Net (Note 9)	3,050	2,964
Other (Note 11)	243	178
Total Assets	178,128	176,408
Stewardship PP&E (Note 10)		
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	21	7
Debt (Note 13)	89,583	87,915
Other (Note 15)	11,052	11,735
Total Intragovernmental	100,656	99,657
Accounts Payable	709	580
Loan Guarantee Liability (Note 7)	3,621	2,857
Federal Employee and Veteran Benefits	904	881
Environmental and Disposal Liabilities (Note 14)	9	9
Benefits Due and Payable	3,500	3,356
Other (Notes 15 & 16)	26,853	21,584
Total Liabilities	136,252	128,924
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Earmarked Funds (Note 18)	74	375
Unexpended Appropriations - Other Funds	30,395	35,886
Cumulative Results of Operations - Earmarked Funds (Note 18)	1,730	1,795
Cumulative Results of Operations - Other Funds	9,677	9,428
Total Net Position	41,876	47,484
Total Liabilities and Net Position	$ 178,128	$ 176,408

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

For the Years Ended September 30, 2011 and 2010
(In Millions)

	2011	2010
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ 36,398	$ 25,912
Less: Earned Revenue	8,450	5,301
Net Costs	27,948	20,611
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Gross Costs	12,997	11,804
Less: Earned Revenue	869	670
Net Costs	12,128	11,134
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	3,397	3,231
Less: Earned Revenue	294	375
Net Costs	3,103	2,856
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	106,551	98,684
Less: Earned Revenue	883	847
Net Costs	105,668	97,837
Total Gross Costs	159,343	139,631
Less: Total Earned Revenue	10,496	7,193
Net Cost of Operations (Note 19)	$ 148,847	$ 132,438

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

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

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

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For The Year Ended September 30, 2010

(In Millions)

	Earmarked Funds (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 3,125	$ 3,488	$ -	$ 6,613
Budgetary Financing Sources:				
Other Adjustments (recissions, etc.)	-	(44)	-	(44)
Appropriations Used	2	130,001	-	130,003
Non-exchange Revenue	-	5	-	5
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	1,438	5,818	-	7,256
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	(60)	220	-	160
Imputed Financing	57	3,982	(2,949)	1,090
Other	44	(1,467)	-	(1,423)
Total Financing Sources	1,482	138,515	(2,949)	137,048
Net Cost of Operations	(2,812)	(132,575)	2,949	(132,438)
Net Change	(1,330)	5,940	-	4,610
Cumulative Results of Operations	1,795	9,428	-	11,223
Unexpended Appropriations:				
Beginning Balances	366	37,936	-	38,302
Adjustments:				
Changes in Accounting Principles (Note 24)	-	(444)	-	(444)
Beginning Balance, as Adjusted	366	37,492	-	37,858
Budgetary Financing Sources:				
Appropriations Received	11	131,258	-	131,269
Appropriations Transferred In (Out)	-	172	-	172
Other Adjustments	-	(3,035)	-	(3,035)
Appropriations Used	(2)	(130,001)	-	(130,003)
Total Budgetary Financing Sources	9	(1,606)	-	(1,597)
Unexpended Appropriations	375	35,886	-	36,261
Net Position	$ 2,170	$ 45,314	$ -	$ 47,484

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For The Years Ended September 30, 2011 and 2010

(In Millions)

	2011		2010	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1 (Note 21)	$ 28,420	$ 8,297	$ 33,120	$ 4,689
Recoveries of prior year unpaid obligations	4,036	964	3,721	1,106
Budget Authority -				
Appropriation	152,007	2	144,701	-
Borrowing Authority	31,369	12,628	39,063	21,852
Earned -				
Collected	21,404	11,315	21,285	10,988
Change in receivables from Federal Sources	9	(1)	189	1
Change in unfilled customer orders -				
Advances received	-	-	426	-
Without advance from Federal Sources	281	(135)	309	(34)
Previously unavailable	13	-	-	-
Expenditure transfers from trust funds	932	-	937	-
Nonexpenditure transfers, net, anticipated and actual	(374)	-	(253)	-
Temporarily not available pursuant to Public Law	(397)	-	(134)	-
Permanently not available	(45,511)	(10,787)	(50,335)	(6,246)
Total Budgetary Resources	192,189	22,283	193,029	32,356
Status of Budgetary Resources:				
Obligations Incurred -				
Direct	143,050	16,679	138,924	24,059
Reimbursable	23,901	-	25,685	-
Unobligated Balance -				
Apportioned	9,935	4,596	10,349	4,233
Exempt from Apportionment	1,736	9	1,392	5
Unobligated balance not available	13,567	999	16,679	4,059
Total Status of Budgetary Resources	192,189	22,283	193,029	32,356
Change in Obligated Balances:				
Obligated balance, net, brought forward October 1	35,810	29,111	29,604	23,298
Obligations incurred	166,951	16,679	164,609	24,059
Gross outlays	(163,818)	(17,377)	(154,185)	(17,174)
Recoveries of prior year unpaid obligations, actual	(4,036)	(964)	(3,721)	(1,106)
Change in uncollected payments from Federal Sources	(290)	136	(498)	34
Obligated balance, net, end of period -				
Unpaid obligations	36,637	28,532	37,540	30,193
Uncollected customer payments from Federal Sources	(2,019)	(947)	(1,730)	(1,082)
Obligated Balance, net, end of period	34,618	27,585	35,810	29,111
Net Outlays:				
Gross outlays	163,818	17,377	154,185	17,174
Offsetting collections	(22,336)	(11,315)	(22,648)	(10,989)
Distributed offsetting receipts	(1,814)	(225)	(1,512)	(576)
Net Outlays	$ 139,668	$ 5,837	$ 130,025	$ 5,609

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2011 and 2010
(In Millions)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

Organization

The Department of Agriculture (USDA) provides a wide variety of services in the United States and around the world. USDA is organized into seven distinct mission areas and their agencies that execute these missions.

Listed below are the missions and the agencies within each mission including three Government corporations:

Farm and Foreign Agricultural Services (FFAS)

- Farm Service Agency (FSA)
  - Commodity Credit Corporation (CCC)
- Foreign Agricultural Service (FAS)
- Risk Management Agency (RMA)
  - Federal Crop Insurance Corporation (FCIC)

Food, Nutrition, and Consumer Services (FNCS)

- Food and Nutrition Service (FNS)

Food Safety

- Food Safety and Inspection Service (FSIS)

Marketing and Regulatory Programs (MRP)

- Agricultural Marketing Service (AMS)
- Animal and Plant Health Inspection Service (APHIS)
- Grain Inspection, Packers and Stockyards Administration (GIPSA)

Natural Resources and Environment (NRE)

- Forest Service (FS)
- Natural Resources Conservation Service (NRCS)

Research, Education, and Economics (REE)

- Agricultural Research Service (ARS)
- National Institute of Food and Agriculture (NIFA)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

Rural Development

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

Effective October 1, 2009, Section 7511(f) (2) of the Food, Conservation, and Energy Act of 2008 transferred all authorities administered by the Cooperative State Research, Education, and Extension Service (CSREES) to the newly established National Institute of Food and Agriculture (NIFA).

Consolidation

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

Reclassifications

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

RMA reclassified the FCIC from earmarked funds to other funds, absent explicit authority to retain revenues and other financing sources not used in the current period for future use, consistent with the change in accounting principle (Note 21) made in FY 2010. The Balance Sheet, Statement of Changes in Net Position, and related Earmarked Funds note reflects this change. RMA also reclassified liabilities covered by budgetary resources of $3,920 million to liabilities not covered by budgetary resources as a result of this change.

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

Use of Estimates

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

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

Contingencies

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

Allocation Transfers

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

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

Inter-Entity Costs

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

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

Fiduciary Activities

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

NOTE 2. NON-ENTITY ASSETS

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

	FY 2011	FY 2010
Intragovernmental:		
Fund balance with Treasury	$ 176	$ 121
Accounts Receivable	23	25
Subtotal Intragovernmental	199	146
With the Public:		
Cash and other monetary assets	-	-
Accounts receivable	73	89
Subtotal With the Public	73	89
Total non-entity assets	272	235
Total entity assets	177,856	176,173
Total Assets	$ 178,128	$ 176,408

NOTE 3. FUND BALANCE WITH TREASURY

Other Fund Types include deposit and clearing accounts. Borrowing Authority not yet Converted to Fund Balance represents un-obligated and obligated amounts recorded at year-end that will be funded by future borrowings. Non-Budgetary Fund Balance with Treasury includes special fund receipt accounts; and clearing and suspense account balances awaiting disposition or reclassification. Unprocessed Intragovernmental Payment and Collection (IPAC) transactions were not reported to Treasury at the end of FY 2011 and FY 2010 because the proper Treasury Account Symbol was unknown which reduced Fund Balance with Treasury by $52 million and $48 million, respectively.

	FY 2011	FY 2010
Fund Balances:		
Trust Funds	$ 550	$ 472
Special Funds	17,777	15,230
Revolving Funds	12,397	11,270
General Funds	43,294	48,735
Other Fund Types	108	98
Total	74,126	75,805
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	16,276	15,979
Unavailable	14,690	20,738
Obligated Balance not yet Disbursed	61,956	64,797
Borrowing Authority not yet Converted to Fund Balance	(35,133)	(39,613)
Non-Budgetary Fund Balance with Treasury	16,337	13,904
Total	$ 74,126	$ 75,805

NOTE 4. CASH AND OTHER MONETARY ASSETS

In FY 2011 and FY 2010, cash includes Federal crop insurance escrow amounts of $247 million and $123 million respectively. In FY 2010, cash includes certificates of deposit of $37 million.

	FY 2011	FY 2010
Cash	$ 248	$ 161

Note 5. Investments

FY 2011	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	135	(1)	4	138	138
Total		$ 135	$ (1)	$ 4	$ 138	$ 138
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

FY 2010	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	152	(1)	3	154	154
Total		$ 152	$ (1)	$ 3	$ 154	$ 154
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

Note 6. Accounts Receivable, Net

FY 2011	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 224	$ -	$ 224
With the Public	8,049	(48)	8,001
Total	$ 8,273	$ (48)	$ 8,225

FY 2010	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 288	$ -	$ 288
With the Public	7,354	(34)	7,320
Total	$ 7,642	$ (34)	$ 7,608

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 2011 was $92,042 million compared to $89,405 million at the end of FY 2010. Loans exempt from the Federal Credit Reform Act of 1990 represent $338 million of the total compared to $673 million in FY 2010. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2011 and FY 2010.

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 $5,576 million to $6,017 million during FY 2011, an increase of $441 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2010 to FY 2011.

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 2011 was $539 million compared to $429 million in FY 2010. Table 3 illustrates the breakdown of total subsidy expense for FY 2011 and FY 2010 by program.

Direct loan volume increased from $11,144 million in FY 2010 to $11,147 million in FY 2011. 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 2011 were $89,317 million in outstanding principal and $79,858 million in outstanding principal guaranteed, compared to $75,688 and $67,793 million, respectively at the end of FY 2010. 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 $2,857 million to $3,621 million during FY 2011, an increase of $764 million. Table 7 shows the reconciliation of total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2011 was $721 million compared to $702 million in FY 2010. Table 8 illustrates the breakdown of total subsidy expense for FY 2011 and FY 2010 by program.

Guaranteed loan volume decreased from $26,892 million in FY 2010 to $23,664 million in FY 2011. Volume distribution between mission area and program is shown in Table 9.

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2011 and FY 2010 are shown in Table 10.

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2011 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

Credit Program Discussion and Descriptions

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

The Farm and Foreign Agricultural Services Mission Area

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

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

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

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

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

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

Farm and Foreign Agricultural Service List of Programs

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

The Rural Development Mission Area

Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing. To leverage the impact of its programs, RD is working with State, local and Indian tribal Governments, as well as private and not-for-profit organizations and user-owned cooperatives.

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

The Rural Business Program goal is to promote a dynamic business environment in rural America. RD partners with the private sector and community-based organizations to provide financial assistance and business planning. It also provides technical assistance to rural businesses and cooperatives, conducts research into rural economic issues, and provides cooperative educational materials to the public.

The Rural Utilities Program helps to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. This program leverages scarce Federal funds with private capital for investing in rural infrastructure, technology and development of human resources.

RD programs provide certain loan servicing options to borrowers whose accounts are distressed or delinquent. These options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements and debt write-downs. The choice of servicing options depends on the loan program and the individual borrower.

Rural Development List of Programs

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

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

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

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2011 reestimate process resulted in an $177 million increase in the post 1991 estimated cost of the direct loan portfolio and a $588 million increase in the post 1991 estimated cost of the guaranteed loan portfolio.

The net upward reestimate for direct loans was mostly due to an upward reestimate for Housing less a downward reestimate for Electric and Water and Environmental:

The Housing programs had an overall upward reestimate of $352 million. The Single Family Housing program accounted for the largest portion of this reestimate. Although the private sector is offering record low interest rates, Section 502 direct borrowers appear to be unable to take advantage of this opportunity to refinance their loans. The resulting effect of home values declining and the tightening credit requirements have resulted in fewer prepayments than forecasted. As borrowers did not obtain credit from commercial organizations, the costs associated with retaining loans were realized to include anticipating costs for the future years. Reduced cash flows resulted from additional interest rate payment assistance being granted for the loans remaining, coupled with lower property values. Reduced recapture of payment assistance, if and when the homes are sold, results in less cash flows. Assumptions beginning with the 2011 forecasts has reduced the expected prepayments of loans and payment assistance recapture in the out years. The adjustments primarily affect the more current year cohorts as these cohorts have the largest amounts disbursing in the current year and the most significant long term cash flows.

The upward reestimate amount for cohort 201 was due to a decrease in the average rate of interest charged to borrowers from 4.88 to 4.69 percent, while the average Treasury discount rate for this cohort increased from 3.73 to 3.82 percent. The increased spread between cost of borrowing and the borrower interest rate explains the majority of the $89 million reestimate.

The increase in Defaulted Guaranteed Housing Loans in FY 2011 was a result of additional purchases of Guaranteed Housing Loans from third parties as well as increased write-off activity. Collections are relatively low in the purchased receivables which would be expected due to the weak housing market.

The Electric programs had an overall downward reestimate of $108 million. The majority of this reestimate is a result of a downward reestimate of $108 million in the Electric FFB program, a downward reestimate of $59.6 million in the Electric Hardship, and a $59.5 million upward reestimate in the Electric Underwriters.

The Electric loan programs have large disbursements that disburse over several years in many cases. The Treasury discount rate will continue to weight current year disbursements at the current year's Treasury discount rate until the cohort year is 90 percent disbursed and the Treasury discount rate becomes fixed for the cohort year. This averaging of the Treasury discount rate, the disbursement pattern between fiscal years and the borrowers' flexibility to accept long or short term interest rates factor into larger reestimate fluctuations during the early cohort years of these programs. These variables factor into the variations that are included in the analysis of cohort year reestimates and one reason changes in the FFB reestimates vary by cohort.

In cohort years 2009 and 2010, disbursements exceeding $1 billion occurred in the 2011 cash flow year for each cohort. Originally the 2009 cohort year was formulated with a negative subsidy rate, with consideration of the actual discount rate and borrower's interest rate, a higher subsidy rate was indicated. The effect of a revised (increased) subsidy rate from the formulated rate is accounted for when disbursements actually occur. In the 2010 cohort year, the subsidy rate decreased which resulted in a downward reestimate of $155 million. This was also due to disbursements being trued up at a revised reduced subsidy rate. Reestimate adjustments resulting from the effects of the Treasury discount rate differential to the borrower rates were also noticeable in the 2006 through 2009 cohort years.

The Electric Hardship program's downward reestimate of $59.6 million is a result of the bank offered refinancing to borrowers. Many borrowers chose to refinance their 5 percent loans to the lower rates. This refinancing resulted in larger than projected prepayments causing a downward reestimate.

The Underwriters program experienced a downward reestimate of $59.5 million due to improvements in the methodology of the Underwriter model. Three of the changes are the main drivers of the subsidy rate changes that have large impacts on the modeled cash flows. First, the new model uses advance-specific forecasts for roll-over terms resulting in higher forecasted interest payments. Consequently, the new model changed the disbursement timing from the beginning of the year to the middle of the year, which modified the present value factors used to discount the cash flows. Third, the new model corrected the forecasted recovery cash flows. In the previous model, the recovery cash flows did not flow through to the subsidy rate calculation. This change resulted in additional recovery cash flows, which decreased the subsidy rate.

The Water and Environmental program had a downward reestimate of $110 million. The majority of the dollar amount of the reestimate is in cohort years 2006 to 2010. With the exception of cohort year 2009, the subsidy rates decreased which was the contributing factor for the overall downward reestimate. This decrease is due to the reduction of the spread between the Treasury discount rate and the weighted average borrower rate. As this program disburses over multiple years, the aforementioned cohort years had disbursements that are now adjusted to the lower subsidy rates. The costs associated with the cohort cash flows are now anticipated to be lower than at the time of formulation. The decreased rates are due to the current economic environment of lower interest rates.

The net upward reestimate for loan guarantees was mostly due to an upward reestimate for Housing and Business and Industry:

The Guaranteed Housing programs had an overall upward reestimate of $357 million. The Guaranteed Single Family Housing Section 502 program had a significant upward reestimate of $364.7 million. During FY 2011, calculation changes were made that had an impact on the reestimate. The calculation of the loss settlements paid curve, and the recovery curve were changed to be weighted average in place of a simple average. In addition, weak activity in the nation's housing sector and continuous restraint by excess supply, tight lending standards, and uncertainty about future home price values resulted in increased actual default payments as well as the change in the curve calculation for the out years. The total recovery assumption also decreased.

The Business and Industry program had an upward reestimate of $235 million. During FY 2011, the same changes made in Housing were made in Business and Industry resulting in an upward reestimate. First, the change in the calculation of the loss settlements paid curve to be weighted average in place of a simple average and second, the change of the calculation of the recovery curve to be weighted average in place of a simple average. In cohort years 2002 to 2004, the upward reestimates were primarily a result of an increase in projected default payments and decreases in projected recoveries. Cohort years 2007 through 2009 experienced large actual loss payments as compared to their loss payment projected executed in the FY 2010 financial cycle. In the 2010 cohort year, the upward reestimate was a result of a decrease in projected recoveries.

The Business and Industry – ARRA upward reestimate is due to a decrease in projected recoveries paralleling the regular Business and Industry Guaranteed program. Overall, the increase defaulted activity is reflective of the current economic environment where businesses are struggling and spending is down.

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 (ICRAS) 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. ICRAS identification for each country is still the basis for a given country's risk rating, but a set of program specific default and recovery rates by ICRAS grade has been established for each program. Domestic programs have always utilized program-specific default and recovery assumptions.

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

Loan Modifications

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

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2011. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

In 2011, the Home Affordable Modification Program (HAMP) and the Helping Families Save Their Homes Act of 2009 were initiated as a joint effort of Rural Development and the U. S. Department of Treasury. These enactments will assist the Agency in preventing the destructive impact of foreclosures on families, communities, and the national economy. As a part of this legislation, the Rural Housing Service (RHS) is amending its regulations to add new servicing options to the Single Family Housing Guaranteed Loan program. Lenders may utilize these servicing options while still maintaining the loan guarantee. Additionally, the Agency will allow lenders to extend loans for up to 40 years from the date of modification. The Agency will also allow lenders to advance funds, on behalf of borrowers, in the amounts necessary to bring defaulted loans current. These advances can be up to 30 percent of the loan's unpaid principal balance. The intended effect is to allow new servicing options so that Guaranteed Single Family Housing borrowers can better afford their loan payments resulting in reduced mortgage foreclosures.

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

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, 2011 and 2010, foreclosed property consisted of 1,253 and 1,209 rural single-family housing dwellings, with an average holding period of 16 months, respectively. As of September 30, 2011 and 2010, FSA-Farm Loan Program properties consist primarily of 67 and 59 farms, respectively. The average holding period for these properties in inventory for FY 2011 and FY 2010 was 51 and 61 months, respectively. Certain properties can be leased to eligible individuals.

Other Information

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

Approximately $19,100 million and $19,000 million of RHS unpaid loan principal as of September 30, 2011, and 2010 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 $963 million and $966 million higher for FY 2011 and FY 2010 respectively.

At the end of FY 2011 and FY 2010, the RD portfolio contained approximately 69,500 and 70,100 restructured loans with an outstanding unpaid principal balance of $2,600 million. At the end of FY 2011 and FY 2010, the farm loan portfolio contained approximately 19,959 and 20,683 restructured loans with an outstanding unpaid principal balance of $1,177 million and $1,189 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2011 and 2010, were $2,667 million and $2,819 million, respectively.

Table 1. Direct Loan and Loan Guarantees, Net

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

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

FY 2010 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 1,040	$ 70	$ 11	$ (108)	$ 1,013
Export	-	-	-	-	-
Food Aid	4,150	43	-	(1,517)	2,676
Housing	9,505	76	36	(4,462)	5,155
Electric	3,994	7	-	(1,457)	2,544
Telecommunications	565	2	-	(27)	540
Water and Environmental	1,122	10	-	(123)	1,009
Business and Industry	-	-	-	-	-
Economic Development	30	-	-	(14)	16
Pre-1992 Total	20,406	208	47	(7,708)	12,953
Obligated Post-1991					
Farm	7,070	181	8	(344)	6,915
Export	-	-	-	-	-
Food Aid	1,473	18	-	(511)	980
Housing	20,143	120	53	(2,671)	17,645
Electric	36,723	32	-	(751)	36,004
Telecommunications	3,732	1	-	56	3,789
Water and Environmental	9,891	95	-	(740)	9,246
Business and Industry	28	-	-	(3)	25
Economic Development	551	1	-	(168)	384
Post-1991 Total	79,611	448	61	(5,132)	74,988
Total Direct Loan Program Receivables	100,017	656	108	(12,840)	87,941
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	134	1	-	(70)	65
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	4	-	-	-	4
Economic Development	-	-	-	-	-
Pre-1992 Total	138	1	-	(70)	69
Post-1991					
Farm	85	-	-	(83)	2
Export	731	10	-	(226)	515
Food Aid	-	-	-	-	-
Housing	130	1	-	(108)	23
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	206	2	-	(26)	182
Economic Development	-	-	-	-	-
Post-1991 Total	1,152	13	-	(443)	722
Total Defaulted Guarantee Loans	1,290	14	-	(513)	791
Loans Exempt from Credit Reform Act:					
Commodity Loans	671	2	-	-	673
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	671	2	-	-	673
Total Direct Loan and Loan Guarantees, Net					$ 89,405

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

	FY 2011	FY 2010
Beginning balance of the subsidy cost allowance	$ 5,576	$ 5,284
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	93	(216)
Default costs (net of recoveries)	208	234
Fees and other collections	(8)	(1)
Other subsidy costs	58	319
Total subsidy expense prior to adjustments and reestimates	351	336
Adjustments		
Loan modifications	11	41
Fees received	54	49
Loans written off	(464)	(498)
Subsidy allowance amortization	(141)	(56)
Other	453	368
Total subsidy cost allowance before reestimates	5,840	5,524
Add or subtract subsidy reestimates by component		
Interest rate reestimate	(412)	284
Technical/default reestimate	589	(232)
Total reestimates	177	52
Ending balance of the subsidy cost allowance	$ 6,017	$ 5,576

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

FY 2011

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

FY 2010

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (16)	$ 121	$ -	$ -	$ 105	$ -	$ 41	$ (272)	$ (231)	$ (126)
Export	-	-	-	-	-	34	23	17	40	74
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	(237)	74	(1)	326	162	7	42	262	304	473
Electric	(75)	24	-	(2)	(53)	-	205	(202)	3	(50)
Telecommunications	(5)	11	-	(1)	5	-	(2)	1	(1)	4
Water and Environmental	101	4	-	(4)	101	-	(18)	(32)	(50)	51
Business and Industry	-	-	-	-	-	-	(2)	(5)	(7)	(7)
Economic Development	16	-	-	-	16	-	(5)	(1)	(6)	10
Total Direct Loan Subsidy Expense	$ (216)	$ 234	$ (1)	$319	$ 336	$ 41	$ 284	$ (232)	$ 52	$ 429

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

	FY 2011	FY 2010
Direct Loan Programs		
Farm	$ 1,929	$ 2,106
Export	-	-
Food Aid	-	-
Housing	2,138	2,622
Electric	4,967	4,745
Telecommunications	749	675
Water and Environmental	1,311	949
Business and Industry	8	-
Economic Development	45	47
Total Direct Loans Disbursed	$ 11,147	$ 11,144

Table 5. Guaranteed Loans Outstanding

FY 2011	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 17	$ 12,484	$ 12,501	$ 15	$ 11,230	$ 11,245
Export	-	6,115	6,115	-	5,992	5,992
Food Aid	-	-	-	-	-	-
Housing	3	63,275	63,278	3	56,923	56,926
Electric	132	199	331	132	199	331
Telecommunications	-	-	-	-	-	-
Water and Environmental	7	62	69	6	54	60
Business and Industry	2	7,021	7,023	1	5,303	5,304
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 161	$ 89,156	$ 89,317	$ 157	$ 79,701	$ 79,858

FY 2010	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	$ 24	$ 11,771	$ 11,795	$ 21	$ 10,585	$ 10,606
Export	-	6,645	6,645	-	6,513	6,513
Food Aid	-	-	-	-	-	-
Housing	3	50,947	50,950	3	45,833	45,836
Electric	148	202	350	147	202	349
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	64	64	-	55	55
Business and Industry	5	5,879	5,884	1	4,433	4,434
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 180	$ 75,508	$ 75,688	$ 172	$ 67,621	$ 67,793

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

FY 2011	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ -	$ 209	$ 209
Export	-	115	115
Food Aid	-	-	-
Housing	-	2,452	2,452
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	844	845
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ 1	$ 3,620	$ 3,621

FY 2010	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	$ -	$ 283	$ 283
Export	-	184	184
Food Aid	-	-	-
Housing	-	1,833	1,833
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	-	557	557
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ -	$ 2,857	$ 2,857

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2011	FY 2010
Beginning balance of the loan guarantee liability	$ 2,857	$ 1,842
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest supplement costs	4	19
Default costs (net of recoveries)	665	876
Fees and other collections	(531)	(402)
Other subsidy costs	3	2
Total of the above subsidy expense components	141	495
Adjustments		
Loan guarantee modifications	(8)	-
Fees received	608	458
Interest supplements paid	(29)	132
Claim payments to lenders	(275)	(301)
Interest accumulation on the liability balance	66	64
Other	(328)	(40)
Ending balance of the subsidy cost allowance before reestimates	3,032	2,650
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	110	42
Technical/default reestimate	478	165
Total of the above reestimate components	588	207
Ending balance of the loan guarantee liability	$ 3,620	$ 2,857

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

FY 2011

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

FY 2010

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	$ 72	$ (27)	$ -	$ 66	$ -	$ (13)	$ (60)	$ (73)	$ (7)
Export	-	11	(5)	-	6	-	(41)	(22)	(63)	(57)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	(2)	569	(325)	-	242	-	80	193	273	515
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	1	1	1
Business and Industry	-	224	(45)	2	181	-	16	53	69	250
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 19	$ 876	$ (402)	$ 2	$ 495	$ -	$ 42	$ 165	$ 207	$ 702

Table 9. Guaranteed Loans Disbursed

	FY 2011		FY 2010	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 3,060	$ 2,753	$ 3,117	$ 2,803
Export	3,497	3,427	2,891	2,835
Food Aid	-	-	-	-
Housing	15,283	13,750	18,711	16,834
Electric	-	-	-	-
Telecommunications	-	-	-	-
Water and Environmental	4	3	1	1
Business and Industry	1,820	1,439	2,172	1,768
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 23,664	$ 21,372	$ 26,892	$ 24,241

Table 10. Administrative Expenses

	FY 2011	FY 2010
Direct Loan Programs	$ 535	$ 533
Guaranteed Loan Programs	432	485
Total Administrative Expenses	$ 967	$ 1,018

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2011	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Ownership	3.16	5.59	-	(1.83)	6.92
Farm Operating	(0.55)	6.86	-	(0.25)	6.06
Emergency Disaster	2.16	9.04	-	(0.71)	10.49
Indian Tribe Land Acquisition	(6.53)	-	-	-	(6.53)
Boll Weevil Eradication	(1.80)	-	-	(0.29)	(2.09)
Indian Highly Fractionated Land	(7.43)	9.57	-	(0.01)	2.13
Conservation—Direct	(3.17)	6.63	-	(0.48)	2.98
Farm Storage Facility Loan Program	(1.66)	0.03	(0.27)	(0.11)	(2.01)
Sugar Storage Facility Loan Program	(0.33)	0.28	-	(0.16)	(0.21)
Section 514 Farm Labor Housing	39.08	0.12	-	(0.82)	38.38
Multi-Family Housing Relending Demo	41.34	-	-	-	41.34
Multi-Family Housing Revitalization Seconds	62.71	-	-	-	62.71
Multi-Family Housing Revitalization Zero	45.18	-	-	-	45.18
Community Facility Loans	0.05	2.15	-	(0.88)	1.32
Section 502 Single-Family Housing	2.06	3.35	-	0.85	6.26
Section 515 Multi-Family Housing	34.94	0.10	-	(1.31)	33.73
Section 504 Housing Repair	24.70	-	-	(5.77)	18.93
Single-Family Housing Credit Sales	(17.48)	3.24	-	3.12	(11.12)
Multi-Family Housing Credit Sales	38.29	-	-	0.08	38.37
Rural Microenterprise Direct Loans	18.87	2.52	-	-	21.39
Intermediary Relending Program	39.19	0.22	-	(0.83)	38.58
Rural Economic Development Loans	17.93	0.01	-	(0.04)	17.90
Water and Waste Disposal Loans	10.17	0.12	-	(1.71)	8.58
Electric Hardship Loans	(8.16)	0.03	-	0.75	(7.38)
FFB Electric Loans	(3.01)	0.10	-	(1.53)	(4.44)
Telecommunication Hardship Loans	(7.36)	0.04	-	(0.05)	(7.37)
Treasury Telecommunication Loans	-	0.42	-	(0.74)	(0.32)
FFB Telecommunications Loans	1.53	0.18	-	(6.35)	(4.64)
Distance Learning and Telemedicine Loans	-	4.10	-	(2.62)	1.48
Broadband Treasury Loans	-	6.49	-	(0.90)	5.59

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2011	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	1.26	(0.88)	-	0.38
Farm Operating—Unsubsidized	-	3.22	(0.90)	-	2.32
Farm Operating—Subsidized	11.72	2.11	-	-	13.83
Conservation—Guaranteed	-	1.26	(0.88)	-	0.38
GSM 102	-	(0.27)	(0.59)	-	(0.86)
Export Guarantee Program—Facilities	-	18.67	(0.19)	-	18.48
Community Facility Loans	-	4.82	(0.87)	-	3.95
Guaranteed 538 Multi-Family Housing	-	9.69	-	-	9.69
Guaranteed 502 Single-Family Housing	-	3.24	(3.43)	-	(0.19)
Business and Industry Loan Guarantees	-	8.05	(2.99)	-	5.06
Renewable Energy Loan Guarantees	-	47.84	(1.48)	-	46.36
Biorefinery Assistance Loan Guarantees	-	33.77	(4.69)	2.02	31.10
Water and Waste Disposal Loans	-	-	(0.85)	-	(0.85)

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 in FY 2010 were $3 million.

	FY 2011		FY 2010	
Inventories		$ -		$ 1
Commodities:	Volume (in millions)	Amount	Volume (in millions)	Amount
Corn (In Bushels):				
On hand at the beginning of the year	-	-	-	-
Acquired during the year	2	50	-	-
Disposed of during the year				
Sales	-	-	-	-
Donations	(2)	(51)	-	-
Other	2	6	-	-
On hand at the end of the year	2	5	-	-
Wheat (In Bushels):				
On hand at the beginning of the year	-	-	-	-
Acquired during the year	19	134	36	208
Disposed of during the year				
Sales	-	-	(33)	(187)
Donations	(19)	(137)	(3)	(21)
Other	-	3	-	-
On hand at the end of the year	-	-	-	-
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	6	6	224	184
Acquired during the year	-	-	-	-
Disposed of during the year				
Sales	-	-	(1)	(1)
Donations	(9)	(9)	(52)	(59)
Other	13	13	(165)	(118)
On hand at the end of the year	10	10	6	6
Other:				
On hand at the beginning of the year		42		21
Acquired during the year		532		738
Disposed of during the year				
Sales		-		141
Donations		(596)		(978)
Other		60		120
On hand at the end of the year		38		42
Allowance for losses		(2)		(2)
Total Commodities		51		46
Total Inventory and Related Property, Net		$ 51		$ 47

NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET

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

FY 2010 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 76	$ -	$ 76
Improvements to Land	10 - 50	721	(631)	90
Construction-in-Progress		988	-	988
Buildings, Improvements and Renovations	15 - 30	2,023	(1,322)	701
Other Structures and Facilities	15 - 50	1,795	(1,390)	405
Equipment	5 - 20	1,602	(1,247)	355
Assets Under Capital Lease	3 - 20	74	(44)	30
Leasehold Improvements	10	75	(48)	27
Internal-Use Software	5 - 8	521	(338)	183
Internal-Use Software in Development		170	(61)	109
Total		$ 8,045	$ (5,081)	$ 2,964

NOTE 10. STEWARDSHIP PP&E

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

Heritage Assets

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

National Forests, National Grasslands and Other Sites—FS manages its heritage assets by site. Sites include National Forests, National Grasslands, other Forest Service-managed sites, and non Forest Service-managed sites such as museums and university laboratories. The mission of the FS is to sustain the health,

diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The FS strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.
Heritage Asset categories can include the following:

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

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

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

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein. Assemblage assets include materials donated to the FS; artifact or archival materials collected from a single site, FS administrative unit, or event; or any combination thereof.

Research Centers—ARS conducts research at centers nationwide to develop and transfer solutions to agricultural problems of high national priority and provides information access and dissemination to ensure high-quality, safe food and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole. NRCS currently owns one heritage asset, the Tucson Plant Materials Center (TPMC) which is included in general PP&E as a multi-use asset. It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development (RC&D) groups, conservation districts, Federal, State, and Tribal agencies, and private landowners through the greater Southwest. Research centers are considered heritage assets because one or more buildings or structures at these centers is on the National Register of Historic Places or have been identified as eligible for inclusion on the National Register.

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

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

Stewardship Land

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

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

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

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

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

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

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

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

NRCS, on behalf of USDA, administers and owns conservation easements on private lands through five different programs. For the purpose of stewardship asset reporting, all easements where NRCS is the grantee of the easement are included as stewardship land. Also included are easements that are administered by NRCS on behalf of other USDA agencies. During FY 2011 NRCS conducted a rigorous review to ensure all stewardship land was correctly included for reporting. This effort identified 1,330 conservation easements not included in the ending balance for FY 2010. There were 732 Emergency Wetland Reserve Program (EWRP) enrollments that were not included in the FY 2010 ending / FY 2011 beginning balance. Additional adjustments are due to on-going National Easement Staging Tool (NEST) quality assurance efforts conducted during FY 2011.

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

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

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

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans (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.

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

	FY 2010	Additions	Withdrawals	FY 2009
Heritage Assets				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Other Sites	155	20	-	135
Research Centers	36	-	(1)	37
Library Collections	1	-	-	1
Total	367	20	(1)	348
Stewardship Land				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
Conservation Easements	11,085	251	-	10,834
Total	11,266	251	-	11,015

NOTE 11. OTHER ASSETS

In FY 2011 and FY 2010, other assets include investments in trust for loan asset sales of $35 million.

	FY 2011	FY 2010
Intragovernmental:		
Advances to Others	$ 2	$ 70
Other Assets	-	13
Subtotal Intragovernmental	2	83
With the Public:		
Advances to Others	206	142
Other Assets	37	36
Total Other Assets	$ 245	$ 261

NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In FY 2011 and FY 2010, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $167 million and $169 million, contract disputes claims payable to Treasury's Judgment Fund of $20 million and $19 million, deposit funds and clearing accounts of $41 million and $40 million, unemployment compensation of $24 million and $16 million, and custodial of $5 million and $5 million, respectively.

In FY 2011 and FY 2010, other liabilities with the public not covered by budgetary resources include, Tobacco Transition Payment Program of $2,857 million and $3,797million, future funded indemnity costs of $9,284 million and $2,299 million, underwriting gain on crop insurance of $1,007 million and $2,334 million, unfunded leave of $640 million and $647 million, Payments to States $357 million and $409 million, contingent liabilities of $1,162 million and $1,157 million, estimated program delivery costs to reinsurer of $54 million and $11 million, and deposit funds and clearing accounts of $16 million and $25 million, respectively. In FY 2010, custodial was $1 million.

	FY 2011	FY 2010
Intragovernmental:		
Other	$ 257	$ 249
Subtotal Intragovernmental	257	249
With the Public:		
Accounts Payable	2	1
Federal employee and veterans' benefits	904	881
Environmental and disposal liabilities	8	8
Other	15,376	10,681
Subtotal With the Public	16,290	11,571
Total liabilities not covered by budgetary resources	16,547	11,820
Total liabilities covered by budgetary resources	119,705	117,104
Total Liabilities	$ 136,252	$ 128,924

Note 13. Debt

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

FY 2010	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 55,629	$ 970	$ 56,599
Debt to the Federal Financing Bank	28,490	2,826	31,316
Total Intragovernmental	84,119	3,796	87,915
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 84,119	$ 3,796	$ 87,915

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 2011 and FY 2010, the CCC and FS estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $8 million and $1 million, respectively, based on actual cleanup costs at similar sites. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

NOTE 15. OTHER LIABILITIES

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

In FY 2010, other liabilities with the public include estimated losses on crop insurance claims of $1,575 million, estimated underwriting gains on crop insurance of $2,334 million, crop insurance premium subsidy deficiency reserve of $724 million, Payments to States of $409 million, Brazilian Cotton Industry of $286 million, estimated program delivery cost to reinsurer of $11 million, loans paid in advance for multi-family housing of $11 million, undistributed credits for insured loans of $10 million, credit reform programs of $8 million, and purchaser road credits of $1 million.

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

FY 2010	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 19	$ 22	$ 41
Employer Contributions and Payroll Taxes	-	96	96
Unfunded FECA Liability	-	169	169
Other Unfunded Employment Related Liability	-	17	17
Advances from Others	-	69	69
Liability for Deposit Funds, Clearing Accounts	-	29	29
Liability for Subsidy Related to Undisbursed Loans	-	179	179
Resources Payable to Treasury	-	11,084	11,084
Custodial Liability	-	37	37
Other Liabilities	-	14	14
Subtotal Intragovernmental	19	11,716	11,735
With the Public:			
Other Accrued Liabilities	-	13,154	13,154
Accrued Funded Payroll and Leave	-	437	437
Unfunded Leave	-	647	647
Advances from Others	-	63	63
Deferred Credits	-	505	505
Liability for Deposit Funds, Clearing Accounts	-	112	112
Contingent Liabilities	-	1,257	1,257
Capital Lease Liability	22	11	33
Custodial Liability	3	1	4
Other Liabilities	21	5,351	5,372
Subtotal With the Public	46	21,538	21,584
Total Other Liabilities	$ 65	$ 33,254	$ 33,319

Note 16. Leases

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, and South Building) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999.

At current market rate, the estimated yearly rental payment for the above mentioned space would be $63 million. This agreement is still in effect and as a result, USDA activities located in the Headquarter complex are not billed for rental costs.

FY 2011	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 69
Machinery and Equipment	-
Accumulated Amortization	(45)
Future Payments Due:	
	Land & Buildings
Fiscal Year	
2012	12
2013	11
2014	10
2015	9
2016	8
After 5 Years	27
Total Future Lease Payments	77
Less: Imputed Interest	34
Less: Executory Costs	16
Less: Lease Renewal Options	-
Net Capital Lease Liability	27
Lease liabilities covered by budgetary resources	27

Operating Leases:

Future Payments Due:

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

FY 2010

Capital Leases:

Summary of Assets Under Capital Leases

Land and Building	$ 73
Machinery and Equipment	-
Accumulated Amortization	(44)

Future Payments Due:

Fiscal Year	Land & Buildings
2011	13
2012	12
2013	11
2014	10
2015	9
After 5 Years	35
Total Future Lease Payments	90
Less: Imputed Interest	39
Less: Executory Costs	18
Less: Lease Renewal Options	-
Net Capital Lease Liability	33
Lease liabilities covered by budgetary resources	33

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2011	126	1	1	128
2012	111	-	1	112
2013	97	-	1	98
2014	89	-	-	89
2015	80	-	1	81
After 5 Years	468	-	2	470
Total Future Lease Payments	$ 971	$ 1	$ 6	$ 978

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, $1,237 million and $1,257 million has been accrued in the financial statements as of September 30, 2011 and 2010, 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 $747 million to $1,493 million as of September 30, 2011, compared to $2,136 million to $3,663 million as of September 30, 2010.

CRP rental payments are estimated to be $1,800 million annually through FY 2017. Commitments to extend loan guarantees are estimated to be $5,949 million and $4,802 million in FY 2011 and FY 2010, respectively.

NOTE 18. EARMARKED FUNDS

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

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

Agricultural Marketing Service

Funds for Strengthening Markets, Income, and Supply

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

Expenses and Refunds, Inspection and Grading of Farm Products

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

Animal Plant Health Inspection Service

Agricultural Quarantine Inspection User Fee Account

This fund is used to record and report expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services, and to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund their expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

Forest Service

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of June 30, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Land Acquisition

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

Payments to States, National Forest Fund

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25.0 percent of all monies received from the national forests and deposited into the National Forest Fund during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated. The Secure Rural Schools and Community Self-Determination Act of 2000 (P.L. 106-393) as amended by § 601 of The Emergency Economic Stabilization Act of 2008, (H.R. 1424) (P.L. 110-343), provides stabilized education and road maintenance funding through predictable payments to counties, job creation in those counties, and other opportunities associated with the restoration, maintenance, and stewardship of Federal lands.

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).

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

The Fiscal Year 2004 Department of the Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of the Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of Treasury established a new special fund, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase, but no real property will be procured or constructed.

Recreation Fee Demonstration Program

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

Restoration of Forest Lands and Improvements

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

Payments to Counties, National Grasslands

Payments to Counties, Title III, Bankhead-Jones Farm Tenant Act (Act) authorizes national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act. At the end of each calendar year twenty-five percent of the net revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. These payments are not in lieu of taxes. Receipts from the Act designated as either national grasslands or land utilization projects are to be credited to a special account.

Acquisition of Lands to Complete Land Exchanges

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

National Institute of Food and Agriculture (NIFA)

Native American Institutions Endowment Fund

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

Farm Service Agency

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

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

Other

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

Agricultural Marketing Service

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

Animal Plant Health Inspection Service

- Miscellaneous Contributed Funds

Forest Service

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

Natural Resources Conservation Service

- Miscellaneous Contributed Funds

Agricultural Research Service

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

Rural Development

- Alternative Agricultural Research and Commercialization Revolving Fund

Foreign Agricultural Service

- Miscellaneous Contributed Funds
- Gifts and Bequests

Grain Inspection, Packers and Stockyards Administration

- Inspection and Weighing Services

Food Safety and Inspection Service

- Expenses and Refunds, Inspection of Farm Products

Office of the Inspector General

Inspector General Assets Forfeiture, Department of Justice

- Inspector General Assets Forfeiture, Department of Treasury

National Agricultural Statistics Service

- Miscellaneous Contributed Funds

Economic Research Service

- Miscellaneous Contributed Funds

Departmental Offices

- Gifts and Bequests

Earmarked Funds

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

Earmarked Funds

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

Earmarked Funds

	AMS	AMS	APHIS	FS	FS	FS	FS	FS
Balance Sheet As of September 30, 2010	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales	State, Private, and International Forestry, Land and Water Conservation Fund
Fund Balance with Treasury	$ 141	$ 52	$ 91	$ 357	$ 35	$ 197	$ 49	$ 124
Investments	-	20	-	-	-	-	-	-
Other Assets	486	46	117	21	46	4	3	8
Total Assets	627	118	208	378	81	201	52	132
Other Liabilities	4	65	74	52	1	392	5	49
Total Liabilities	4	65	74	52	1	392	5	49
Unexpended Appropriations	302	-	-	-	-	-	-	-
Cumulative Results of Operations	321	53	134	326	80	(191)	47	83
Total Liabilities and Net Position	627	118	208	378	81	201	52	132
Statement of Net Cost For the Period Ended September 30, 2010								
Gross program costs	854	195	192	111	54	38	27	73
Less Earned Revenue	1	151	504	79	-	119	21	-
Net Cost of Operations	853	44	(312)	32	54	(81)	6	73
Statement of Changes in Net Position For the period Ended September 30, 2010								
Net Position Beginning of Period	677	54	129	359	71	(272)	54	80
Other Financing Sources	799	43	(307)	(1)	63	-	(1)	76
Net Cost of Operations	(853)	(44)	312	(32)	(54)	81	(6)	(73)
Change in Net Position	(54)	(1)	5	(33)	9	81	(7)	3
Net Position End of Period	$ 623	$ 53	$ 134	$ 326	$ 80	$ (191)	$ 47	$ 83

Earmarked Funds

	FS	FS	FS	NIFA	FSA	FSA		
Balance Sheet As of September 30, 2010	Recreation Fee Demonstration Program	Restoration of Forest Lands and Improvements	Acquisition of Lands to Complete Land Exchanges	Native American Institutions Endowment Fund	Agricultural Disaster Assistance Transition - Recovery Act	Agricultural Disaster Relief Trust Fund	Other	Total
Fund Balance with Treasury	$ 98	$ 169	$ 38	$ 14	$ 287	$ 87	$ 319	$ 2,058
Investments	-	-	-	126	-	-	9	155
Other Assets	4	3	37	-	1	5	34	815
Total Assets	102	172	75	140	288	92	362	3,028
Other Liabilities	5	1	-	-	47	108	55	858
Total Liabilities	5	1	-	-	47	108	55	858
Unexpended Appropriations	-	-	-	69	-	-	4	375
Cumulative Results of Operations	97	171	75	71	241	(16)	303	1,795
Total Liabilities and Net Position	102	172	75	140	288	92	362	3,028
Statement of Net Cost For the Period Ended September 30, 2010								
Gross program costs	96	37	6	3	624	1,459	220	3,989
Less Earned Revenue	65	33	6	6	-	-	192	1,177
Net Cost of Operations	31	4	-	(3)	624	1,459	28	2,812
Statement of Changes in Net Position For the period Ended September 30, 2010								
Net Position Beginning of Period	128	175	75	125	-	1,531	305	3,491
Other Financing Sources	-	-	-	12	865	(88)	30	1,491
Net Cost of Operations	(31)	(4)	-	3	(624)	(1,459)	(28)	(2,812)
Change in Net Position	(31)	(4)	-	15	241	(1,547)	2	(1,321)
Net Position End of Period	$ 97	$ 171	$ 75	$ 140	$ 241	$ (16)	$ 307	$ 2,170

NOTE 19. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT

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

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

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

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

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

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

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

FY 2010	FSA				CCC				FAS			
	Intragovernmental		With the Public		Intragovernmental		With the Public		Intragovernmental		With the Public	
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:												
Gross Costs	$	998	$	4,253	$	1,077	$	5,342	$	102	$	144
Less: Earned Revenue		240		200		21		174		44		3
Net Costs		758		4,053		1,056		5,168		58		141
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:												
Gross Costs		111		471		415		2,012		-		-
Less: Earned Revenue		27		22		-		1		-		-
Net Costs		84		449		415		2,011		-		-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:												
Gross Costs		-		-		161		2,566		50		70
Less: Earned Revenue		-		-		137		188		21		2
Net Costs		-		-		24		2,378		29		68
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:												
Gross Costs		-		-		-		-		-		-
Less: Earned Revenue		-		-		-		-		-		-
Net Costs		-		-		-		-		-		-
Total Gross Costs		1,109		4,724		1,653		9,920		152		214
Less: Total Earned Revenue		267		222		158		363		65		5
Net Cost of Operations	$	842	$	4,502	$	1,495	$	9,557	$	87	$	209

FY 2010	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 74	$ 4,201	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	603	-	-	-	-
Net Costs	74	3,598	-	-	-	-
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	1,129	94,460	382	936
Less: Earned Revenue	-	-	2	49	2	157
Net Costs	-	-	1,127	94,411	380	779
Total Gross Costs	74	4,201	1,129	94,460	382	936
Less: Total Earned Revenue	-	603	2	49	2	157
Net Cost of Operations	$ 74	$ 3,598	$ 1,127	$ 94,411	$ 380	$ 779

FY 2010	AMS				APHIS				GIPSA			
	Intragovernmental		With the Public		Intragovernmental		With the Public		Intragovernmental		With the Public	
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:												
Gross Costs	$	98	$	465	$	54	$	146	$	35	$	68
Less: Earned Revenue		2		92		6		82		1		49
Net Costs		96		373		48		64		34		19
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:												
Gross Costs		-		-		35		93		-		-
Less: Earned Revenue		-		-		4		52		-		-
Net Costs		-		-		31		41		-		-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:												
Gross Costs		-		-		21		56		-		-
Less: Earned Revenue		-		-		2		32		-		-
Net Costs		-		-		19		24		-		-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:												
Gross Costs		113		540		298		800		-		-
Less: Earned Revenue		1		107		33		450		-		-
Net Costs		112		433		265		350		-		-
Total Gross Costs		211		1,005		408		1,095		35		68
Less: Total Earned Revenue		3		199		45		616		1		49
Net Cost of Operations	$	208	$	806	$	363	$	479	$	34	$	19

FY 2010	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 241	$ 976	$ 45	$ 224	$ 87	$ 336
Less: Earned Revenue	24	89	8	1	11	6
Net Costs	217	887	37	223	76	330
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	1,088	4,396	542	2,749	54	213
Less: Earned Revenue	108	402	94	10	7	4
Net Costs	980	3,994	448	2,739	47	209
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	1	4	40	155
Less: Earned Revenue	-	-	-	-	5	3
Net Costs	-	-	1	4	35	152
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	130	506
Less: Earned Revenue	-	-	-	-	17	9
Net Costs	-	-	-	-	113	497
Total Gross Costs	1,329	5,372	588	2,977	311	1,210
Less: Total Earned Revenue	132	491	102	11	40	22
Net Cost of Operations	$ 1,197	$ 4,881	$ 486	$ 2,966	$ 271	$ 1,188

FY 2010	NIFA		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 20	$ 650	$ 13	$ 20	$ 55	$ 141
Less: Earned Revenue	16	-	-	-	23	11
Net Costs	4	650	13	20	32	130
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	5	151	5	7	-	1
Less: Earned Revenue	4	-	-	-	-	-
Net Costs	1	151	5	7	-	1
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	4	134	8	13	-	-
Less: Earned Revenue	3	-	-	-	-	-
Net Costs	1	134	8	13	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	6	192	10	15	3	8
Less: Earned Revenue	6	-	-	-	1	1
Net Costs	-	192	10	15	2	7
Total Gross Costs	35	1,127	36	55	58	150
Less: Total Earned Revenue	29	-	-	-	24	12
Net Cost of Operations	$ 6	$ 1,127	$ 36	$ 55	$ 34	$ 138

FY 2010	RD		DO		Total	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 4,023	$ 3,144	$ 201	$ 365	$ 7,123	$ 20,475
Less: Earned Revenue	496	3,224	328	(3)	1,220	4,531
Net Costs	3,527	(80)	(127)	368	5,903	15,944
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	117	213	2,372	10,306
Less: Earned Revenue	-	-	192	(2)	436	489
Net Costs	-	-	(75)	215	1,936	9,817
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	12	22	297	3,020
Less: Earned Revenue	-	-	20	-	188	225
Net Costs	-	-	(8)	22	109	2,795
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	156	286	2,227	97,743
Less: Earned Revenue	-	-	256	(2)	318	771
Net Costs	-	-	(100)	288	1,909	96,972
Total Gross Costs	4,023	3,144	486	886	12,019	131,544
Less: Total Earned Revenue	496	3,224	796	(7)	2,162	6,016
Net Cost of Operations	$ 3,527	$ (80)	$ (310)	$ 893	$ 9,857	$ 125,528

FY 2010	Intradepartmental Eliminations	Grand Total
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ (1,686)	$ 25,912
Less: Earned Revenue	(450)	5,301
Net Costs	(1,236)	20,611
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Gross Costs	(874)	11,804
Less: Earned Revenue	(255)	670
Net Costs	(619)	11,134
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	(86)	3,231
Less: Earned Revenue	(38)	375
Net Costs	(48)	2,856
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	(1,286)	98,684
Less: Earned Revenue	(242)	847
Net Costs	(1,044)	97,837
Total Gross Costs	(3,932)	139,631
Less: Total Earned Revenue	(985)	7,193
Net Cost of Operations	$ (2,947)	$ 132,438

NOTE 20. COST OF STEWARDSHIP PP&E

The acquisition cost of stewardship land in FY 2011 and FY 2010 was $678 million and $449 million, respectively.

NOTE 21. ADJUSTMENT TO BEGINNING BALANCE OF BUDGETARY RESOURCES DUE TO CHANGE IN ACCOUNTING PRINCIPLE

FCIC has permanent indefinite appropriations available to fund premium subsidy, delivery expenses, losses in excess of premiums and research and development costs. Beginning in FY 2010, FCIC returned to the U.S. Treasury all unobligated balances in its indefinite appropriation in excess of the amount FCIC is authorized by statue to retain which includes the capital stock, paid-in capital, and the contingency fund. Prior to this change, FCIC carried over its unobligated balances each year. As a result of this change, FCIC adjusted the unobligated balance brought forward on the Statement of Budgetary Resources and the unexpended appropriations beginning balance on the Statement of Changes in Net Position in FY 2010 for the amount that would have been returned had the change been made in FY 2009. This reduced beginning balances by $444 million.

NOTE 22. 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 23. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2011 and 2010 was $35,016 million and $39,385 million, respectively.

Note 24. Apportionment Categories of Obligations Incurred

FY 2011

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

FY 2010

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 35,605	$ 2,075	$ 37,680
Apportionment for Special Activities	126,313	23,609	149,922
Exempt from Apportionment	1,065	1	1,066
Total Obligations Incurred	$ 162,983	$ 25,685	$ 188,668

Note 25. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2011 and 2010 was $51,654 million and $54,799 million, respectively.

Note 26. 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 27. 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 28. Differences Between the Statement of Budgetary Resources and the Budget of the United States Government

The differences between the FY 2010 Statement of Budgetary Resources and the FY 2010 actual numbers presented in the FY 2012 Budget of the United States Government (Budget) are summarized below.

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

Adjustments were made prior to the Budget submission as follows:

CCC adjusted obligations for the Tobacco Transition Payment Program and Conservation Reserve Program; and reported additional activity from USAID, a child entity, subsequent to yearend close.

RD adjusted obligations for the Distance Learning Telemedicine Direct Loan Financing Account and Rural Electrification and Telephone Direct Loan Financing Account.

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.

A comparison between the FY 2011 Statement of Budgetary Resources and the FY 2011 actual numbers presented in the FY 2013 Budget cannot be performed as the FY 2013 Budget is not yet available. The FY 2013 Budget is expected to be published in February 2012 and will be available from the Government Printing Office.

FY 2010

	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 225,385	$ 188,668	$ 2,088	$ 137,722
Reconciling items:				
Expired accounts	(13,600)	(961)	-	-
CCC TTPP and CRP Adjustments	(2,053)	(2,055)	-	-
Timing differnce betw een CCC and USAID	111	111	-	-
RD Obligation Adjustments	(95)	(95)	-	-
Milk Market Orders Fund	56	56	-	-
Other	17	(17)	-	5
Budget of the United States Government	$ 209,821	$ 185,707	$ 2,088	$ 137,727

NOTE 29. 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 2011	FY 2010
Sources of Collections:		
Miscellaneous	$ 84	$ 80
Total Cash Collections	84	80
Accrual Adjustments	(2)	(4)
Total Custodial Revenue	82	76
Disposition of Collections:		
Transferred to Others:		
Treasury	(77)	(69)
(Increase)/Decrease in Amounts Yet to be Transferred	(5)	(7)
Net Custodial Activity	$ -	$ -

NOTE 30. FIDUCIARY ACTIVITIES

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

Schedule of Fiduciary Activity
For the Years Ended September 30, 2011 and 2010

	Rural Housing Insurance Fund 2011	Rural Housing Insurance Fund 2010
Fiduciary net assets, beginning of year	$ 100	$ 97
Fiduciary revenues	-	-
Contributions	480	474
Investment earnings	-	-
Gain (Loss) on disposition of investments, net	-	-
Administrative and other expenses	-	-
Disbursements to and on behalf of beneficiaries	(473)	(471)
Increases/(Decrease) in fiduciary net assets	7	3
Fiduciary net assets, end of year	$ 107	$ 100

Fiduciary Net Assets
As of September 30, 2011 and 2010

	Rural Housing Insurance Fund 2011	Rural Housing Insurance Fund 2010
Fiduciary Assets		
Cash and cash equivalents	$ 4	$ 2
Investments	103	98
Other assets	-	-
Fiduciary Liabilities		
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 107	$ 100

NOTE 31. RECONCILIATION OF BUDGETARY RESOURCES OBLIGATED TO NET COST OF OPERATIONS

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

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

	2011	2010
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 183,630	$ 188,668
Less: Spending authority from offsetting collections and recoveries	38,805	38,928
Obligations net of offsetting collections and recoveries	144,825	149,740
Less: Distributed Offsetting receipts	2,039	2,088
Net Obligations	142,786	147,652
Other Resources -		
Transfers in(out) without reimbursement	145	160
Imputed financing from costs absorbed by others	1,724	1,090
Other	(1,134)	(1,423)
Net other resources used to finance activities	735	(173)
Total resources used to finance activities	143,521	147,479
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	2,958	(10,505)
Resources that fund expenses recognized in prior periods	(3,495)	(5,638)
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	15,047	15,770
Change in Unfilled Customer Orders	1,771	656
Decrease in exchange revenue receivable from public	6,229	7,054
Other	806	493
Resources that finance the acquisition of assets	(22,924)	(25,033)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(2,488)	2,055
Total resources used to finance items not part of the net cost of operations	(2,096)	(15,148)
Total resources used to finance the net cost of operations	141,425	132,331
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	7	21
Increase in environmental and disposal liability	1	-
Upward/Downward reestimates of credit subsidy expense	1,624	1,502
Increase in exchange revenue receivable from the public	-	-
Other	4,767	(1,154)
Total components of Net Cost of Operations that will require or generate resources in future periods	6,399	369
Components not Requiring or Generating Resources -		
Depreciation and amortization	230	262
Revaluation of assets or liabilities	39	27
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(79)	(531)
Cost of Goods Sold	488	835
Other	345	(855)
Total components of Net Cost of Operations that will not require or generate resources	1,023	(262)
Total components of Net Cost of Operations that will not require or generate resources in the current period	7,422	107
Net Cost of Operations	$ 148,847	$ 132,438

NOTE 32. SUBSEQUENT EVENTS

On October 27, 2011, the District Court Judge gave final approval of the proposed class settlement In re Black Farmer Discrimination Lawsuit, Civil Action No. 08-0511 (D.D.C.), also known as Pigford II. All cases that were consolidated as part of the In re Black Farmers Discrimination Litigation were dismissed with prejudice. The claims period for the agreement begins on November 14, 2011 and ends on May 11, 2012.

Required Supplementary Stewardship Information

STEWARDSHIP INVESTMENTS (UNAUDITED)

	FY 2011 Expense	FY 2010 Expense	FY 2009 Expense	FY 2008 Expense	FY 2007 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	$ 40	$ 41	$ 55	$ 32	$ 20
Special Supplemental Nutrition Program	17	17	15	10	15
National Institute of Foods and Agriculture					
Extension 1890 Facilities Program	19	19	17	17	17
Total Non-Federal Property	$ 76	$ 77	$ 87	$ 59	$ 52
Human Capital:					
National Institute of Foods and Agriculture					
Higher Education and Extension Programs	$ 547	$ 559	$ 547	$ 521	$ 524
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	45	63	19	36	51
Agricultural Research Service					
National Agricultural Library	21	24	23	22	22
Risk Management Agency					
Risk Management Education	10	6	6	10	11
Total Human Capital	$ 623	$ 652	$ 595	$ 589	$ 608

Research and Development:	FY 2011 Expense	FY 2010 Expense	FY 2009 Expense	FY 2008 Expense	FY 2007 Expense
Basic Research:					
Agricultural Research Service					
Human Nutrition	$ 43	$ 45	$ 43	$ 42	$ 42
Collaborative Research Program	-	-	2	2	2
Product Quality/Value Added	52	56	54	51	52
Livestock Production	41	44	43	42	42
Crop Production	116	119	102	99	99
Food Safety	53	53	53	51	51
Livestock Protection	40	45	42	40	41
Crop Protection	102	103	100	96	97
Environmental Stewardship	101	103	112	109	110
National Institute of Foods and Agriculture					
Land-grant University System	274	283	256	245	245
Forest Service	75	94	87	82	60
Economic Research Service					
Economic and Social Science	8	8	8	8	7
National Agricultural Statistics Service					
Statistical	3	3	3	3	3
Total Basic Research	$ 908	$ 956	$ 905	$ 870	$ 851
Applied Research:					
Agricultural Research Service					
Human Nutrition	$ 34	$ 35	$ 34	$ 35	$ 35
Collaborative Research Program	-	-	1	2	1
Product Quality/Value Added	42	44	43	43	43
Livestock Production	33	35	34	35	35
Crop Production	93	96	82	82	83
Food Safety	43	43	42	43	43
Livestock Protection	32	36	33	34	34
Crop Protection	81	82	81	80	81
Environmental Stewardship	80	83	90	92	92
National Institute of Foods and Agriculture					
Land-grant University System	467	461	435	418	416
Forest Service	200	227	220	207	154
Economic Research Service					
Economic and Social Science	74	74	71	69	68
National Agricultural Statistics Service					
Statistical	4	4	5	5	3
Total Applied Research	$ 1,183	$ 1,220	$ 1,171	$ 1,145	$ 1,088
Development:					
Agricultural Research Service					
Human Nutrition	$ 9	$ 9	$ 8	$ 8	$ 9
Product Quality/Value Added	11	11	11	11	11
Livestock Production	8	9	9	8	8
Crop Production	23	24	20	20	20
Food Safety	11	11	11	10	11
Livestock Protection	7	9	8	8	8
Crop Protection	20	20	20	20	20
Environmental Stewardship	20	21	23	22	22
Forest Service	52	17	16	15	47
Total Development	$ 161	$ 131	$ 126	$ 122	$ 156
Total Research and Development	$ 2,252	$ 2,307	$ 2,202	$ 2,137	$ 2,095

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

National Institute of Food and Agriculture

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities.

Human Capital

National Institute of Food and Agriculture

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, a resident instruction grant program for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. NIFA also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. NIFA 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 SNAP. The E&T program requires recipients of SNAP benefits to participate in an employment and training program as a condition to SNAP eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 688,630 work registrants subject to the 3 - month SNAP participant limit and 1,417,671 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of over 50 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

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 NIFA, 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 2011 and 2010, 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 79,500 and 47,100 in fiscal years 2011 and 2010, respectively. Additionally, some training sessions helped those who work with producers, such as lenders, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by the FCIC were approximately $9.6 million and $6 million for fiscal year 2011 and fiscal year 2010, respectively. The following table summarizes the RME initiatives since fiscal year 2007:

(dollars in millions)		2011	2010	2009	2008	2007
RME Obligations	$	9.6	6	6	10	11
Number of producers attending RME sessions		79,500	47,100	20,000	49,000	49,000

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

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

Product Quality/Value Added – Many agricultural products are marketed as low value commodities and harvested commodities often suffer losses due to spoilage or damage during shipping, storage, and handling.

Healthy foods are often not convenient and/or are not widely accepted by many consumers. Biobased product represent small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products.

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

National Agricultural Library – The Library, the world's largest library serving agriculture, delivered more than 97.5 million direct customer service transactions in FY 2011, a .9 percent increase from the FY 2010 level.

Buildings and Facilities – ARS has over 100 laboratories, primarily located throughout the United States. ARS' facilities programs are designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.

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

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

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

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

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

Livestock Production—ARS' livestock production program is directed toward: 1) safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatics tools; 2) developing a basic understanding of the physiology of livestock and poultry; and 3) developing information, tools, and technologies that can be used to improve animal production systems. The research is heavily focused on the development and application of genomics technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

National Institute of Food and Agriculture

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

Forest Service

Forest Service R&D has an integrated portfolio that supports achievement of the agency's strategic goals with an emphasis in seven strategic program areas:

Wildland Fire and Fuels—R&D provides managers the knowledge and tools to reduce the negative impacts of fire and enhance the beneficial effects of fire, as a natural process, and the human process of fire and fuels management on society and the environment.

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

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

Research focuses on plants, animals, fish, insects, diseases, invertebrates, and other species not native to an ecosystem whose introduction is likely to cause economic or environmental harm.

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

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

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

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

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

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

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

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

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

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

A representative summary of FY 2011 accomplishments include the following:

- 32 new interagency agreements and contracts
- 12 interagency agreements and contracts continued
- 3,083 articles published in journals
- 1,178 articles published in all other publications
- 3 patents granted
- 2 patent licenses executed

Economic Research Service

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

National Agricultural Statistics Service

Statistical research 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. Two additional high priority items are significance editing, or cleaning of the respondent data; and research on quality operations for the new National Operations Center. The significance editing has potential to enhance the quality of survey data and reduce manual operations in preparing the survey responses for summary. While the research on quality process increases data quality through the processes of the National Operations Center. In addition, products for data users are being improved using technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

Required Supplementary Information

Deferred Maintenance (Unaudited)

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.

Forest Service

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

FY 2010	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 172	$ 34	$ 138
Buildings	1,038	125	913
Dam	24	6	18
Minor Constructed Features	115	-	115
Fence	297	297	-
Handling Facility	22	22	-
Heritage	26	8	18
Road	3,108	311	2,797
Trail Bridge	11	4	7
Wastewater	37	23	14
Water	117	66	51
Wildlife, Fish, TES	7	5	2
Trails	296	7	289
General Forest Area	-	-	-
Total Forest Service	$ 5,270	$ 908	$ 4,362

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

The Forest Service uses condition surveys to estimate deferred maintenance on all major classes of its PP&E. Over the past decade, the Forest Service has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No deferred maintenance exists for fleet vehicles as they are managed through the agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

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

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

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

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

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

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

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 35 percent needing major repairs or renovations; approximately 14 percent in fair condition; and 51 percent of the facilities in good condition.

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

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

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

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

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

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

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

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

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

Stewardship Land

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

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

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

The FY 2011 accomplishments on NFS and State and Private Forestry lands include treatment of 254,883 acres for invasives and 28,581 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available in February 2012 at www.fs.fed.us.

Agricultural Research Service

	FY 2011	FY 2010
Asset Class		
Buildings	$ 261	$ 251
Structures	21	21
Heritage	95	94
Total Agricultural Research Service	$ 377	$ 366

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

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

Whitestone Research is a company that estimates DM based on the age of the facility, geographic location, typical major components and size of the structure. Whitestone first inspected a sample of 1207 buildings from 39 ARS sites (roughly 53 percent of the total inventory) and used parametric models to estimate DM and PRV. The results were generalized to the entire population of ARS facilities. Assuming a PRV of $4 billion, the CI ratio (1 - $DM/PRV) is 92 percent, an outcome commonly classified as "adequate."

STATEMENT OF BUDGETARY RESOURCES (UNAUDITED)

FY 2011	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:										
Unobligated balance, brought forward, October 1 (Note 21)	$ 1,427	$ 3,245	$ 2,287	$ 1,110	$ 584	$ 563	$ 14,579	$ 50	$ 115	$ 288
Recoveries of prior year unpaid obligations	516	91	828	38	40	6	1,237	12	36	285
Budget Authority:										
Appropriation	4,530	-	17,733	-	387	7,072	99,116	1,021	6,969	1,413
Borrowing Authority	400	2,465	30,969	743	-	-	-	-	-	-
Earned -										
Collected	554	1,862	11,323	569	192	3,148	136	155	74	157
Change in receivables from Federal Sources	99	-	(193)	(1)	10	-	-	(7)	3	(6)
Change in unfilled customer orders -										
Advances received	-	-	(42)	-	1	-	2	-	-	2
Without advance from Federal Sources	11	3	-	-	55	-	-	(9)	-	58
Previously unavailable	-	-	-	-	-	-	-	-	13	-
Expenditure transfers from trust funds	-	-	932	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(3,589)	-	37	-	5,410	-	(5,410)	(253)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	(125)	-	(261)	-
Permanently not available	(857)	(4,056)	(35,147)	(969)	(94)	(375)	(5,705)	(2)	(4)	(17)
Total Budgetary Resources	6,680	3,610	25,101	1,490	1,212	10,414	114,650	1,220	1,535	1,927
Status of Budgetary Resources:										
Obligations Incurred:										
Direct	3,482	2,557	2,987	834	631	9,849	103,867	1,026	1,346	1,433
Reimbursable	418	-	20,244	-	126	-	57	177	63	170
Unobligated Balance:										
Apportioned	644	274	526	537	118	562	4,179	7	114	304
Exempt from Apportionment	600	-	1,136	9	-	-	-	-	-	-
Unobligated balance not available	1,536	779	208	110	337	3	6,547	10	12	20
Total Status of Budgetary Resources	6,680	3,610	25,101	1,490	1,212	10,414	114,650	1,220	1,535	1,927
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	1,031	522	9,648	80	(89)	230	6,272	150	179	415
Obligations incurred	3,900	2,557	23,231	834	757	9,849	103,924	1,203	1,409	1,603
Gross outlays	(3,778)	(2,570)	(22,373)	(823)	(663)	(9,613)	(102,299)	(1,199)	(1,333)	(1,334)
Recoveries of prior year unpaid obligations, actual	(516)	(91)	(828)	(38)	(40)	(6)	(1,237)	(12)	(36)	(285)
Change in uncollected payments from Federal Sources	(110)	(3)	193	1	(65)	-	-	16	(3)	(52)
Obligated balance, net, end of period -										
Unpaid obligations	652	438	9,925	210	235	460	6,661	185	222	422
Uncollected customer payments from Federal Sources	(125)	(22)	(53)	(158)	(336)	-	-	(28)	(5)	(75)
Obligated balance, net, end of period	527	416	9,872	52	(101)	460	6,661	157	217	347
Net Outlays:										
Gross outlays	3,778	2,570	22,373	823	663	9,613	102,299	1,199	1,333	1,334
Offsetting collections	(554)	(1,862)	(12,213)	(569)	(192)	(3,148)	(138)	(155)	(74)	(159)
Distributed offsetting receipts	(456)	-	-	(225)	-	-	-	(11)	(156)	(9)
Net Outlays	$ 2,768	$ 708	$ 10,160	$ 29	$ 471	$ 6,465	$ 102,161	$ 1,033	$ 1,103	$ 1,166

FY 2011	GIPSA	FS	NRCS	ARS	NIFA	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 (Note 21)	$ 17	$ 2,361	$ 1,689	$ 322	$ 275	$ 5	$ 29	$ 3,630	$ 3,942	$ 199	$ 28,420	$ 8,297
Recoveries of prior year unpaid obligations	7	94	390	20	112	2	6	391	835	54	4,036	964
Budget Authority:												
Appropriation	39	5,823	914	1,166	1,242	82	157	3,799	2	544	152,007	2
Borrowing Authority	-	-	-	-	-	-	-	-	9,420	-	31,369	12,628
Earned -												
Collected	51	496	160	102	42	-	44	3,818	8,884	952	21,404	11,315
Change in receivables from Federal Sources	(1)	137	18	8	(3)	-	(19)	1	-	(38)	9	(1)
Change in unfilled customer orders -												
Advances received	-	50	(1)	1	1	-	(3)	-	-	(11)	-	-
Without advance from Federal Sources	-	38	(3)	5	60	1	(5)	-	(138)	70	281	(135)
Previously unavailable	-	-	-	-	-	-	-	-	-	-	13	-
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	932	-
Nonexpenditure transfers, net, anticipated and actual	-	(2)	3,128	-	126	-	-	158	-	21	(374)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(11)	-	-	-	-	-	(397)	-
Permanently not available	-	(411)	(31)	(238)	(5)	(1)	-	(2,571)	(5,762)	(53)	(45,511)	(10,787)
Total Budgetary Resources	113	8,586	6,264	1,386	1,839	89	209	9,226	17,183	1,738	192,189	22,283
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	47	6,065	4,190	1,201	1,445	83	170	4,652	13,288	576	143,050	16,679
Reimbursable	46	614	201	128	117	2	34	542	-	962	23,901	-
Unobligated Balance:												
Apportioned	18	1,194	276	41	276	1	-	1,506	3,785	169	9,935	4,596
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	1,736	9
Unobligated balance not available	2	713	1,597	16	1	3	5	2,526	110	31	13,567	999
Total Status of Budgetary Resources	113	8,586	6,264	1,386	1,839	89	209	9,226	17,183	1,738	192,189	22,283
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	4	2,762	4,098	432	1,903	41	3	8,635	28,509	96	35,810	29,111
Obligations incurred	93	6,679	4,391	1,329	1,562	85	204	5,194	13,288	1,538	166,951	16,679
Gross outlays	(87)	(6,885)	(3,989)	(1,388)	(1,279)	(88)	(187)	(5,787)	(13,984)	(1,536)	(163,818)	(17,377)
Recoveries of prior year unpaid obligations, actual	(7)	(94)	(390)	(20)	(112)	(2)	(6)	(391)	(835)	(54)	(4,036)	(964)
Change in uncollected payments from Federal Sources	1	(175)	(15)	(13)	(57)	(1)	24	(1)	138	(32)	(290)	136
Obligated balance, net, end of period -												
Unpaid obligations	10	2,771	4,254	494	2,136	40	44	7,664	27,884	462	36,637	28,532
Uncollected customer payments from Federal Sources	(5)	(485)	(159)	(154)	(118)	(6)	(7)	(15)	(767)	(448)	(2,019)	(947)
Obligated balance, net, end of period	5	2,286	4,095	340	2,018	34	37	7,649	27,117	14	34,618	27,585
Net Outlays:												
Gross outlays	87	6,885	3,989	1,388	1,279	88	187	5,787	13,984	1,536	163,818	17,377
Offsetting collections	(51)	(545)	(159)	(103)	(43)	-	(41)	(3,818)	(8,884)	(943)	(22,336)	(11,315)
Distributed offsetting receipts	-	(467)	(3)	(31)	(5)	-	-	(672)	-	(4)	(1,814)	(225)
Net Outlays	$ 36	$ 5,873	$ 3,827	$ 1,254	$ 1,231	$ 88	$ 146	$ 1,297	$ 5,100	$ 589	$ 139,668	$ 5,837

FY 2010	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 (Note 21)	$ 2,692	$ 1,726	$ 2,020	$ 971	$ 368	$ 557	$ 15,471	$ 32	$ 497	$ 299
Recoveries of prior year unpaid obligations	71	97	1,332	34	24	3	990	132	18	128
Budget Authority:										
Appropriation	4,274	-	18,014	-	391	6,979	87,130	1,028	8,316	1,443
Borrowing Authority	-	3,034	39,063	1,199	-	-	-	-	-	-
Earned -										
Collected	660	2,389	11,294	500	48	2,449	129	141	57	143
Change in receivables from Federal Sources	(1)	-	14	1	21	-	-	19	-	(4)
Change in unfilled customer orders -										
Advances received	-	-	382	-	1	-	-	-	-	-
Without advance from Federal Sources	4	(16)	-	(19)	135	-	-	9	-	-
Expenditure transfers from trust funds	-	-	937	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(3,618)	-	143	1	7,039	-	(7,068)	(200)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	(122)	-
Permanently not available	(469)	(1,309)	(41,586)	(348)	(82)	(2,353)	(313)	(2)	(134)	(2)
Total Budgetary Resources	7,231	5,921	27,852	2,338	1,049	7,636	110,446	1,359	1,564	1,807
Status of Budgetary Resources:										
Obligations Incurred:										
Direct	5,383	2,676	3,127	1,228	345	7,073	95,816	1,168	1,396	1,379
Reimbursable	421	-	22,438	-	120	-	51	141	53	140
Unobligated Balance:										
Apportioned	460	822	305	861	176	559	3,774	46	100	268
Exempt from Apportionment	204	-	1,188	5	-	-	-	-	-	-
Unobligated balance not available	763	2,423	794	244	408	4	10,805	4	15	20
Total Status of Budgetary Resources	7,231	5,921	27,852	2,338	1,049	7,636	110,446	1,359	1,564	1,807
Change in Obligated Balances:										
Obligated balance, net, brought forward October 1	594	479	9,308	(18)	71	392	5,347	169	168	360
Obligations incurred	5,804	2,676	25,565	1,228	465	7,073	95,867	1,309	1,449	1,519
Gross outlays	(5,294)	(2,552)	(23,881)	(1,115)	(446)	(7,233)	(93,951)	(1,169)	(1,420)	(1,341)
Recoveries of prior year unpaid obligations, actual	(71)	(97)	(1,332)	(34)	(24)	(3)	(990)	(132)	(18)	(128)
Change in uncollected payments from Federal Sources	(3)	15	(14)	19	(156)	-	-	(28)	-	4
Obligated balance, net, end of period -										
Unpaid obligations	1,046	541	9,895	238	182	230	6,272	194	181	438
Uncollected customer payments from Federal Sources	(15)	(19)	(247)	(158)	(271)	-	-	(44)	(2)	(23)
Obligated balance, net, end of period	1,031	522	9,648	80	(89)	230	6,272	150	179	415
Net Outlays:										
Gross outlays	5,294	2,552	23,881	1,115	446	7,233	93,951	1,169	1,420	1,341
Offsetting collections	(660)	(2,389)	(12,613)	(501)	(49)	(2,449)	(129)	(141)	(57)	(143)
Distributed offsetting receipts	(213)	-	-	(576)	-	-	-	(10)	(154)	(19)
Net Outlays	$ 4,421	$ 163	$ 11,268	$ 38	$ 397	$ 4,784	$ 93,822	$ 1,018	$ 1,209	$ 1,179

FY 2010	GIPSA	FS	NRCS	ARS	NIFA	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 (Note 21)	$ 13	$ 2,747	$ 1,768	$ 423	$ 204	$ 6	$ 7	$ 5,910	$ 1,992	$ 106	$ 33,120	$ 4,689
Recoveries of prior year unpaid obligations	5	40	384	20	318	-	1	233	975	22	3,721	1,106
Budget Authority:												
Appropriation	42	6,094	1,010	1,264	1,386	83	162	6,453	-	632	144,701	-
Borrowing Authority	-	-	-	-	-	-	-	-	17,619	-	39,063	21,852
Earned -												
Collected	49	495	113	75	15	1	18	4,886	8,099	712	21,285	10,988
Change in receivables from Federal Sources	1	(50)	1	(22)	7	-	19	4	-	180	189	1
Change in unfilled customer orders -												
Advances received	-	8	(3)	2	23	-	3	-	-	10	426	-
Without advance from Federal Sources	-	8	46	74	(32)	4	8	(2)	1	55	309	(34)
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	937	-
Nonexpenditure transfers, net, anticipated and actual	-	(1)	2,940	2	123	-	-	356	-	30	(253)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(12)	-	-	-	-	-	(134)	-
Permanently not available	(1)	-	-	(2)	(5)	(1)	-	(5,381)	(4,589)	(4)	(50,335)	(6,246)
Total Budgetary Resources	109	9,341	6,259	1,836	2,027	93	218	12,459	24,097	1,743	193,029	32,356
Status of Budgetary Resources:												
Obligations Incurred:												
Direct	46	6,571	4,414	1,394	1,754	83	161	8,209	20,155	605	138,924	24,059
Reimbursable	46	409	156	120	(2)	5	28	620	-	939	25,685	-
Unobligated Balance:												
Apportioned	16	1,362	403	289	232	1	20	2,225	2,550	113	10,349	4,233
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	1,392	5
Unobligated balance not available	1	999	1,286	33	43	4	9	1,405	1,392	86	16,679	4,059
Total Status of Budgetary Resources	109	9,341	6,259	1,836	2,027	93	218	12,459	24,097	1,743	193,029	32,356
Change in Obligated Balances:												
Obligated balance, net, brought forward October 1	6	2,290	3,225	342	1,630	26	22	5,516	22,837	138	29,604	23,298
Obligations incurred	92	6,980	4,570	1,514	1,752	88	189	8,829	20,155	1,544	164,609	24,059
Gross outlays	(87)	(6,509)	(3,265)	(1,353)	(1,185)	(69)	(180)	(5,474)	(13,507)	(1,328)	(154,185)	(17,174)
Recoveries of prior year unpaid obligations, actual	(5)	(40)	(384)	(20)	(318)	-	(1)	(233)	(975)	(22)	(3,721)	(1,106)
Change in uncollected payments from Federal Sources	(1)	42	(47)	(51)	25	(4)	(27)	(2)	(1)	(236)	(498)	33
Obligated balance, net, end of period -												
Unpaid obligations	10	3,072	4,242	574	1,965	46	33	8,649	29,414	511	37,540	30,193
Uncollected customer payments from Federal Sources	(6)	(310)	(144)	(142)	(62)	(5)	(30)	(14)	(905)	(415)	(1,730)	(1,082)
Obligated balance, net, end of period	4	2,762	4,098	432	1,903	41	3	8,635	28,509	96	35,810	29,111
Net Outlays:												
Gross outlays	87	6,509	3,265	1,353	1,185	69	180	5,474	13,507	1,328	154,185	17,174
Offsetting collections	(49)	(503)	(110)	(77)	(38)	(1)	(21)	(4,886)	(8,099)	(722)	(22,648)	(10,989)
Distributed offsetting receipts	-	(429)	1	(13)	(4)	-	-	(661)	-	(10)	(1,512)	(576)
Net Outlays	$ 38	$ 5,577	$ 3,156	$ 1,263	$ 1,143	$ 68	$ 159	$ (73)	$ 5,408	$ 596	$ 130,025	$ 5,609

RISK ASSUMED INFORMATION (UNAUDITED)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $8,757 million and $7,546 million as of September 30, 2011 and 2010, respectively.


Section 4

Other Accompanying Information


Appendix A — Response to Management Challenges

Improved interagency communication and internal control systems, improved food safety, and reduced Forest Service costs have been identified as some of the most serious and significant challenges faced by the Department. USDA's Office of Inspector General (OIG) issued a report that identified 9 management challenges for fiscal year (FY) 2011 – 1 less than the FY 2010 report. As a result of management's continued efforts to improve agency services, 2 challenges, *Departmental Efforts and Initiatives in Homeland Security Need to be Maintained* and *Implementation of Renewable Energy Programs at USDA,* from OIG's 2010 report were removed this year. One new challenge, *Efforts to Identify, Report, and Reduce Improper Payments Need to be Strengthened,* has been added. For each challenge, the OIG has referenced audit report findings and recommendations. OIG audit report numbers and titles are listed.

The following table includes FY 2011 accomplishments, FY 2012 planned actions, and ongoing activities to address the Department's management challenges.

USDA's Management Challenges

Challenge 1: Interagency Communications, Coordination, and Program Integration Need Improvement.

- FSA, Hurricane Indemnity Program – Integrity of Data Provided by RMA - OIG Audit Report No. 50601-15-AT, "Emergency Disaster Assistance for 2008 Floods: Emergency Conservation Program";
- FSIS, "National Residue Program for Cattle: – OIG Audit Report No. 24601-8-KC";
- NRCS, "Conservation Security Program" – OIG Audit Report No. 10601-4-KC;
- RMA. "Implementation of the Agricultural Risk Protection Act of 2000" - OIG Audit Report No. 50099-12-KC; and
- RMA, "Pasture, Rangeland, and Forage Pilot Program" - OIG Audit Report No. 50601-18-TE.
- Farm Programs (RMA, NRCS, FSA); and Food Safety (FSIS)

Fiscal Year 2011 Accomplishments

- FSA and RMA have continued to coordinate efforts as follows:
  - Implemented the Comprehensive Information Management System (CIMS) – a single, shared, centralized repository of FSA and RMA data utilized by authorized agencies and private industry partners to reconcile differences between FSA and RMA producer data;
  - Implemented a Memorandum of Understanding (MOU) establishing the terms and conditions for RMA to provide data to FSA for administration of the Supplemental Revenue Assistance Payments (SURE) program;
  - Proposed consolidated acreage reporting deadlines to FSA State offices and RMA field offices for review;
  - Made changes to procedures and contract language related to communicating with other agencies identifying areas of program overlap and assessing the risks thereof;
  - Continued to reconcile crop insurance data with program data for Crop Disaster and/or SURE programs. All relevant data are now available in CIMS for reconciliation by RMA, FSA, and/or approved insurance providers as required for program operations;
  - Implemented several procedural changes that allow acceptance of RMA data as evidence for approvals if substantiated by the discovery reports in CIMS;
  - Completed CIMS enhancements: added regional compliance office spot check listing report, removed duplicate producer information reports, and enhanced the CIMS geospatial reports (providing the ability to generate more reports on FSA/RMA differences in Prevented Planting);
  - As of August 2011, FSA has collected approximately 90 percent of the Hurricane Indemnity Program overpayments identified by the OIG audit entitled, "Hurricane Indemnity Program - Integrity of Data Provided by the Risk Management Agency"; and
  - Developed an Acreage/Crop Reporting Streamlining Initiative (ACRSI) with participation by FSA, RMA, NASS, and NRCS. This will simplify reporting processes, acreage reporting dates, and data definitions, and allow producers to report common information to USDA one time, eliminating the need for data reconciliation across USDA.

NRCS:

- Collaborated with FSA and RMA on a process to check potential Pasture, Rangeland, Forage (PRF) Pilot Program policyholders' participation in NRCS easement stewardship land programs. NRCS provided easement geospatial shape files to RMA for assessment. Producers who do not have a reserved grazing right as part of a stewardship lands program may be ineligible to participate in RMA's PRF program.

FSIS:

- Revised MOU to establish policies and procedures for handling hazardous substances with no tolerances, and a formal plan to facilitate the exchange of residue testing data between FSIS, the Environmental Protection Agency (EPA), and the Food and Drug Administration (FDA);
- Ranked high-risk chemicals;
- Worked with FDA and EPA to develop a Standard Operating Procedure (SOP) for managing the national residue program including timelines for structured, periodic review of the national residue program design. FSIS also developed a SOP outlining the process for designing and reviewing the annual program;
- Proposed a process to FDA for approving performance-based multi-residue methods, and a system to compare these new methods with FDA's previously approved methods;
- Issued guidance on carcasses containing hazardous substances for which there are no formal tolerances;
- Reviewed National Animal Health Monitoring System's (NAHMS) reports detailing the most current drug usage data and compared them to the most recent list of compounds tested under the national residue program. The final report from the 2010 Surveillance Advisory Team contains the rationale behind decisions to include or exclude a number of compounds indicated by NAHMS reports but not previously tested under the national residue program. The report identifies NAHMS as a new source of data for the prioritization of veterinary drugs in the national residue program; and
- Established a process for reviewing the expanded reports to enforce food safety standards, and reduce the likelihood of same-source residue violations.

Planned Actions for Fiscal Year 2012

FSA:

- Continue to work with its partner agencies and the Office of the Under Secretary to enhance interagency communication, coordination, and program integration, and implement inter-agency efforts.

RMA:

- Make modifications to maintain and enhance CIMS;
- Establish common business definitions;
- Implement common acreage reporting dates;
- Design business processes to share and use common information;
- Implement pilot Web services (ACRSI) to allow producers to directly report common acreage information; and
- Implement discovery report process to identify differences in common producer, commodity, and location information.

NRCS:

- Continue collaboration with FSA and RMA to share easement stewardship land programs geographic information system data that can be used to readily assess the location of easements for policyholders interested in the PRF program.

FSIS:

- Issue a compliance guide creating a set of incentives and disincentives to encourage establishments to only buy from a source that can and will identify the producer;
- Review policy determination that no product that has been tested for an adulterant will receive the mark of inspection until the test results return, and the product has tested negative for the adulterant;
- Continue efforts to modernize the national residue program testing process, including implementing an electronic sampling management and laboratory capacity/reservation functions within the Public Health Information System. FSIS will also train and certify laboratory analysts on up-to-date testing methods; and
- Examine a proposal for an Information Technology (IT) investment that will electronically track detached animal parts using scanning technology.

Challenge 2: *Strong, Integrated Internal Control Systems Still Needed*.

- FSA, "Recommendations for Improving Basic CHST Program Administration, Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program" - OIG Audit Report No. 03601-28-KC (1);
- FSA, "Recommendations for Preventing or Detecting Schemes or Devices, Biomass Crop Assistance Program Controls over Collection, Harvest, Storage, and Transportation Matching Payments Program" - OIG Audit report No. 03601-28-KC (2);
- NRCS, "Wetlands Reserve Program Wetlands Restoration and Compliance";
- NRCS, "Rehabilitation of Flood Control Dams" ;
- NRCS, "Conservation Security Program" – OIG Audit Report No. 10601-4-KC;
- RMA, "2005 Emergency Hurricane Relief Efforts" - OIG Audit Report No. 05099-28-AT; and
- RMA, "Compliance Activities" - OIG Audit Report No. 05601-11-AT.

Fiscal Year 2011 Accomplishments

RMA:

- Incorporated its oversight and compliance activities into the *Risk Management Agency Strategic Plan for Fiscal Years 2010 – 2015*, Strategic Goal Number 4, "Safeguard the Integrity of the Federal Crop Insurance Program."

FSA:

- Implemented all current OIG recommendations regarding the Biomass Crop Assistance Program (BCAP), which included:

  a) Release of the 1-BCAP Handbook with a second amendment in May 2011;

  b) Development of the forms BCAP-10 and BCAP-11, to monitor the tracts and fields where harvest and collection occurs, and conservation, forest stewardship, or equivalent plans are required via technical service agreements with NRCS, and developing an agreement with FS and State foresters for technical assistance for basic forest stewardship plans and woody products; and

  c) Design of a Web-based system to automate forms, and replace System 36 or Conservation, Reporting, and Evaluation System.

NRCS:

- Worked with States to have Memoranda of Understanding with every State dam safety agency, as needed;
- Completed funding of 653 high-hazard dam assessments and completed 426 assessment reports;
- Conducted annual oversight and evaluations reviews in the stewardship program; and
- Improved internal control and the quality assurance process by implementing an additional 10 percent annual review of all Conservation Security Program and Conservation Stewardship Program contracts.

Planned Actions for Fiscal Year 2012

- RMA will issue an agency strategic plan; and
- NRCS will complete high hazard dam assessment reports.

Challenge 3: *Information Technology (IT) Security Needs Continuing Improvement.* (Office of the Chief Information Officer (OCIO) and agency-level IT managers)

- "FY 2010 Federal Information Security Management Act" - OIG Audit Report No. 50501-2-IT;
- "FY 2009 Federal Information Security Management Act" - OIG Audit Report No. 50501-15-FM; and
- "FY 2008 Federal Information Security Management Act" - OIG Audit Report No. 50501-13-FM.

Fiscal Year 2011 Accomplishments

- Continued implementation of Homeland Security Presidential Directive 12 (HSPD-12) Identity, Credential, and Access Management (ICAM) initiatives to provide improved base infrastructure for logical and physical access controls to USDA IT systems and facilities;
- Completed majority of the ICAM functional requirements;
- Continued implementation of its Security Operations Center initiatives to increase real-time operational security monitoring of USDA networks;
- Deployed 11 remote network monitoring sites throughout the United States;
- Implemented Endpoint Security (Whole Disk Encryption) to more than 99 percent of its end-user systems and servers;
- Monitored agency-wide Federal Desktop Configuration compliance and software patch installation;
- Institutionalized the risk management framework, which provides increased real-time security controls assessment and continuous monitoring; and
- Ensured key IT security controls are tested annually for all systems.

Planned Actions for Fiscal Year 2012

- Expand implementation of HSPD-12 software to include federated identities and privilege account management;
- Continue development of IT Security Architecture which incorporates automated tools for networking monitoring and situational awareness;
- Implement monitoring/continuous assessment initiatives in accordance with National Institute of Standards and Technology (NIST) security requirements;
- Continue outreach and education programs to ensure USDA's chief information officers are fully informed of and actively participate in OCIO IT security initiatives;
- Continue to improve the security governance process by further implementation of the risk management framework as outlined in NIST security requirements;
- Continue the improvement of the security of USDA IT systems by leveraging real-time monitoring and safeguarding tools;
- Continue monitoring investigating, reporting of compliance, and remediation of non-compliance to Department policies, guidance, processes, and procedures; and
- Improve agency oversight and compliance with USDA and the NIST security requirements, and reduce the security risks associated with USDA IT systems.

Challenge 4: *Material Weaknesses in Civil Rights Should be Mitigated*. (Office of the Assistant Secretary for Civil Rights)

- "Review of the U.S. Department of Agriculture's Accountability for Actions Taken on Civil Rights Complaints" - OIG Audit Report No. 60601-4-HY;
- "Management of Employment Complaints" - OIG Audit Report No. 60801-3-HQ;
- "Status of the Implementation of Recommendations made in Prior Evaluations of Program Complaints" - OIG Audit Report No. 60801-4-HQ; and
- Secretary of Agriculture April 2009 Memorandum.

Fiscal Year 2011 Accomplishments

Develop a detailed, formal plan to process employment complaints in collaboration with agencies and establish the necessary monitoring framework to intervene when complaint processing exceeds timeframes.

- In collaboration with the Office of the Chief Information Officer (OCIO) and agency civil rights staff, Office of the Assistant Secretary for Civil Rights (OASCR) utilized new methodologies, such as Lean Six Sigma (LSS) to improve the program and employment discrimination complaint process as part of the USDA Process Improvement Transformation Initiative;
- Established Department-wide Alternative Dispute Resolution (ADR) training for headquarters and field staff. Using this process, the office is ensuring that Equal Employment Opportunity (EEO) and program complaints are resolved equitably and at the earliest possible stage of the conflict. Early results indicate ADR efforts have increased in the area of EEO disputes. OASCR has presented these activities electronically to live audiences, which focus on communication, conflict management, and generational differences in the workplace;
- Performed a document-by-document sweep of employment complaint case files to ensure all documentation are accounted for and reflects the status of each case;
- Reconciled agency and OASCR databases;
- Reconciled cases with those listed by the Equal Employment Opportunity Commission as pending appeal and hearings;
- Developed management controls to ensure that the review of Report of Investigation (ROI) and Final Agency Decision (FAD) are performed thoroughly and accurately. The processing time for the OASCR's employment complaint processing has decreased from 1,034 days for FY 2010 to 796 days for FY 2011;
- Developed ways to enhance working relationships with agencies to improve communication. OASCR has conducted the following improvements in its employment processing:
  - Standardized forms and data used in the intake, investigation, and adjudication process to ensure timely and efficient processing;
  - Heightened its tracking of cases to ensure timely processing in accordance with statutory deadlines;
  - Utilized Schedule A employees, employee details, and contractors to ensure adequate coverage and timely processing;
  - Increased its emphasis on the use of computerized systems including iComplaints and Westlaw to speed up the processing time;
  - Increased staff training at the intake and adjudication stages;
  - Increased cross-training to ensure adequate coverage in short staff situations; and
  - Utilized the LSS process to identify and reduce redundancies;
- Developed a detailed formal plan to process employment complaints timely and effectively; and
- Instituted controls to monitor the processing of complaints, and intervene when the timelines were not being met.

Strengthen its controls over entering and validating Civil Rights Enterprise System's data.

- OASCR's Office of Data and Records Management (ODRM), which serves as the independent second party verification of data accuracy:
  - Implemented a task group to validate and correct data populated in the system; and
  - Developed and placed in production a standardized suite of management reports to measure progress in reducing backlog of complaints, identify basis for complaints of discrimination, and monitor complaints' processing times.

Planned Actions for Fiscal Year 2012

- Develop a detailed, formal plan to process employment complaints in collaboration with agencies and establish the necessary monitoring framework to intervene when complaint processing exceeds timeframes.
  - Strengthen Service – At the direction of the Secretary, the Assistant Secretary for Civil Rights (ASCR) and key agency officials are developing a comprehensive strategic plan to look at reducing redundancies and increasing efficiencies throughout the entire civil rights process, including EEO;
  - Contractor Report – USDA awarded a contract to conduct an independent assessment of the USDA Delivery of Technical and Financial Assistance to all Americans ("Civil Rights Assessment"). The contractor made several recommendations for OASCR to consider. OASCR is currently reviewing these recommendations for implementation in FY 2012;
  - LSS – OASCR will conduct full implementation of LSS system for employment in FY 2012; and
  - Early Dispute Resolution – The OASCR will continue the use of ADR in EEO and program conflicts.
- Strengthen controls over entering and validating Civil Rights Enterprise System's data.
  - OASCR's ODRM is currently researching a long-term management plan to procure an independent contractor to review data and assure, validate, and/or correct data to be entered into the civil rights system.

Challenge 5: Integrated Strategy Is Necessary to Increase Agricultural Commerce and Trade. (FAS, REE and APHIS)

Fiscal Year 2011 Accomplishments

APHIS:

- "Controls over Issuance of Genetically Engineered Organism Release Permits" - OIG Audit Report No. 50601-08-TE
- Revised regulations to require all permit and notification holders to submit planting notices, 4-week/28-day reports, and harvest/termination reports for all field test sites;
- Required permit and notification holders to submit global positioning system coordinates of field test sites on all reports submitted after planting; and
- Completed work on the management information system to update its capability of recording necessary information related to the field test sites, including the specific location of each field site and the dates of any significant events.

FAS:

- "Implementation of the Trade Title of the 2002 Farm Bill and President's Management Agenda" - OIG Audit Report No. 50601-12-AT
  - Completed a coordinated and consolidated global market strategy.

ARS:

- "Controls Over Genetically Engineered Animal and Insect Research" - OIG Audit Report No. 50601-16-TE
- Updated ARS Manual 230, Section 22 to include:
  - New language and guidance that requires workplace safety and health hazards to be addressed timely;
  - Development and implementation of a hazard abatement plan if a condition or situation cannot be addressed within 30 days; and
  - An "accountability statement" was placed within the Deputy Area Director for Business Management's performance standards that holds the incumbent responsible for tracking and following recommendations to abate any hazards identified during the inspection process.

Planned Actions for Fiscal Year 2012.

APHIS:

- "Controls over Genetically Engineered (GE) Animal and Insect Research" - OIG Audit Report No. 50601-16-TE
  - Develop an action plan with timetables and performance measures to ensure that the regulatory framework meets the agency's strategic goals related to GE products;
  - Develop a regulatory framework that will clearly define regulatory requirements and parallels the statutory requirement;
  - Develop written management controls for a work plan approval, and ensure that the review process is transparent and accountability is held for funded projects;
  - Develop comprehensive security plans for its laboratories that follow the guidance set forth by the Department; and
  - Update its laboratory risk assessments and perform reviews of its laboratories, at least every 5 years.
- "Controls over Issuance of Genetically Engineered Organism Release Permits" - OIG Audit Report No. 50601-08-TE
  - Revise and consolidate policies, procedures, and regulatory requirements for GE field releases;
  - Revise and clarify policies and regulations regarding the use of metal shipping containers; and
  - Update regulations to incorporate the provisions of the Plant Protection Act of 2000.

FAS :

- "Implementation of the Trade Title of the 2002 Farm Bill and President's Management Agenda" - OIG Audit Report No. 50601-12-AT
  - Continue to assist APHIS as necessary to address issues related to Genetically Modified Organisms.

Challenge 6: Management and Community Action Needed to Improve Forest Health and Reduce FireFighting Costs.

Fiscal Year 2011 Accomplishments

- FS' "Invasive Species Program" - OIG Audit Report No. 08601-7-AT
  - Assured National Forest Systems (NFS) invasive species program accomplishments were included within the agency's annual performance reporting process; and
  - Conducted an overall review of the agency's information systems for the invasive species program, and took steps to assure the systems are adequate to report data.
- FS' "Contracted Labor Crews" - OIG Audit Report No. 08001-2-AT
  - Hired a contractor to conduct an in-depth analysis to determine how the agency should proceed with determining future firefighting crew needs and costs;
  - The National Wildlife Coordinating Group (NWCG) established a new evaluation form to reflect clear and objective standards, for evaluating the effectiveness of firefighting crews;
  - Implemented a plan for tracking the results of these performance evaluations;
  - Eliminated duplicate inspections of dispatched contract crews at an incident; and
  - Incorporated the use an electronic employment eligibility verification system as required by Executive Order.
  - Issued a letter directing the regional foresters to use the incident commander effectiveness rating form for incident commander and line officer performance evaluations.
- "Large Fire Suppression Costs" – OIG Audit Report No. 08601-44-SF

- "Replacement Plan for Firefighting Aerial Resources" – OIG Audit Report No. 08601-53-SF
  – To strengthen the agencies aerial firefighting acquisition process, FS revamped the Working Capital Fund (WCF) program and developed the "Aerial Firefighting Aircraft Replacement Action Plan" to address the replacement of aerial firefighting aircraft;
  – Set specific goals and timeframes for completing the aviation planning and procurement processes;
  – Developed a "WCF Fleet Aircraft Replacement Plan," approved on April 18, 2011, that shows estimated timeframes and costs for replacing aircraft; and
  – Established a new process to develop WCF aircraft rates and periodically review the rates to assure the agency meet its long-term needs for replacing aircraft.
- "Firefighting Succession Planning" – OIG Audit Report No. 08601-54- SF
  – FS and Natural Resources and Environment (NRE) continued to work with the Office of Personnel Management (OPM) to assure fire management positions are classified appropriately, and direction on the use of the GS-401 job series was provided throughout the agency.

Planned Actions for Fiscal Year 2012

- FS' "Invasive Species Program" - OIG Audit Report No. 08601-7-AT
  – Develop new NFS invasive species management policy (FSM 2900) to include program-wide policy of providing early detection and rapid response (EDRR) within FS, and document all invasive species program's internal policies and procedures;
  – Develop an adequate, cohesive internal control environment for managing the invasive species program, and report accurately how much the agency is spending to combat invasive species;
  – Implement a monitoring plan to assess the invasive species program and related internal control;
  – Revise the National Strategy and Implementation Plan for Invasive Species management, and establish a control for revising the strategy once every 5 years;
  – Develop an inventory plan including responsibilities, time frames, and benchmarks for inventorying all invasive species, the risk the species poses, and the efficacy of available treatments;
  – Develop a standard for how many acres are affected by each of the agency's treatments and require the regions to follow these standards when reporting performance results; and
  – Develop and implement a formal review system to verify the accuracy of invasive species accomplishment data reported.
- "Firefighting Succession Planning" – OIG Audit Report No. 08601-54- SF
  – Develop a "Firefighter Workforce and Succession Planning Action Plan" to list each recommendation from the audit and the key steps and milestones for completing all the tasks under the audit, along with the program leads and estimated completion dates; and
  – Develop a "Fire and Aviation Management Workforce and Development Strategic Framework" document that includes a workforce goal for recruiting, developing, and retaining a highly skilled fire and aviation workforce and support force of FS employees in other disciplines.

Challenge 7: Food Safety Inspection Systems Improved Controls. (FSIS)

Fiscal Year 2011 Accomplishments

"Issues impacting the Development of Risk-Based Inspection at Meat and Poultry Processing Establishments" – OIG Audit Report No. 24601-07-Hy

- Implemented a plan for capturing the results of Food Safety Assessments (FSAs) in an appropriate configuration to facilitate effective analysis. In April 2011, FSIS implemented the domestic module of the Public Health Information System (PHIS). The PHIS domestic module was designed to include a unique tracking number for each FSA;
- Issued a technical report that outlines the basis for decisions made regarding the components included in the PHIS domestic inspection module;
- Implemented a mechanism for inspection program personnel to identify specific production records upon which verification activities are based, and provide the establishment management an opportunity to review the collected information;
- Implemented a process to periodically collect information on how establishments control *L. monocytogenes* in ready-to-eat product and enter it into PHIS; and
- Issued detailed prioritization criteria for scheduling FSAs, and established a 4-year cycle for conducting FSAs in all establishments nationwide.

"Evaluation of FSIS Management Controls Over Pre-Slaughter Activities" – OIG Audit Report No. 24601-7-KC

- As part of the PHIS module, FSIS implemented a new method of assigning routine inspection tasks and for inspection program personnel (IPP) to schedule inspection tasks with more flexibility;
- Issued a directive providing instructions to IPP when establishments have records created by video or other electronic monitoring or recording equipment;
- Issued Directive 1010.2, Rev. 2, Circuit Maintenance Guidelines, providing agency managers with key parameters to use in determining the optimum numbers of frontline supervisory positions. FSIS conducted an assessment of these new guidelines to determine the impact of these guidelines on the frontline supervisors' span of control;
- Implemented a structured on-the-job training program for all food inspectors and other non-veterinary inspectors performing ante-mortem inspections. In addition, FSIS conducted quarterly analysis of training data and prepared a report that was sent to the districts so that management could follow up on any instance where required training had not been received;

- The PHIS module now contains the functions that require IPP to record which specific regulatory requirements are verified each time a task is performed before the task can be marked complete; and
- Required all IPP working in beef slaughter establishments to complete two online training courses: "FSIS Combined Bovine Spongiform Encephalopathy Training" and "Removal of Tonsillar Material from Beef Tongues and Market Heads." In addition, FSIS conducted analysis of training data to monitor the status of IPP who took both of the training courses, by position and district.

Planned Actions for Fiscal Year 2012

"Issues impacting the Development of Risk-Based Inspection at Meat and Poultry Processing Establishments" – OIG Audit Report No. 24601-07-Hy

- Continue to deploy PHIS and ensure that correct data are being processed by the system so that it operates as designed;
- Monitor significant changes in establishment characteristics, inspection findings, and other information that might flag an establishment for an FSA; and
- PHIS will provide lab data in a more user-friendly format, allowing inspection personnel to run reports.

"Evaluation of FSIS Management Controls Over Pre-Slaughter Activities" – OIG Audit Report No. 24601-7-KC

- Provide the revised In-Plant Performance System Supervisory Guide and a directive or notice requiring IPP to recertify training annually;
- Provide an AssuranceNet report that will identify whether districts are meeting required In-Plant Performance System review frequencies; and
- Provide evidence that PHIS incorporates functions requiring IPP to record regulatory requirements for each task completed, as well as the updated AssuranceNet management controls.

"FSIS Sampling Protocol for Testing Beef Trim for *E. coli* O157:H7" – OIG Audit No. 24601-9-KC

- Publish a baseline plan that includes baseline studies of beef trim, ground beef, and other ground beef components to determine the estimated prevalence rate of *E. coli* O157:H7; and
- Publish a plan for re-evaluating the sampling parameters of its beef trim sampling program to provide higher confidence in accurately detecting *E. coli* O157:H7 contamination at establishments producing beef trim.

Challenge 8: American Recovery and Reinvestment Act of 2009 (ARRA) Needs to be Effectively Implemented (all agencies that receive ARRA Funds)

Fiscal Year 2011 Accomplishments

Department-wide:

- The Office of the Chief Financial Officer (OCFO) and Office of the Secretary engaged senior management from agencies with projects funded by ARRA with the formation of the Department Accountability Recovery Team (DART) as a critical component in supervision process;
- Through continual communication of guidance and policy, OCFO assured that DART was fully informed of Federal expectations for establishing ARRA projects according to the parameters written into the law and intent thereof. The Department routinely notified DART of public, media, and Inspector General interest in projects, including public relations opportunities as well as newly released FAST reports;
- The Department maintains communication with the DART and specified agency points-of-contact to give notice of new and emerging issues and processes which may require increased attention on a particular program or reporting process;
- Transmitted guidance issued by the Office of Management and Budget (OMB) and assisted USDA agencies to comply with the guidance. This process included implementation plans and program plans in addition to periodic reporting on metrics for gauging program performance and internal controls;
- Under the direction of DART, agency program administrators and staff implemented ARRA-funded projects with appropriate internal controls to support program performance and integrity. Each agency established oversight and analytical methods to ensure an unprecedented level of accountability and administrative processes to encourage timely, accurate report submission from both the agency and the recipient;
- USDA agencies also published program plans which described how the programs were going to be delivered while ensuring compliance with ARRA;
- The Department provided guidance, training, and personal assistance to agencies to improve data quality and ensure all ARRA-funded awards are identified and reported timely. Additionally, the Department provided guidelines and training to fully leverage data quality tools introduced by Recovery Accountability and Transparency Board;
- The Department also conducted continuous analysis of the data submitted by the agencies and the recipients to ensure that high levels of data quality were maintained, and any anomalous data or activity were immediately reported to the agencies for quick research and resolution, if warranted; and
- OIG has audited agencies' implementation of ARRA programs. The Department monitored the OIG reports and ensured that the DART team was alerted to new reports. Program staff who received the reports are taking corrective action to address OIG's recommendations for improvements in program performance.

RD:

"Single-Family Housing Direct Loans Recovery Act Controls" – Phase IIOIG Audit Report No. 04703-002-CH

- Tracked project performance and job creation metrics through the ARRA Project Tracking System;
- Participated in tribal conferences to provide additional guidance on recipient reporting;
- Actively monitored compliance with recipient reporting requirements;
- Extended terms and contract hires and temporary ARRA employees to assist in monitoring, auditing, generating special reports;
- Conducted six separate lender training sessions that addressed the recommendations of the OIG Fast Report;
- Conducted nationwide field staff training and published four administrative notices providing guidance to the field staff on lender underwriting and loan closing, guaranteed underwriting system, lender eligibility reviews, and lender origination and loan closings; and
- Published a final rule requiring originating lenders to indemnify the agency against loss whenever they commit errors with loan origination.

Planned Actions for Fiscal Year 2012

Department-wide:

- Continue servicing loans and grants;
- Continue oversight functions and assisting agencies in addressing program issues as they arise;
- Obligate remaining funds and monitor programs and projects;
- Continue to ensure that programs are delivered in compliance with ARRA and address any findings or questions regarding program delivery or performance; and
- Continue to review and monitor the OIG reports related to ARRA programs to ensure corrective action is being timely completed by USDA agencies.

RD:

"Single-Family Housing Direct Loans Recovery Act Controls" – Phase II (OIG Audit Report No. 04703-002-CH)

- Continue to track project performance and job creation metrics through the ARRA Project Tracking System;
- Participate in tribal conferences to provide additional guidance on recipient reporting;
- Monitor compliance with recipient reporting requirement;
- Extend terms and contract hires and temporary ARRA employees for 1 year to assist in monitoring, auditing, and generating special reports;
- Provide training and/or performance resources on loan underwriting;
- Manage and monitor State office loan underwriting reviews, and continue to perform second level reviews at the national office; and
- Train field staff on all handbook changes related to applicant eligibility, age of loan documents, and re-verifications before loan closing.

Challenge 9: Efforts to Identify, Report, and Reduce Improper Payments Need to be Strengthened (FNS, NRCS, RMA, RD)

- FNS "Financial Statements for FY 2010 and 2009" - OIG Audit Report No. 27401-35-HY;
- NRCS' :Conservation Program" - OIG Audit Report No. 10601-4-KC;
- OCFO, "Calendar Year 2010 Executive Order 13520, Reducing Improper Payments, High-Dollar Report Review" - OIG Audit Report No. 50024-1-FM
- "RMA Compliance Activities" - OIG Audit Report No. 05601-11-AT; and
- "Rural Development Guaranteed Single Family Housing Loans Made by Lenders to Ineligible Borrowers" - OIG Audit Report No. 04703-2-CH

Fiscal Year 2011 Accomplishments

USDA :

Providing accurate and complete information in reports

- USDA and the Office of Management and Budget (OMB) reviewed the Risk Management Agency (RMA) and Farm Service Agency's (FSA) alternative sampling methodologies for high risk programs that will meet the requirements set forth in the Improper Payments Elimination and Recovery Act (IPERA). USDA is currently awaiting OMB formal approval of the alternative sampling methodologies;
- Provided guidance to the agencies requiring: 1) all Catalog of Federal Domestic Assistance (CFDA) programs are included in measurement plans and risk assessments; and 2) a report of recovered improper payments organized by source. This aligns USDA's reporting on improper payments with IPERA and OMB requirements;
- Provided Departmental guidance regarding the Quarterly High-Dollar Overpayment Report that is due in accordance with Executive Order 13520. The updated guidance provides additional clarification to the agencies on reporting identified and waived overpayments, and enhancing identification of overpayments, and will include a certification requirement; and
- Completed the following actions in response to OIG recommendations based on High Dollar Report Review:
  - Directed FSA to review and modify (if applicable) their methodology and process for identifying, verifying and reporting high-dollar overpayments to ensure all high-dollar overpayments identified and verified during a quarter are included in their quarterly report provided to the Office of the Chief Financial Officer;
  - Directed RMA to report premium and indemnity overpayments, under the same insurance policy to the same entity, if these payments are more than 50 percent of the correct amount, and collectively more than $25,000 in its Quarterly High-Dollar Report; and
  - Revised the reporting format for the High-Dollar Report to include additional columns for the actual payment amount, correct payment, and overpayment amount.

Increase recovery of overpayments and reduce improper payments by identifying underlying problems and establish preventive actions

- Developed a Payment Recapture Audit Plan as required by OMB memorandum M-11-04, "Increasing Efforts to Recapture Improper Payments." This plan describes USDA's strategy to align its Payment Recapture/Recovery Auditing (PRRA) initiative with the expanded authorities under IPERA;
- Notified agency heads detailing the new requirements that Congress and the Administration have established to prevent, detect, and recover improper payments; and
- Obtaining PRRA services from an outside firm to assist with identifying and recovering overpayments through state-of-the-art tools, methodologies, and processes. The PRRA firm will work in conjunction with USDA agencies to identify the root causes of improper payments and recommend preventive actions to mitigate future improper payments.

"Rural Development Guaranteed Single Family Housing Loans Made by Lenders to Ineligible Borrowers" - OIG Audit Report No. 04703-2-CH

- Preformed FY 2011 risk assessments, test of transactions, and reported results; and

- Measured Rental Assistance Program (high risk) for FY 2011 and prepared a corrective action plan with improper payment error rates, estimated improper payment amounts, reduction targets, and recovery rates.

"FNS Financial Statements for FY 2010 and 2009" - OIG Audit Report No. 27401-35-HY

- Completed the extensive data collection and cleaning necessary to develop the Women, Infants and Children (WIC) certification error component used in the improper payments estimate;
- Requested resources through the budget process to develop a measurement approach for erroneous payments in the Child and Adult Care Food Program (CACFP). FNS planned 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 Improper Payments Information Act (IPIA). With the complexities of the program, FNS estimated it would cost $20 million to measure improper payments as required by IPIA. FNS has not received the requested funds; and
- Developed a methodology to measure the level of erroneous payments to CACFP family day care homes due to improper meal counts.

FSA:

- Implemented an alternative measurement process that includes a large portion of current year activity, instead of the previous year activity, allowing earlier detection of root causes and earlier development of corrective actions;
- Issued results from the FY 2010 County Office Review Program of high risk programs which required State offices to develop corrective actions to address review findings on the causes of improper payments; and
- Implemented a field office vetting process to improve the quality of field guidance and program directives.

"NRCS' Conservation Program" - OIG Audit Report No. 10601-4-KC:

- Issued demand letters and billings for improper payments in the Conservation Security Program;
- Reported applicable improper payments to the Department;
- Issued a national bulletin on reporting improper payments which identifies program, dollar amounts, reason for improper payments made, and planned steps for recovery;
- Completed risk assessments for low-risk programs;
- Prepared risk assessments and performed detailed transactional testing and corrective plans for high- and low-risk programs; and
- Drafted NRCS' Improper Payment Recoveries Report.

"RMA, Compliance Activities" - OIG Audit Report No. 05601-11-AT:

- Performed FY 2011 test of transactions and reported results; and
- Measured Federal Crop Insurance Program (high risk) for FY 2011 and prepared Corrective Action Plan with improper payment error rates, estimated improper payment amounts, reduction targets and recovery rates.

Planned Actions for Fiscal Year 2012

USDA:

Providing accurate and complete information in reports

- Increase accountability by adding agency certification requirements for all reports on improper payments. The certifications will provide confirmation that the information provided in reports is accurate and complete; and
- Enhance the process in providing agencies feedback and approval on their reports. The process will increase communications and require inaccurate and/or incomplete reports be returned for agency action. When appropriate, USDA will work with OMB to obtain approval on any alternative sampling methodologies.

Increase recovery of overpayments and reduce improper payments by identifying underlying problems and establish preventive actions

- Issue contract award for recovery auditing services under the Payment Recapture/Recovery Auditing initiative; and
- Begin phased implementation of the PRRA initiative to enhance prevention, detection, recovery, and reporting of improper payments.

Provide Departmental criteria for the Government-wide "Do Not Pay List" Web site

- Continue to work with OMB and Treasury on Government-wide criteria and guidance. Upon issuance of the Government-wide guidance, USDA will develop and issue Departmental guidance for its agencies.

"Rural Development Guaranteed Single Family Housing Loans Made by Lenders to Ineligible Borrowers" - OIG Audit Report No. 04703-2-CH:

- Perform FY 2012 draft and final risk assessments and test of transactions and report results;
- Measure high risk programs, develop corrective action plans, and report results;
- Continue to closely service and monitor loans and grants issued under the Recovery Act to ensure they are administered properly under the regulations;
- Develop underwriting compliance tool and provide training to field staff on loan underwriting; and
- Monitor State Office loan underwriting reviews and perform second level reviews at the national office.

"FNS Financial Statements for FY 2010 and 2009" - OIG Audit Report No. 27401-35-HY:

- Upon completion of the National Survey of WIC participants, supported by extensive data collection, FNS will develop an error rate to estimate WIC improper payments;
- Seek OMB clearance under the Paperwork Reduction Act to conduct a large scale feasibility test of the certification error rate methodology;
- Perform an updated sampling of the Access, Participation, Eligibility, and Certification (APEX) II study for the National School Lunch and School Breakfast Program;
- Expand and improve direct certification as required by the Healthy, Hunger-Free Kids Act of 2010 (HHFKA); and
- Increase training of school food service personnel as required by HHFKA.

FSA

- Conduct a conference on IPERA requirements and discuss ways to implement the requirements to prevent and reduce improper payments;
- Develop and refine process for quarterly compiling and reporting of overpayment recoveries; and
- Work with county offices to expedite the identification of causes of overpayments and the preparation of the quarterly High-Dollar Report.

"NRCS' Conservation Program" - OIG Audit Report No. 10601-4-KC:

- Continue to follow up on billings to recover improper payments and monitor recoveries;
- Continue to report on all High-Dollar improper payments quarterly;
- Issue a national bulletin instructing all administrative officers to self-report all improper payments;
- Perform FY 2012 risk assessments, detailed transactional testing, and corrective plans for high-and low-risk programs;
- Develop standard process for sending demand letters and bills to participants that have been improperly paid, and ensure the process is in line with financial management and program policy; and
- Finalize and submit NRCS' Improper Payment Recoveries Reporting Plan.

"RMA Compliance Activities" - OIG Audit Report No. 05601-11-AT:

- Continue to report on all High-Dollar improper payments quarterly; and
- Measure high-risk program, develop corrective action plan, and report results.

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, "Preparation, Submission, and Execution of the Budget." Under the Improper Payments Information Act (IPIA), executive agencies must identify any of their programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. A program with significant improper payments has both a 2.5 percent error rate of the total program outlays and at least $10 million in improper payments. On August 10, 2006, government-wide guidance was consolidated into OMB Circular A-123, "Management's Responsibility for Internal Control", Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments." The U.S. Department of Agriculture (USDA) has 5 programs required to report under Section 57 of OMB Circular A-11 and has identified an additional 11 programs at risk of significant improper payments through its risk assessment process. The risk assessment process is used to review USDA programs and activities and identify those that are susceptible to significant improper payments.

Accomplishments this year include:

- Measuring programs at risk of significant improper payments;
- Developing corrective action plans to reduce improper payments and establishing both reduction and recovery targets (where appropriate) for the programs at risk of significant improper payments;
- Completing risk assessments for all low risk programs; and
- Complying with reporting standards.

USDA's improper payment error rate was 5.37 percent for FY 2011, which is the same error rate reported in FY 2010. However, due to a $7.1 billion increase (8 percent) in high risk program outlays from FY 2010 to FY 2011, USDA's estimated improper payments amount were $5.4 billion for FY 2011, more than the $5.0 billion estimated in FY 2010. The increase in outlays was largely attributable to the increase in demand for food and nutrition assistance because of the economic downturn. Also affecting the improper payment error rate and amount for FY 2011 is the initial reporting of an error rate for the certification component of the Food and Nutrition Service's (FNS) Women, Infants and Children program. The following FY 2011 results demonstrate that progress is being made to reduce improper payments:

- Seven USDA high risk programs reported improper payment error rates lower than their FY 2010 error rate;
- Four USDA high risk programs, representing 71 percent of USDA's total high risk program outlays, reported error rates lower than their reduction targets for FY 2011;
- Forest Service's (FS) Wildland Fire Suppression Management Program error rate of 0.00 percent was below its reduction target of 0.02 percent, and equal to its FY 2010 error rate of 0.00 percent;
- Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program's (SNAP) FY 2010 error rate of 3.81 percent, which is reported in FY 2011, was less than its reduction target of 4.36 percent and less than its FY 2009 error rate of 4.36 percent, which was reported in FY 2010. The SNAP error rate is a historic low for the program. This is the seventh year in a row that the SNAP error rate has been less than 6 percent. SNAP error rates are reported the following year because all data are not available to perform the statistical sample before required annual reporting;
- The Farm Service Agency's (FSA) Market Assistance Loan Program error rate of 0.52 percent was below its reduction target of 0.81 percent, and below its FY 2010 error rate of 0.81 percent;
- FSA's Noninsured Assistance Program error rate of 8.97 percent was below its FY 2010 error rate of 11.65 percent;
- FSA's Direct and Counter-Cyclical Program error rate of 0.05 percent was below its FY 2010 error rate of 0.96 percent, and below its reduction target of 0.40 percent; and

- Risk Management Agency's Federal Crop Insurance Program error rate of 4.72 percent was below its FY 2010 error rate of 6.05 percent.

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

For FY 2011, the root causes of USDA improper payments are preliminarily categorized as:

- Two percent attributable to administrative error;
- Ninety-seven percent attributable to verification error; and
- One percent attributable to authentication error.

USDA establishes improper payment recovery targets for high risk programs, where appropriate, and actively collects recoveries. Actions taken by USDA during FY 2011 include:

- Developed and issued a request for proposal to solicit payment recapture/recovery auditing services from a private sector recovery auditing contractor;
- Revised Departmental High-Dollar Quarterly Report guidance for improper payments identified in high-risk programs to provide additional clarification and transparency;
- Provided semi-annual reporting of additional error measurements USDA's two high-priority programs, SNAP and National School Lunch Program (NSLP);
- Provided an Annual Accountable Official Report to the USDA Inspector General for SNAP and NSLP;
- Provided Departmental improper payments information for the Government-wide PaymentAccuracy.gov Web site that includes key indicators and statistics by program; and
- Completed risk assessments for 46 programs in FY 2011 as scheduled on a 3-year cycle. No new programs were declared high risk as a result of the risk assessments.

USDA's goal is to continue to reduce errors and reach recovery targets established for FY 2012. In addition to meeting the requirements of the IPIA, USDA is developing plans to implement the new requirements from the EO 13520, Presidential Memorandum "Enhancing Payment Accuracy Through a 'Do Not Pay List,'" Presidential Memorandum "Finding and Recapturing Improper Payments," and the Improper Payments Elimination and Recovery Act (IPERA).

USDA's actions planned for FY 2012 include:

- Award a Departmental contract and implement an initiative for payment recapture/recovery auditing services to address IPERA requirements for identifying, preventing and recovering overpayments;
- Develop and implement policy based on OMB guidance to be provided in FY 2012 regarding the "Do Not Pay List" and the GOVerify portal.
- Develop and implement policies, controls, procedures and checklists at appropriate levels to reduce improper payments;
- Create aggressive correction plans that target the verification, authentication, and administrative root causes of errors and address internal control issues for each program;
- Provide training to field personnel and cooperative partners that address specific issues found in internal controls, control procedures and the potential risks of noncompliance;

- Sustain accountability at all levels by incorporating the employee's individual results into their annual performance evaluations;
- Provide grants and technical assistance to State agencies aimed at simplifying the application and eligibility determination systems of SNAP; and
- Participate in interagency workgroups to assist OMB in developing Government-wide guidance for implementing initiatives to reduce, prevent and recover improper payments.

OMB provided a reporting template for IPIA in OMB Circular A-136, "Financial Reporting Requirements." The template requires responses to specific issues. USDA's responses to these issues follow.

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.

The Office of the Chief Financial Officer (OCFO) issued detailed guidance for the risk assessment process, including templates, and extensively reviewed drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs. For USDA's largest programs, the risk assessment required the following:

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

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

Selection Methodology	Agency	Program
Former Section 57 of Office of Management and Budget (OMB) Circular A-11, "Preparation, Submission, and Execution of the Budget"	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program (MAL)
	Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)
		National School Lunch Program (NSLP)
		School Breakfast Programs (SBP)
		Special Supplemental Nutrition Program for Woman, Infants and Children (WIC)
USDA Identified as Susceptible to Significant Improper Payments	FSA, CCC	Milk Income Loss Contract (MILC) Program
		Loan Deficiency Payments (LDP)
		Direct and Counter-Cyclical Payments (LCP)
		Conservation Reserve Program (CRP)
		Miscellaneous Disaster Programs (MDP)

Selection Methodology	Agency	Program
		Noninsured Assistance Program (NAP)
	Food and Nutrition Service (FNS)	Child and Adult Care Food Program (CACFP)
	Forest Service (FS)	Wildland Fire Suppression Management (WFSM)
	Rural Development (RD)	Rental Assistance Program (RAP)
	Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC) Program Fund
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act programs (FSRIP)

II. 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 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 made from October 2009 through August 2010, representing 97 percent of FY 2010 outlays. 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 90–percent, 2-sided 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	Supplemental Nutrition Assistance Program (SNAP)	Statistical Sampling SNAP sampling based on FY 2010 outlays. Each month, States select a statistically random sample of cases from a universe of all households receiving SNAP benefits for that given month. Most States draw the samples using a constant sampling interval. There are some States which employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State agencies with small SNAP populations to more than 1,000 for larger States. The average is approximately 950 per State. States are required to complete at least 98 percent of selected cases deemed to be part of the desired SNAP 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 SNAP standards. State agencies are required to report to FNS the findings for each case selected for review.

Agency	Program	Sampling Process
		• 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 conducts studies approximately every five years to assess the level of error in program payments because detailed information on the circumstances of the NSLP and SBP participating households are not collected administratively. The November 2007 – 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 SBP 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 SBP. 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. • To update the erroneous payment rate estimates in NSLP without having to conduct another full round of primary data collection, a series of econometric models were developed that captured the relationship between characteristics of the districts that participated in the APEC study and their estimated rates of certification error. Estimated coefficients from these models were used in conjunction with updated values of district characteristics obtained from the School Food Authorities Verification Summary Reports to predict certification error. Certification error rates were then translated into amounts and rates of erroneous payments in each district. Aggregating the district level estimates produced a national measure of predicted erroneous payments. • The NSLP information reporting for FY 2011 is based on error rate for School Year 2009/10 times the FY 2010 outlays.
FNS	School Breakfast Program (SBP)	The statistical sampling process for this program is similar to NSLP. See the NSLP description.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	FNS plans to continue periodic examinations of WIC vendor and certification error. WIC information reported for FY 2011 is based on FY 2010 outlays. • 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 used to establish the national sample frame of vendors active during the study period. Geographic Information System software was used to form 365 primary sampling units (PSU) 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

Agency	Program	Sampling Process
		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 to yield estimates of overcharge and undercharge. • 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 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	Child and Adult Care Food Program (CACFP)	CACFP information reported for FY 2011 is based on FY 2010 outlays. The national estimate of erroneous payments for the sponsor error component is based on a nationally representative sample of sponsor files for 660 Family Day Care Homes (FDCH) in 60 distinct sponsors in 14 States. The tiering status of FDCHs was first verified by determining their school area eligibility (at least 50 percent of students were approved for free/reduced-price meals) and Census Block Group area eligibility (at least 50 percent of children at or below 185 percent of the Federal Poverty Guidelines) for Tier I and Tier II status. A sponsor of an FDCH not verified through area eligibility was contacted to secure additional documentation in support of the FDCH's tiering status, such as income and categorical eligibility.
FSA	Milk Income Loss Contract Program (MILC)	The Price Support Division and the Managerial Reporting Office took a random sample MILC performed a random sample containing 200 transactions from 28 States for the period FY 2010 for the MILC program. Sample collections performed by the CORE staff was not cost justifiable based on the outlays and low error rates over previous years. OMB and FSA will evaluate MILC outlay annually to determine the type of measurement and PAR reporting to be done for a specific fiscal year.
FSA	Loan Deficiency Payments (LDP)	LDP was not measured since FY 2010 outlays were only $0.2 million. Measuring the program was not cost justifiable based on the small volumne of outlays and low error rates over previous years. OMB and FSA will evaluate LDP outlay annually to determine if measurement and PAR reporting will be done for a specific fiscal year.
FSA	Direct and Counter-Cyclical Payments (DCP)	See the process described in the MAL discussion. The same process was used for this program, except the statistical sample was drawn from program payments made from October 2010 through December 2010, representing 88 percent of the annual outlays. This alternative measurement provided results nearly one year earlier than the previous measurement methodology.
FSA	Conservation Reserve Program (CRP)	See the process described in the MAL discussion. The same process was used for this program, except the statistical sample was drawn from program payments made from October 2010 through December 2010, representing 93 percent of the annual outlays. This alternative measurement provided results nearly one year earlier than the previous measurement methodology.
FSA	Miscellaneous Disaster Programs (MDP)	See the process described in the MAL discussion. The same process was used for this program, except the statistical sample was drawn for the Supplemental Revenue Assistance Payments (SURE) program payments made from October 2009 through August 2010, representing 77 percent of the MDP annual outlays. OMB and FSA will evaluate MDP conponets annually to determine if measurement and PAR reporting will be done for a specific fiscal year.

Agency	Program	Sampling Process
FSA	Noninsured Assistance Program (NAP)	See the process described in the MAL discussion. The same process was used for this program, except the statistical sample was drawn from program payments made from October 2009 through August 2010, representing 93 percent of FY 2010 outlays.
FS	Wildland Fire Suppression Management (WFSM)	WFSM employs monetary unit sampling. Transactions coded to the Wildland Fire Suppression Fund are systematically analyzed and reviewed. Samples were selected by systematic random sampling with probability proportional to size (dollar amount). Sample size determination was based on total transaction amounts for FY 2010. To ensure the validity of the sample design, sample sizes, and measurement methodology, a professional statistician from the University of New Mexico was consulted. The sample was selected using a 90-percent confidence level, with a precision range of 2.5 percent. Software used for sample selection was SAS 9.2 for Windows.
RD	Rental Assistance Program (RAP)	RD reviewed the sampling plan developed by the U.S. Department of Housing and Urban Development for its studies. RD statisticians prepared a similar plan for this report. This report is based on a review of tenants receiving rental assistance (RA) during FY 2010. The sampling plan consisted of 666 RA payments from a universe of 3,424,963 or .02 percent. The methodology produced a sample with a 99-percent confidence level. The RD Centralized Servicing Center (CSC) conducted the study which evaluated tenant files and income calculations. 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 to select the sample by a systematic sample technique. Once the sample was identified, a letter was sent to the borrower/management agents that explained the process, provided the list of tenant payments to be reviewed and provided a list of documents that needed to be provided to CSC for review. The data received from the borrower/management agent was used to compare Agency records. The study required CSC 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 (FCIC)	RMA completed the measurement of 2007, 2008, and 2009 crop year indemnities reviewed during 2008, 2009 and 2010. For FY 2011 reporting, RMA sampled and reviewed the 2010 crop year, using those results to replace the 2007 crop year results. This allowed RMA to maintain a running average error rate for the three most recent crop years. RMA will repeat this process for three years to compile random indemnity reviews and build a database that will be used to identify the RMA program-error rate and identify any discernable trends. Samples are drawn by an autonomous 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	Farm Security and Rural Investment Act programs (FSRIP)	NRCS determined the universe size of payments for FY 2010 by using all transactions associated with the Farm Security and Rural Investment Act (Farm Bill). NRCS uses stratified random sampling, grouping payments into mutually exclusive strata based on dollar amount. The sample size for each payment population was determined based on the specifications of +/- 2.5 percent precision at the 90-percent confidence level. NRCS selected payments for the sample using a random number generator.

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)	MAL improper payments were primarily attributable to administrative errors. Causes of improper payments include: • An acceptable acreage report was not on file; • All required signatures were not obtained on the note; and • Incorrect loan rate was used. Actions taken or that will be taken to address the weaknesses identified are as follows: a. Broad Scope Actions Taken: • FSA has committed to reducing improper payments and program weaknesses that contribute to improper payments; • FSA has taken actions to correct its deficiencies in many areas and has incorporated the priority of reducing improper payments into its strategic planning documents; and • Compliance reviews and spot-checks are required to ensure the accuracy of payments and integrity of FSA programs. Annually, based on a statistical sampling method, producers nationwide are selected for compliance review and spot-check. County Offices (COFs) are required to complete spot-checks and reviews for the various programs and activities in which the selected producers participate for the year, and record the results of these reviews in the National Compliance Review database. This reporting mechanism allows the National office to monitor the overall integrity of each program being implemented. b. Actions Already Taken that Impact All Causes of Improper Payments Identified: • Provided 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, and is being followed up with communications and job aid to help facilitate compliance controls; • Integrated the employee's individual performance results related to reducing improper payments into his/her annual performance rating; • Utilized program specific checklists for COF employees to use before payment. County Executive Directors and District Directors review the completed checklists to help identify apparent internal control deficiencies and address additional training needs to reduce future errors; • Issued various National Notices and handbook amendments to State and COFs providing them with instructions to properly disburse and process repayments related to MAL benefits; • Contacted State office (SO) managers where the majority of improper payments were identified, according to the statistical sample, to determine possible training and/or job aids the SO and COF staff may need to assist in facilitating compliance to controls;

Agency	Program	Corrective Actions Planned
		• Issued a notice for each program for the FY 2010 National CORP review of improper payments, providing detailed findings discovered during the FY 2010 statistical sample including established policy and procedure references for each finding; Discussion will include: • Increase emphasis and accountability in employee's performance standards to improve individual effectiveness at both the FSA State and field office levels; • Require additional supervisory follow-up or performance actions in field offices where high improper payment error rates continue to occur; • Require additional payment reviews or approval levels in high-risk offices with previous high improper payment error rates; • Recommend SEDs to conduct additional state MAL targeted CORP reviews; • The FSA Office of Budget and Finance, Financial Management Division, in conjunction with the Deputy Administrator for Field Operations, is working directly with COF in preparing the Quarterly High-Dollar Report to more quickly identify causes of improper payments that could have systemic impact; • Issued a notice for each program for the FY 2010 National County Office Review Program (CORP) review of improper payments, providing detailed findings discovered during the FY 2010 statistical sample including established policy and procedure references for each finding; • Issued various National notices to SOs and COFs re-enforcing current program policies and procedures; and • Improved the quality of field guidance by implementing a process whereby program directives are vetted by at least six field office employees before directives are approved and issued Nation-wide. c. Actions That Will be Taken that Impact All Causes of Improper Payments Identified: • Provide a notice to SOs and COFs providing the detail findings discovered during the FY 2011 program specific statistical sample including established policy and procedure references for each finding; • Reinforce current program policies regarding program compliance through the issuance of National notices and handbook amendments to SOs and COFs personnel; • Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls. • Contact State office managers where the majority of improper payments were identified during the 2011 IPIA reviews to facilitate necessary corrective actions in regard to training or clarifications regarding procedures and policies. • Conduct a nationwide conference call with all State Executive Directors (SEDs) to review requirements of the Improper Payments Elimination and Recovery Act legislation. SNAP improper payments were primarily attributable to verification errors.
FNS	Supplemental Nutrition Assistance Program (SNAP)	Causes of improper payments include: Improper payments occurred 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 improper payments. An analysis of the FY 2010 completed statistical sample revealed that approximately 72.84 percent of all variances occurred before or at the most recent certification/recertification. Additionally, 72.40 percent of the errors were State agency caused. About half of the errors (54.29 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 28.82 percent. <u>Steps that are (or will be) taken to address specific findings in the last statistical sample</u> 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 quality control (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

Agency	Program	Corrective Actions Planned
		rate in a future fiscal year. 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; • Modernization of QC reporting systems; • 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)	NSLP improper payments were primarily attributable to verification errors. Causes of improper payments include: • Benefit calculation error or duplicate payments; • Lack of proper documentation or inadequate supporting documentation; and • Fraud or misrepresentation by program participants or others. 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 (CNR) of 2004 and 2010 to enact program changes that address school meals certification problems. The 2004 CNR act strengthened the certification process by: • Requiring SNAP 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 and the Food Distribution Program on Indian Reservations; • 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; • Requiring increased efforts to obtain household response to application verification requests; and • Requiring districts with high rates of non-response to verification to target subsequent year verification activity toward error-prone applications. The 2010 CNR act (the Healthy, Hunger-Free Kids Act of 2010 (PL 111-296)) further strengthened the certification process by: • Providing performance awards ($4 million for 4 years) for States making the greatest improvement in directly certifying SNAP children; and providing a demonstration project in select school districts to test the potential for direct certification using Medicaid data; • Requiring an independent review of applications in order to increase the accuracy of eligibility determinations in school districts that demonstrate high levels of administrative error; • Providing alternatives to paper application systems in low-income areas; i.e., non-application alternatives to the standard Program application process to reduce the number of paper applications that are processed manually;

Agency	Program	Corrective Actions Planned
		• Establishing professional standards for school food service personnel, requiring professional education and training standards for certification of local school food service directors and staff, and criteria and standards for the selection of State Directors; • Tightening requirements on the monitoring of SFAs by requiring USDA to consolidate the Coordinated Review Effort (CRE) and School Meal Initiative (SMI) monitoring systems, requiring States to review all School Food Authorities (SFAs) on a 3-year cycle (current cycle is 5 years), and requiring schools to post review final findings and make findings available to the public; • Providing for fines for gross mismanagement and violating program requirements, an additional method for enforcing program compliance; and • Strengthening the program compliance by prohibiting any school, institution, or individual that is terminated from one of the Child Nutrition Programs and on a list of disqualified institutions and individuals from participating in or administering any of the Child Nutrition Programs.
		Improved State and Federal Oversight and Strengthen Program Integrity FNS conducted the following to improve oversight and technical assistance: • 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; • Issued a revised Eligibility Manual which contains information on determining students' eligibility for free and reduced price meals under 7 CFR Parts 210 and 220, NSLP (including after school snacks and commodity schools) and SBP; • Trained more than 500 State and Federal reviewers on the CRE process and forms to ensure that performance standards related to meal counting and claiming and serving reimbursable meals are met. In addition, new CRE Forms and Instructions were posted to the FNS Web site along with the training materials that were used in the training sessions. Also, the CRE Guidance, was updated to include current procedures to be utilized during CRE Reviews. State agencies are implementing the CRE procedures that were identified during the training sessions. • Pursuant to the 2004 CNR, FNS released applications for the fourth round of Direct Certification / Verification grant funding in FY 2009. These grants are available to State agencies to assist in the implementation of mandatory direct certification, direct verification and other provisions of CNR related to determining eligibility to receive benefits in the NSLP and SBP. Child Nutrition (CN) and SNAP State agencies (SAs)are eligible to apply for funds. A series of grants were awarded in FY 2006-09. CNR provided $8.3 million for this purpose. • FNS annually releases a solicitation for funding to SAs for Administrative Reviews and Training grants. This funding is available to perform administrative reviews and training of selected local educational agencies identified by the States as having demonstrated a high level of, or high risk for, administrative error in the NSLP. $4 million was set aside in FY 2005 and for each fiscal year thereafter. • In late 2010, FNS established the Child Nutrition Division's State Systems Support Branch (SSSB) that is dedicated to providing support and technical assistance to SAs to assist them in working toward successful program outcomes in the implementation of automated systems to improve: 1) CN program administration and performance; 2) access to CN program benefits through direct certification, direct verification and other automated means to establish children's eligibility for free and reduced meal prices; and 3) Federal reporting on program outcomes. The branch is working closely with State agencies to: • Assess current status of State systems for monitoring and conducting direct certification/verification processes; • Research and analyze on how State automation practices align with program performance levels to identify successful (and less than successful) practices; • Provide guidance concerning program technology issues related to implementation of program policies, procedures, and reporting requirements; • Evaluate State automated systems funded under Federal grants to ensure that Federal program requirements are met; • Develop national standards for system implementation planning to ensure that State systems meet program needs; and • Establish venues for State and Federal collaboration and knowledge sharing on technology issues.

Agency	Program	Corrective Actions Planned
		• Implemented an improved Web-based system for States to report the results of verification activity annually. This report will improve the accuracy and timeliness of reporting and provide States with a way to identify and target corrective actions. Additional Actions Planned Planned efforts include: • Implementing improvements in data reporting systems; and • Continue the APEC study every 5 years, which would enable FNS to estimate and measure changes in erroneous payments over time, and help inform FNS, Congress, the States, and advocacy partners on the development of additional guidance, training, and policy options.
FNS	School Breakfast Program (SBP)	SBP improper payments were primarily attributable to authentication and administrative errors. The corrective actions planned for this program are similar to NSLP. See the NSLP description.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	WIC improper payments were primarily attributable to verification errors. Causes of improper payments include: • Vendor overcharges and undercharges; and • Program participants were income ineligible. Actions to Reduce Improper Payments: • Vendor Error: – The Child Nutrition Act was amended in 1996 to require the disqualification of WIC vendors who had been disqualified by the SNAP, and was amended in 1998 to require permanent disqualification of vendors who had been convicted of trafficking and illegal sales. The WIC/SNAP Vendor Disqualification Final Rule implemented these requirements and also mandated three-year disqualifications for overcharging and charging for food not received. The WIC Food Delivery Final Rule mandated nationwide standards for vendor authorization, training, and monitoring. 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. • 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”, the WIC Certification Integrity Interim Rule and the WIC Certification Integrity Final Rule implemented this requirement. The WIC Food Delivery Final Rule mandated one-year disqualifications for the most serious participant violations, including dual participation and misrepresentation of income. The WIC Miscellaneous Final Rule 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 reported the initial improper payment amount and error rate for the WIC certification component in FY 2011.
FNS	Child and Adult Care Food Program (CACFP)	CACFP improper payments were primarily attributable to verification errors. Causes of improper payments include: • Family Day Care Homes (FDCH) error in reporting the number of meals eligible for reimbursement; and • Sponsor error in determining a participating FDCH’s reimbursement tier. Actions to Reduce Improper Payments: CACFP has three distinct parts: Child Care Centers, Adult Day Care Facilities, and Family Day Care Homes (FDCH). 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.

Agency	Program	Corrective Actions Planned
		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 FY2011. • Child Care Assessment Project (CCAP)—In the spring of 2004, FNS began the CCAP. This project was designed to measure the effectiveness of efforts to improve the integrity of CACFP family day care homes and provide information from a broadly representative national sample of sponsors and providers. Over a four year period, FNS conducted comprehensive on-site assessments of a sample of participating family day care home sponsors. These assessments were designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance. They offered insights on the control points in the claiming and reimbursement process that most frequently cause or contribute to improper payments. FNS implemented the Targeted Management Evaluation process for FY 2010 and FY 2011, in response to identified areas of management weakness. The information from this process will help to estimate CACFP erroneous payments pursuant to IPIA. • Tiering Error—FNS has developed an annual sponsor tiering error measure and tested it. CACFP sponsors are responsible for determining whether family day care homes receive meal reimbursement at the higher rate (Tier 1) or lower rate (Tier 2). The third annual data collection was conducted to determine a nationally representative sponsor tiering determination error rate. FNS awarded the 2011 CACFP Tiering Assessment Project and plans to expand the project to 2012 and 2013. • Claiming Error—FNS has identified two potential methods of estimating the risk of claiming error: – *State data approach*: Use data from State monitoring visits of FDCHs. – *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. FNS concluded that comparing meal claims to a sponsor's report of the number of children observed during a monitoring visit does not provide a reliable estimate of family home day care meal claiming error. FNS has contracted with Mathematica Policy Research, Inc. to evaluate the feasibility of three different data collection methods for validating FDCH meal reimbursement claims. The pretest found that parent recalls hold promise for validating whether meals claimed for children of interviewed parents are erroneous. A plan is being developed to further evaluate the use of parent-recall interviews in validating sponsor submitted meal claims for FDCHs. The 2010 CN Reauthorization (the Healthy, Hunger-Free Kids Act of 2010 (PL 111-296)) strengthened CACFP program administration, certification, and monitoring processes by: • Providing more CACFP audit funding in FY 2015, making additional monies available to State agencies for Program improvement. It also directs USDA to establish eligibility criteria, with a maximum of two percent of the CACFP funds used by each State agency during the second preceding fiscal year. It requires the State agency to demonstrate it can effectively utilize this funding for Program improvement. • Simplifying area eligibility determinations in CACFP, allowing the use of all levels of school data (elementary and secondary) for tiering determinations; • Requiring sponsoring organizations to conduct periodic unannounced site visits at not less than 3-year intervals to sponsored child and adult care and family or group day care homes; at least one scheduled site visit each year at these centers and homes; and that

Agency	Program	Corrective Actions Planned
		the timing of unannounced reviews be varied in such a way that it makes the reviews unpredictable to sponsored facilities. Besides the studies already mentioned, FNS has planned or is already conducting three studies which also strengthen the financial integrity process and work toward improving the balance of erroneous payments, including: • CACFP Sponsor Tiering Determination, an evaluation providing a national estimate of the share of CACFP participating family daycare homes approved for an incorrect level of per meal reimbursement, or reimbursement tier for their circumstances; • Child and Adult Care Food Program Meal Claims Assessment, which will evaluate the feasibility of a parent-recall interview methodology for developing national improper payment estimates of the share of CACFP participating family day care home meals approved by providers for an incorrect level of per meal reimbursement; and • Study Relating to the Child and Adult Care Food Program, an examination of best practices of States in soliciting sponsors for an afterschool supper program;
FSA	Milk Income Loss Contract Program (MILC)	MILC improper payments were primarily attributable to administrative errors. Causes of improper payments include: • Incorrect payee share calculation; • Wetland conservation certification not on file; and • Income ineligibility. For MILC corrective actions, see the MAL section. The same corrective actions apply to this program.
FSA	Loan Deficiency Payments (LDP)	LDP was not measured since FY 2010 outlays were only $0.2 million. For LDP corrective actions, see MAL section. The same corrective actions apply to this program.
FSA	Direct and Counter-Cyclical Payments (DCP)	DCP improper payments were primarily attributable to administrative errors. Causes of improper payments include: • Payee did not have enough cropland interest to support claim; • Required signatures and/or acreage reports were not on file; and • Payment did not take into account required base acres reduction. For DCP corrective actions, see the MAL section. The same corrective actions apply to this program.
FSA	Conservation Reserve Program (CRP)	CRP improper payments were primarily attributable to administrative errors. Causes of improper payments include: • Cost share amount was incorrect; • Conservation reserve contract or plan of operation was not on file or missing signatures; and • Payee share calculation incorrect. For CRP corrective actions, see the MAL section. The same corrective actions apply to this program.
FSA	Miscellaneous Disaster Programs (MDP)	MDP improper payments were primarily attributable to administrative errors. Each fiscal year's payment data represents different disaster response programs based on authorities provided by legislation passed by Congress. For FY 2011 reporting, the Supplemental Revenue Assistance Payments (SURE) program payments were measured. OMB and FSA will evaluate MDP components annually to determine if measurement and PAR reporting will be done for a specific fiscal year. Causes of improper payments include: • Calculated payment amount is incorrect; • Guarantee basis amount incorrect; and Program workbook information incomplete. For MDP corrective actions, see the MAL section. The same corrective actions apply to this program.
FSA	Noninsured Assistance Program (NAP)	NAP improper payments were primarily attributable to administrative errors. Causes of improper payments include: • Application for payment not signed by producer; • Incorrect total production used to calculate payment; • Application for payment filed late; • Unit yield is not properly calculated; and

Agency	Program	Corrective Actions Planned
		• Incorrect crop acreage used to calculate payment. • For NAP corrective actions, see the MAL section. The same corrective actions apply to this program.
FS	Wildland Fire Suppression Management (WFSM)	FS corrective actions have reduced the potential for errors resulting in the WFSM program reporting a zero improper payment error rate. These actions include improved controls with regard to review processes, continuous internal monitoring of possible improper payments, centralization of accounting functions, improved communications, and follow-up prior to payment authorization.
RD	Rental Assistance Program (RAP)	RAP improper payments were primarily attributable to administrative and authentification errors. Cause of improper payments include: • Insufficient file documentation; and • Borrower/agent calculation errors. Corrective actions include: • Meet with the property management business partners and the Agency to continue providing educational opportunities for the industry regarding the importance of the IPIA process and the types of errors that were identified. Timeframe - September 30, 2011; and • Continue to pursue access to the U.S. Department of Health and Human Services New Hires database and the U.S. Department of Housing and Urban Development's Enterprise Income Verification System to be shared with State Offices and management agents. Ongoing.
RMA	Federal Crop Insurance Corporation Program Fund (FCIC)	FCIC improper payments were primarily attributable to verification errors. Causes of improper payments include: • Incorrect application of crop insurance policy requirements for prevented planting; • Incorrect acreage reports; and • Incorrect indemnity calculations. RMA completed the sixth year of the 3-year review cycle established to determine the improper payment rate for the Federal Crop Insurance Program. The strategy for identifying and controlling the error rate includes identifying error trends and policy concerns and correcting them, however, there are no underlying policy or underwriting issues have become apparent. This is in part due to the diversity of crops being reviewed and suggests it may be several cycles before RMA may amass sufficient numbers of samples on any particular crop to draw meaningful comparisons in the errors identified. RMA continues to expand its strategic data acquisition and analysis efforts by incorporating additional 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 and rainfall 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 show significant cost avoidance savings each year by identifying and spot checking the crop insurance program most anomalous participants based on their history of filing claims. Additionally, RMA and FSA continue to work on completing the Comprehensive Information Management System. This project is designed to identify common and unique producer and crop information reported to both agencies; develop services to access the information; aid in information reconciliation; and reduce the reporting burdens of farmers, ranchers, producers, RMA, FSA, and crop insurance providers. RMA executed a new Standard Reinsurance Agreement (SRA) for the 2011 reinsurance year that includes an increased use of data mining to identify and review anomalous policy results to improve the overall program quality control program. The changes in the new SRA along with an improved program data acceptance system are expected to reduce improper payments over time.
NRCS	Farm Security and Rural Investment Act programs (FSRI)	FSRI improper payments were primarily attributable to administrative error. Causes of improper payments include: • Inadequate documentation NRCS will review and change current guidance as appropriate to ensure the agency personnel are following the correct process and receiving the required documentation before issuing a payment.

IV. Based on the Rate(s) Obtained in Step III, Set Annual Improvement Targets through FY 2012.

Below are summary level tables for all high risk programs outlining improper payment rates for the last two years and future reduction targets.

Improper Payment Sampling Results ($ in millions)						
	Results Reported in FY 2010			Results Reported in FY 2011		
Program	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC [Note #3]	4,151	0.81%	35	3,054	0.52%	16
Supplemental Nutrition Assistance Program, FNS [Note #8]	50,360	4.36%	2,195	64,705	3.81%	2,465
National School Lunch Program, FNS [Note #1]						
Total Program	8,925	16.28%	1,453	10,739	15.98%	1,716
Certification Error	8,925	9.40%	839	10,739	9.10%	977
Counting/Claiming Error	8,925	6.88%	614	10,739	6.88%	739
School Breakfast Program, FNS [Note #1]						
Total Program	2,534	24.87%	630	2,824	24.96%	705
Certification Error	2,534	9.08%	230	2,824	9.17%	259
Counting/Claiming Error	2,534	15.79%	400	2,824	15.79%	446
Women, Infants and Children, FNS [Note #2]						
Total Program	6,480	N/A	N/A	4,648	4.13%	192
Certification Error Component	6,480	N/A	N/A	4,648	3.05%	142
Vendor Error Component	6,480	1.17%	76	4,648	1.08%	50
Child and Adult Care Food Program, FNS [Note #2]						
Total Program	2,461	N/A	N/A	2,521	N/A	N/A
FDC Homes – Tiering Decisions	911	0.99%	9	896	1.53%	14
FDC Homes – Meal Claims	911	N/A	N/A	896	N/A	N/A
Milk Income Loss Contract Program, FSA [Note #5]	602	0.66%	5	182	2.0%	4
Loan Deficiency Payments, FSA [Note #6]	114	0.44%	0.5	0.2	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #3]	5,921	0.96%	56	3,877	0.05%	2
Conservation Reserve Program, FSA [Note #3]	1,814	1. 20%	24	1,605	1.77%	27
Miscellaneous Disaster Programs, FSA [Note #7]	108	4.60%	5	235	2.90%	7
Noninsured Assistance Program, FSA [Note #3]	59	11.65%	7	90	8.97%	8
Wildland Fire Suppression Management, FS [Note #9]	710	0.00%	0.0	491	0.00%	0.0
Rental Assistance Program, RD [Note #9]	979	1.39%	14	1,020	1.48%	15
Federal Crop Insurance Corporation Program Fund, RMA [Note #4]	8,680	6.05%	525	5,225	4.72%	247
Farm Security and Rural Investment Act programs, NRCS [Note #9]	1,505	0.41%	6	1,433	0.80%	11
USDA Total	93,853	5.37%	5,039	101,024	5.37%	5,428

Detailed Breakout of Improper Payment Reported in FY 2011							
	Total Outlays $ in millions	IP %	Over-Payments %	Under-Payments %	Other %	Incorrect Disbursement %	Incomplete Paperwork %
Marketing Assistance Loan Program, FSA/CCC [Note #3]	3,054	0.52%	0.49%	0.03%	N/A	0.21%	0.31%
Supplemental Nutrition Assistance Program, FNS	64,705	3.81%	3.06%	0.75%	N/A	3.81%	0.00%
National School Lunch Program, FNS	10,739	15.98%	12.13%	3.85%	N/A	15.98%	0.00%
School Breakfast Program, FNS	2,824	24.96%	21.54%	3.42%	N/A	24.96%	0.00%
Women, Infants and Children, FNS	4,648	4.13%	3.79%	0.34%	N/A	4.13%	0.00%
Child and Adult Care Food Program, FNS	896	1.53%	1.36%	0.17%	N/A	1.53%	0.00%
Milk Income Loss Contract Program, FSA [Note #5]	182	2.00%	2.00%	0.00%	N/A	0.11%	1.89%
Loan Deficiency Payments, FSA [Note #6]	0.2	N/A	N/A	N/A	N/A	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #3]	3,877	0.05%	0.05%	0.00%	N/A	0.05%	0.00%
Conservation Reserve Program, FSA [Note #3]	1,605	1.77%	1.75%	0.02%	N/A	1.36%	0.41%
Miscellaneous Disaster Programs, FSA [Note #7]	235	2.90%	2.90%	0.00%	N/A	2.90%	0.00%
Noninsured Assistance Program, FSA [Note #3]	90	8.97%	8.22%	0.75%	N/A	4.91%	4.62%
Wildland Fire Suppression Management, FS	491	0.00%	0.00%	0.00%	N/A	0.00%	0.00%
Rental Assistance Program, RD	1,020	1.48%	1.18%	0.30%	N/A	1.03%	0.45%
Federal Crop Insurance Corporation Program Fund, RMA	5,225	4.72%	4.69%	0.03%	N/A	4.72%	0.00%
Farm Security and Rural Investment Program, NRCS	1,433	0.80%	0.80%	0.00%	N/A	0.00%	0.80%
USDA Total	101,024	5.37%	4.36%	1.01%	0.00%	5.33%	0.04%

Improper Payment Reduction Outlook ($ in millions)									
Program	FY 2012 Reporting			FY 2013 Reporting			FY 2014 Reporting		
	Outlays	IP%	IP$	Outlays	IP%	IP$	Outlays	IP%	IP$
Marketing Assistance Loan Program, FSA/CCC	25	0.51%	0.1	21	0.49%	0.1	21	0.48%	0.1
Supplemental Nutrition Assistance Program, FNS [Note #8]	76,030	3.81%	2,897	76,030	3.81%	2,897	76,030	3.81%	2,897
National School Lunch Program, FNS	11,853	15.53%	1,841	11,981	15.10%	1,809	12,578	14.67%	1,845
School Breakfast Program, FNS	3,183	24.15%	769	3,307	23.36%	773	3,452	22.60%	780
Women, Infants and Children, FNS	4,872	4.05%	197	5,174	3.97%	206	5,161	3.89%	201
Child and Adult Care Food Program, FNS	908	1.48%	13	924	1.43%	13	946	1.38%	13
Milk Income Loss Contract Program, FSA [Note #5]	1	1.90%	0.0	250	1.80%	5	250	1.70%	4
Loan Deficiency Payments, FSA [Note #6]	0.1	0.44%	0.0	0.1	0.44%	0.0	0.1	0.44%	0.0
Direct and Counter-Cyclical Payments, FSA	5,139	0.05%	3	5,712	0.05%	3	3,879	0.05%	2
Conservation Reserve Program, FSA	1,997	0.69%	14	2,142	0.64%	14	2,142	0.60%	13
Miscellaneous Disaster Programs, FSA [Note #7]	700	2.80%	20	850	2.70%	23	300	2.60%	8
Noninsured Assistance Program, FSA	117	6.97%	8	115	4.97%	6	115	2.50%	3
Wildland Fire Suppression Management, FS	1,212	0.02%	0.2	1,239	0.02%	0.2	1,268	0.02%	0.2
Rental Assistance Program, RD	1,030	1.45%	15	1,071	1.42%	15	1,114	1.39%	15
Federal Crop Insurance Corporation Program Fund, RMA	4,750	4.40%	209	9,000	4.30%	387	8,000	4.20%	336
Farm Security and Rural Investment, NRCS	2,205	0.03%	1	2,531	0.03%	1	2,899	0.03%	1

Note #1: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error. NSLP and SBP estimated improper payment amounts reported for FY 2011 are based on error rates for School Year 2009/10 times the FY 2010 outlays.

Note #2: WIC and CACFP tests components of their total program measuring FY 2010 outlays for FY 2011 reporting. WIC has reported on the vendor error component since FY 2006. WIC is reporting a certification error component error rate and estimated improper payment amount for the initial time for FY 2011. WIC measured the certification component of the FY 2009 outlays which resulted in an error rate of 2.98 percent for FY 2010 reporting. However, this error rate was not available for reporting at the time of the FY 2010 Performance and Accountability Report (PAR) publication. Also, the WIC component outlays amount in the FY 2010 PAR should have been reported as $4,573 million rather than the $6,480 million that was incorrectly reported. The $6,480 million amount included administrative outlays in addition to the component outlays. CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component and has not set a date for measurement and reporting.

Note #3: MAL and NAP information for FY 2011 reporting is based on October 2009 through August 2010 outlays. DCP and CRP information for FY 2011 reporting is based on October 2010 through December 2010 outlays. The estimated improper payment dollar amounts for MAL, DCP, CRP, and NAP may reflect variances from the relationship between the improper payment percentage and the outlays amount. These variances result from the complex, multi-stage statistical sampling methodology developed by the contract statistician in calculating the independent projections of the dollars/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. They reflect the variability within the payment data and occur with a 90 percent confidence level.

Note #4: RMA uses a 3-year running average to calculate the improper payment error rate. FY 2011 reporting is based on the measurement of 2008, 2009 and 2010 crop year outlays. This alternate measurement methodology is being evaluated by RMA and OMB to determine if a more timely measurement methodology is viable.

Note #5: FSA measured MILC by a random sample of 200 transactions from 28 States from the universe of FY 2010 payments for FY 2011 reporting. A full statistical sample was not cost effective due to low outlays during FY 2010 and the low error rates in previous years. MILC's FY 2011 outlays were $1.3 million and the volume of future outlays is uncertain. FSA and OMB will evaluate MILC activity annually to determine if measurement for a specific fiscal year would be cost effective.

Note #6: FSA did not measure LDP for FY 2011 reporting because the FY 2010 outlays were $0.2 million and statistical sampling was not cost effective. LDP's FY 2011 outlays were $0.1 million and the volume of future outlays is uncertain. FSA and OMB will evaluate LDP activity annually to determine if measurement for a specific fiscal year would be cost effective.

Note #7: FSA measured one component of the several MDP components for FY 2011 reporting. MDP is made up of many small disaster program components and a full statistical sample of all MDP components was not cost effective. The Supplemental Revenue (SURE) Assistance Payments Program FY 2010 outlays were statistically sampled, which represented 77 percent of all MDP outlays. FSA and OMB will evaluate MDP activity annually and determine which components to measure for a specific fiscal year.

Note #8: SNAP FY 2011 reporting information is based on FY 2010 outlays. SNAP reduction targets may be reviewed and adjusted in consideration of increased need resulting from further growth in the program (which has been unprecedented during the past few years), State budget constraints, and other related factors.

Note #9: The FSRI, RAP and WFSM programs information for FY 2011 reporting is based on FY 2010 outlays.

V. Discussion of your Agency's Payment Recapture/Recovery Auditing Effort.

In FY 2011, USDA developed and submitted a Payment Recapture/Recovery Audit (PRRA) Plan to the Office of Management and Budget (OMB) as required by OMB memorandum M-11-04 "Increasing Efforts to Recapture Improper Payments." USDA issued a request for proposals (RFP) to solicit PRRA services from a private sector recovery auditing contractor. The RFP process was terminated after determining the proposals received did not meet the PRRA initiative RFP requirements.

USDA issued a revised RFP for PRRA services in late FY 2011, which closed in early FY 2012. The Department is completing the technical evaluation of the received proposals from the revised RFP. Contract award for PRRA services is anticipated in FY 2012.

Since USDA PRRA contract is yet to be awarded, we are unable to report PRRA information for FY 2011. USDA anticipates reporting PRRA targets, aging of outstanding overpayments, recoveries by type of payment and disposition of recaptured funds in future year PARs.

The chart below includes USDA's recovery activity of contract payments from FY 2004 through FY 2010. USDA's contracting vehicle for recovery auditing of contractor services was terminated, therefore information for FY 2011 is not provided. USDA is in the process of establishing a contract for payment recapture/recovery auditing services to meet the requirements of the Improper Payments Elimination and Recovery Act and expects contract award during FY 2012. Since USDA PRRA contract is expected to be awarded during FY 2012, USDA anticipates reporting the information related to its PRRA initiative in future year PARs.

FY 2011 Results for Recovery Auditing of Contracts ($ in Million)								
Agency Component	Amount Subject to Review for FY 2011 Reporting [Note #10]	Actual Amount Reviewed and Reported [Note #10]	FY 2011 Amounts Identified for Recovery [Note #10]	FY 2011 Amounts Recovered [Note #10]	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	NA	NA	NA	NA	1.393	1.269	1.393	1.269
Natural Resources Conservation Service	NA	NA	NA	NA	0.026	0.026	0.026	0.026
Agricultural Research Service	NA	NA	NA	NA	0.110	0.059	0.110	0.059
Animal Plant Health Inspection Service*	NA	NA	NA	NA	0.395	0.395	0.395	0.395
Farm Service Agency	NA	NA	NA	NA	0.047	0.047	0.047	0.047
Food Safety and Inspection Service	NA	NA	NA	NA	0.000	0.000	0.000	0.000
Rural Development	NA	NA	NA	NA	0.000	0.000	0.000	0.004
Agricultural Marketing Service	NA	NA	NA	0.000	0.002	0.002	0.002	0.002
All Others	NA	NA	N/A	N/A	N/A	N/A	N/A	N/A
USDA Total	NA	NA	NA	NA	1.973	1.802	1.973	1.802

Note #10: This information will become available through implementation of USDA's PRRA initiative and reported in future year PARs.

The following chart includes amounts of USDA improper payments identified and recovered by source by FY 2011, prior years and cumulative. The prior year's column includes recoveries from FY 2004 through FY 2010.

FY 2011 Recovery of Improper Payments ($ in Million)						
Agency Source	FY 2011 Amounts Identified	FY 2011 Amounts Recovered	Prior Years Amounts Identified	Prior Years Amounts Recovered	Cumulative (Current & Prior Years) Amounts Identified	Cumulative (Current & Prior Years) Amounts Recovered
Statistical Samples Under IPIA	$90.24	$90.24	$801.40	$801.40	$891.65	$891.65
Identified Internally & Post Payment Reviews	$302.35	$287.09	$0.00	$0.00	$302.35	$287.09
Identified by OIG & GAO Reviews	$2.45	$0.07	$0.00	$0.00	$2.45	$0.07
USDA Total	$395.04	$377.40	$801.40	$801.40	$1,196.44	$1,178.80

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 taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the Agency's mission and goals. This program provides for improper payments to be included in the State Executive Directors 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 County Executive Director, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery, 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; and
- FSA's strategic Plan for 2005-2011 established a performance measure to help ensure payments are accurate and complete. The performance measure, "Maintain or increase the percentage of proper payments is identified in FSA's crosscutting management objective "Strategically Managing Human Capital."

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 SNAP, WIC, and CACFP is to reduce the error rates by continued management improvements. The goal of the NSLP and SBP is to improve the accuracy of school administration processes that certify children for school meals. The agency goals and priorities are incorporated into each manager's performance plan.

FS

The FS Albuquerque Service Center management team is held accountable by performance metrics that include compliance with the IPIA. 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 improper payment errors develop a corrective action plan. The plan includes 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 has contained a position-corresponding strategic objective element since FY 2005.

NRCS

NRCS incorporated IPIA goals and objectives in the performance standards for all senior executive service positions. These also have been included in the Regional Assistant Chiefs and State Conservationist performance plans.

VII . Agency Information Systems and Other 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 statute is commonly referred to as the "Finality Rule", and will affect FSA/CCC's ability to recover improper payments.

FNS

Recent Child Nutrition reauthorization legislation, while it did include some changes requested by the Administration to improve accountability, limited USDA's ability to act in this area because of concerns about potential barriers to participation. In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. In addition, program administration is highly decentralized involving a myriad of governmental and non-governmental organizations. There are approximately 100,000 school meal locations at which benefits are provided. Many of these benefit providers simply do not have the capacity to develop robust accountability processes. For these reasons, any approach to reducing school meal improper payments must:

- **Improve accuracy without compromising access for low-income families.** A process that keeps eligible children from participating would undermine the program.
- **Not unduly increase burden on schools.** Many schools consider the program burdensome now; adding burden could discourage schools from participating.
- **Be cost-effective.** Improving accuracy is potentially resource-intensive; policymakers must not create a process that increases net program costs.
- **Answer the needs of other users of program data,** which often use certification data to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

RD

The RD program does not have the statutory authority, similar to the Department of Housing and Urban Development, to gain access to data from the Department of Health and Human Services, Internal Revenue Service, Social Security Administration, and the Department of Labor to be shared with field offices and management agents. Access to this database would allow RD to verify income for recipients requesting financial assistance.

NRCS

Verification of eligibility will be an ongoing challenge for NRCS. It would be advantageous for NRCS to determine adjusted gross income eligibility on current and future Farm Security and Rural Investment Act programs (Farm Bill) participants by coordinating with the Internal Revenue Service (IRS). For long-term contracts, the IRS requirement for participants to maintain tax records expires prior to the expiration of the Farm Bill contracts, limiting the ability to independently verify eligibility.

X. Additional comments, if any, on overall agency efforts, specific programs, best practices, or common challenges as a result of IPIA implementation.

USDA has no additional comments.

Appendix C — Inspector General Act Amendments of 1988: Management's Report on Audit Follow-Up

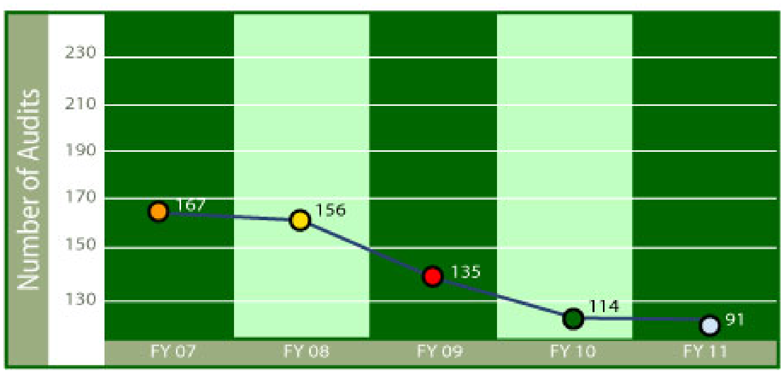
BACKGROUND

OIG audits USDA's programs, systems, and operations. OIG then recommends improvements to management based on its findings. USDA management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan is then submitted to OIG for concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, management decision is achieved for that recommendation.

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

FY 2011 Results

Exhibit 1: Decrease in Total Open Audit Inventory



Note: The FY 2010 ending balance was revised from 105 to 114 to include 9 audits that were transmitted from the Office of Inspector General after the reporting period. These adjustments are also reflected in the beginning balances for audits with disallowed costs and funds to be put to better use shown in Exhibit 3 and Exhibit 5.

USDA agencies closed 55 audits in fiscal year (FY) 2011. OIG and USDA agencies reached management decision on 32 audits during the year. One audit is in appeal status. As shown in Exhibit 1, the Department reduced its inventory of open audits in FY 2010 by 20 percent from 114 to 91.

Audit Follow-Up Process

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 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 1 year or more past the management decision date require an additional reporting element; and
- The date issued, dollar value, and an explanation of why final action has not been taken.

Exhibit 2: 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	To complete all actions that management has agreed will address the audit findings and recommendations.
Funds To Be Put to Better Use	An OIG recommendation that funds could be used more efficiently if management completes the recommendation, including: • Reductions in outlays or other savings; • De-obligation of funds from programs or operation, or withdrawal of subsidy costs on loans, guarantees, or bonds; and • Implementing recommended improvements for grants or contracts or unnecessary expenditures noted in pre-award reviews of contract or grant agreements.
Management Decision	Agreement between management and OIG on corrective action needed to address audit findings and recommendations.

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

Exhibit 3: Inventory of Audits with Disallowed Costs[13]

Audits with Disallowed Costs (DC)	# of Audits	Amount ($)
Beginning of the Period	32	$49,253,822
Plus: New Management Decisions	7	5,755,682
Total Audits Pending Collection of DC	39	55,009,504
Adjustments		14,576,588
Revised Subtotal		40,432,916
Less: Final Actions (Recoveries)	13	17,052,171
Audits with DC Requiring Final Action at the End of the Period	26	23,380,745

Exhibit 4: Distribution of Adjustments to DC

Category	Amount ($)
Agency Documentation	$652,177
Write-Offs	12,564,214
Agency Appeals	2,027
Agency Discovery	1,358,170
Total	$ 14,576,588

Exhibit 5: Inventory of Audits with Funds To Be Put to Better Use[1]

Audits with Funds to be Put to Better Use (FTBU)	# of Audits	Amount ($)
Beginning of the Period	16	$542,468,631
Plus: New Management Decisions	5	6,140,741
Total Audits Pending	21	545,609,372
Less: Final Actions	11	448,965,983
Audits with FTBU Requiring Final Action at the End of the Period	10	99,643,389
Disposition of FTBU:		
FTBU Implemented		448,346,629
FTBU Not Implemented		619,354
Total FTBU Amounts for Final Action Audits		$448,965,983

Of the 55 audits that achieved final action during the fiscal year, 7 contained DC. The number of DC audits remaining in the inventory at the end of the fiscal year is 26 with a monetary value of $23,380,745.

[13] Exhibit 3 and Exhibit 5 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 3 and Exhibit 5 does not equal the total resolved audit inventory balance in Exhibit 1.

For audits with DC that achieved final action in FY 2011, OIG and management agreed to collect $31,628,759. Adjustments were made totaling $14,576,588 (46 percent of the total) because of: 1) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs agency documentation; 2) write-offs; 3) agency appeals; and 4) agency discovery. Management recovered the remaining $17,052,171 in addition to $1,360,890 in interest.

Final action occurred on 11 audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is 10 with a monetary value of $99,643,389.

Exhibit 6: Decrease in the Number of Audits Open One or More Years Past the Management Decision Date

Audits one Year or More Past (Management Decision Date) MDD	# of Audits
Beginning of the period	83*
Less: FY 2010 audits closed	28
Subtotal FY 2010 Audits one year or more past MD	55
Plus: Audits that turned one year during FY 2010	7
End of the Period * (includes 1 audit in appeal not listed in Exhibit below)	62*

The numbers of audits open 1 or more years without final action in FY 2011 decreased from 83 to 55 audits, a 34-percent decrease. During the year, an additional 7 audits turned 1 year past Management Decision Date (MDD) for a balance of 62 audits. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits.

Agencies have completed all planned corrective actions on 17 audits that are pending collection of associated disallowed costs. With the exception of one audit which is in appeals, audits without final action 1 year or more past the MDD 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, in appeals, and audits under collection is available from OCFO.

Exhibit 7: Distribution of Audits Open 1 Year or More Past the MDD

	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
Agency	No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)
Totals	4	0	0	40	$5,082,350	$97,686,980	17	$14,894,005	$1,209,659

Management's Report on Audit Follow-Up

Exhibit 8: Audits Open 1 Year or More Past the MDD and Behind Schedule

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount DC$	Monetary Amount FTBU$
(27) Pending issuance of policy/guidance and legislation					
03099-198-KC	8/22/08	12/31/11	FSA Inspection of Temporary Domestic Storage Sites for Foreign Food Assistance	-	-
03601-11-AT	11/17/05	3/31/12	FSA Minority Participation in Farm Service Agency's Programs	-	-
03601-17-CH	9/29/08	12/31/11	FSA Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance	-	-
05601-4-KC	3/4/09	12/30/11	RMA Use of the National Agriculture Statistics Service County Average Yields for the Group Risk Protection Plans of Insurance	-	$70,000,000
10401-2-FM	11/13/08	12/31/11	NRCS Financial Statements for FY 2008	-	-
11099-44-FM	12/14/06	10/31/11	Departmental Management Potential Improper Payments/Purchase Card Management System	-	-

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount DC$	Monetary Amount FTBU$
24601-1-CH	6/21/00	9/30/12	FSIS Laboratory Testing of Meat and Poultry Products	-	-
24601-2-KC	9/30/03	12/31/11	FSIS Oversight of Production Process and Recall at ConAgra Plant	-	-
24601-7-KC	11/28/08	12/31/11	FSIS Evaluation of FSIS Management Controls over Pre-Slaughter Activities	-	-
24601-8-KC	3/25/10	12/31/11	FSIS National Residue Program for Cattle	-	-
27099-49-TE	3/10/08	11/30/11	Disaster Food Stamp Program for Hurricanes Katrina and Rita, Louisiana, Mississippi and Texas	-	-
27601-3-CH	3/22/96	12/30/11	FNS Food Stamp Program Disqualified Recipient System	-	-
33002-4-SF	5/14/10	12/31/12	APHIS Inspection of Problematic Dealers	-	$177,980
33601-3-CH	2/20/03	6/30/12	APHIS Safeguards to Prevent Entry of Prohibited Pests and Diseases into the United States	-	-
33601-7-CH	8/14/07	6/30/12	APHIS Review of Customs and Border Protection Inspection Activities	-	-
33601-10-CH	4/13/10	12/31/11	APHIS Controls over Licensing of Animal Exhibitions	-	-
34099-2-AT	9/14/01	9/30/12	RD, RBCS Business and Industry Loan Program, OMNIVEST Resources, Inc. – Fort Gaines, Georgia	$4,052,351	-
34601-4-AT	1/10/03	7/31/12	RD, RBCS Lender Servicing of Business and Industry Guaranteed Loans in Georgia	-	-
34601-15-TE	9/30/03	9/30/12	RD, RBCS National Report on the Business and Industry Loan Program	-	-
34703-1-KC	4/27/10	10/31/11	RD Controls over Recovery Act Business Enterprise Grants	-	-
50401-65-FM	11/14/08	9/30/11	Office of the Chief Financial Officer USDA Consolidated Financial Statements FY 2007 and FY 2006	-	-
50401-67-FM	11/16/09	9/30/12	Office of the Chief Financial Officer USDA Consolidated Financial Statements FY 2009 and FY 2008	-	-
50601-6-HY	7/15/09	12/31/11	FSA's Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	-	-
50601-8-TE	1/28/05	9/30/12	APHIS Controls Over Issuance of Genetically Engineered Organism Release Permits	-	-
50601-10-AT	3/8/04	3/31/12	ARS Follow-up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	-	-
50601-12-CH	3/31/08	12/31/11	APHIS Controls over the Importation and Movement of Live Animals	-	-
50601-17-TE	12/12/08	12/31/11	ARS Control over Importation of Transgenic Plant and Animals	-	-
(5) Pending completion of IT system security weaknesses, systems development, implementation, or enhancement					
04801-6-KC	12/18/00	10/31/11	RD, Rural Housing Service Rural Rental Housing Program Insurance Expenses, Phase I	$1,029,999	$9,000
24601-7-HY	9/28/06	12/31/11	Food Safety and Inspection Service Issues Impacting the Development of Risk-Based Inspection at Meat and Poultry Processing Establishments	-	-
24601-8-CH	8/23/07	12/31/11	Food Safety and Inspection Service Egg Products Processing Inspection	-	-

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount DC$	FTBU$
24601-8-HY	8/24/08	12/31/11	Food Safety and Inspection Service Followup Review of Food Safety and Inspection Service's Controls Over Imported Meat and Poultry Products	-	-
33601-1-HY	2/14/05	3/31/12	Food Safety and Inspection Service Oversight of the Importation of Beef Products from Canada	-	-
(2) Pending results of internal monitoring or program review					
04099-212-TE	8/25/09	10/31/11	Rural Development, Rural Housing Service Multi – Family Housing Loans in Texas	-	-
27601-32-CH	9/28/04	12/30/11	Food and Nutrition Service Compliance with Improper Payments Reporting Requirements	-	-
(2) Conclusion of external action					
50099-11-HY	3/31/05	9/30/11	Research Education and Economics Implementation of Federal Research Misconduct Policy in the U.S. Department of Agriculture	-	-
50601-6-TE	3/4/04	12/30/11	Agricultural Research Service Controls Over Plant Variety Protection and Germplasm Storage	-	-
(1) Pending results of request for change in management decision					
08601-54SF	3/31/10	10/31/11	FS Firefighting Succession Plans	-	$27,500,000
(3) Pending administrative action					
02601-1-CH	9/30/05	12/30/11	ARS Adequacy of Controls to Prevent the Improper Transfer of Sensitive Technology	-	-
06401-20-FM	11/9/05	12/30/12	Commodity Credit Corporation's Financial Statements for FY 2005 and 2004	-	-
07601-2-HY	7/22/08	9/30/12	Foreign Agricultural Service Export Credit Guarantee Program	-	-
Total Number Audits (40)			Total	$5,082,350	$97,686,980

Appendix D – Summary of Financial Statement Audit and Management Assurances

USDA has two existing material weaknesses: Information Technology and Financial Reporting – Unliquidated Obligations. There is one system non-conformance: Funds Control Management. Thus, the Secretary's Statement of Assurance provides qualified assurance that USDA's system of internal controls complies with FMFIA objectives. The following exhibit summarizes the results reported in USDA's Consolidated Financial Statements Audit Report.

Exhibit 1: Summary of Financial Statement Audit

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

The following exhibit lists USDA's material weaknesses and the financial system non-conformance as related to management's assurance for FMFIA and the certification for FFMIA.

Exhibit 2: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology	1					1
Financial Reporting – Unliquidated Obligations	1					1
TOTAL MATERIAL WEAKNESSES	2					2
Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
TOTAL MATERIAL WEAKNESSES	0	0				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	1					1
TOTAL NON-CONFORMANCE	1					1

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

Appendix E — Acronyms

A

ACRE—Average Crop Revenue Election
ACRSI—Acreage Crop Reporting Streamlining Initiative
ADR—Alternative Dispute Resolution
AGRM—Arkansas Global Rice Model
AMS—Agricultural Marketing Service
APEC—Access, Participation, Eligibility, and Certification Study
APHIS—Animal & Plant Health Inspection Service
ARPA—Agricultural Risk Protection Act
ARPI—Area Risk Protection Insurance
ARRA—American Reinvestment and Recovery Act
ARS—Agricultural Research Service
ASEAN—Southeast Asia
AWEP—Agricultural Water Enhancement Program

B

B&I—Business and Industry Guaranteed Loan Program
BCAP—Biomass Crop Assistance Program
BMI—Body Mass Index
BQMS—Biotechnology Quality Management System
BSE—*Bovine Spongiform Encephalopathy*

C

CACFP—Child and Adult Care Food Program
CARS—Crop Acreage Reporting System
CBWI—Chesapeake Bay Watershed Initiative
CCAP—Child Care Assessment Project
CDC—United States Centers for Disease Control
CEAP—Conservation Effects Assessment Project
CF—Community Facilities
CFMS—Corporate Financial Management System
CI—Condition Index
CNMP—Comprehensive Nutrient Management Plan
CNPP—Center for Nutrition Policy and Promotion
CNR—Child Nutrition and Women, Infants and Children Reauthorization Act of 2004
CO—County Office
CO2—Carbon Dioxide
COF—County Office
CORP—County Office Review Program
CP—Community Program
CPAP—Community Programs Application Processing
CPI—Counterpart International
CRE—Coordinated Review Effort
CRP—Conservation Reserve Program
CSC—Centralized Servicing Center
CSP—Conservation Security Program
CSREES-- Cooperative State Research, Education, and Extension Service
CSU—Colorado State University
CTA—Conservation Technical Assistance Program
CWPP—Community Wildlife Protection Program
CY—Calendar Year

D

DART—Department Accountability Recovery Team
DC—Disallowed Costs
DCP—Direct and Counter-cyclical Program
DDA—Doha Development Agenda
DDGS—Dried Distillers Grains with Solubles
DHHS—The United States Department of Health and Human Services
DLOS—Dedicated Loan Origination and Servicing
DLP—Dairy, Livestock and Poultry
DM—Deferred Maintenance
DNA—Deoxyribonucleic Acid
DO—Dissolved Oxygen
DOI—United States Department of the Interior
DRA—Delta Regional Authority
DWM—Drain Water Management

E

EAB—Emerald Ash Borer
EBCL—European Biological Control Laboratory
EBT—Electronic Benefits Transfer
EEO—Equal Employment Opportunity
eFMS—Electronic Funds Management System
EFNEP—The Expanded Food and Nutrition Education Program
EGVM—European grapevine moth

EIAO—Enforcement, Investigations, and Analysis Officers
EO—Executive Order
EPA—U.S. Environmental Protection Agency
EPP—Expanded Polypropylene
EPS—Expanded Polystyrene
ERS—Economic Research Service
EQIP—Environmental Quality Incentives Program
ET—Evapotranspiration
EU—European Union
EWRP—Emergency Wetland Reserve Program
ExCEED—Extension Community Economic and Entrepreneurial Development Program

F

FAFH—Food Away From Home
FAS—Foreign Agricultural Service
FCIC—Federal Crop Insurance Corporation
FDA—U.S. Food and Drug Administration
FDCH—Family Day Care Homes
FFAS—Farm and Foreign Agricultural Services
FFMIA—Federal Financial Management Improvement Act
FHM—Forest Health Monitoring
FIA—Forest Inventory and Analysis
FISMA—Federal Information Security Management Act
FLP—Farm Loan Program
FLP—Forest Legacy Program
FMFIA—Federal Managers' Financial Integrity Act
FMMI—Financial Management Modernization Initiative
FNCS—Food, Nutrition, and Consumer Services
FNS—Food & Nutrition Service
FPA—Fire Program Analysis
FRCC—Fire Regime Condition Class
FRIS—Farm and Ranch Irrigation Survey
FRPP—The Farm and Ranch Protection Program
FS—Forest Service
FS/QMS—Food Safety/Quality Management Systems
FSA—Farm Service Agency
FSA—Food Safety Assessment
FSH—Forest Service Handbook
FSIS—Food Safety and Inspection Service
FSM—Forest Service Manual
FSRIP—Farm Security and Rural Investment Act Program
FSWG—Food Safety Working Group
FTBU—Funds to Be Put to Better Use
FTE—Full Time Employee
FTF—Feed the Future
FWP—Farmable Wetlands Program
FWS—U.S. Fish and Wildlife Service
FY—Fiscal Year

G

GAO—United States Government Accountability Office
GCFI—Gross Cash Farm Income
GE—Genetically Engineered
GIPSA—Grain Inspection, Packers and Stockyards Administration
GLS—Guaranteed Loan System
GM—–Genetically Modified
GPRA—Government Performance and Results Act of 1993
GUS—Guaranteed Underwriting System

H

HACCP—Hazard Analysis and Critical Control Points
HAMP—Home Affordable Modernization Program
HEI—Healthy Eating Index
HHFKA—Healthy, Hunger-Free Kids Act of 2010
HIT—High Impact Targeted
HLB— Huanglongbing
HPPG— High Priority Performance Goal
HSI— Habitat Suitability Indices

I

ICAM—Identity, Credential and Access Management
IgG—immunoglobulin G
INRA—French Institut National de la Recherche Agronomique
IOM—Institute of Medicine
IPERA—Improper Payments Elimination and Recovery Act
IgG—immunoglobulin G
INRA—French Institut National de la Recherche Agronomique
IPAC— Intragovernmental Payment and Collection
IPERA—Improper Payments Elimination and Recovery Act
IPIA—Improper Payments Information Act
IVT—Intensified Verification Testing
IPIA—Improper Payments Information Act
IPM—Integrated Pest Management
IPP—Inspection Program Personnel
IT—Information Technology

K

kWh—Kilowatt Hours

L

LDP—Loan Deficiency Payment
LEA—Local Education Agency
LFP—Livestock Feed Program
Lm—*Listeria monocytogenes*
LSS—Lean Six Sigma

M

MAIL—Ministry of Agriculture, Irrigation, and Livestock
MAL—Marketing Assistance Loan Program
MDD—Management Decision Date
MDP—Miscellaneous Disaster Program
MFIS—Multi-Family Information System
MIDAS—Modernize and Innovate the Delivery of Agricultural Systems
MILC—Milk Income Loss Contract Program
MODIS—Moderate-resolution Imaging Spectroradiometer
MOU—Memorandum of Understanding
MRL—Maximum Residue Limits
MRP—Marketing and Regulatory Programs

N

NAHLN—National Animal Health Laboratory Network
NAHMS—National Animal Health Monitoring System
NAL—National Agricultural Library
NAP—Noninsured Crop Disaster Assistance Program
NASS—National Agricultural Statistics Service
NCP—National Conservation Planning Database
NDB—National Data Bank
NEL—Nutrition Evidence Library
NEPA—National Environmental Policy Act
NEST—National Easements Staging Tool
NFS—National Forest System
NIFA—National Institute of Food and Agriculture
NIRS—Near Infrared Spectroscopy
NIST—National Institute of Standards and Technology
NOAA—National Oceanic and Atmospheric Administration
NOC—National Operations Center
NORS—National Outbreak Reporting System
NPDN—National Plant Diagnostic Network
NPGS—National Plant Germplasm System
NRCS—Natural Resources Conservation Service
NRHP-- National Register of Historic Places
NRTE—Not-Ready-to-Eat
NSLP—National School Lunch Program
NVUM—National Visitor Use Monitoring

O

OASCR—Office of the Assistant Secretary for Civil Rights
OCFO—The Office of the Chief Financial Officer
ODRM—Office of Data and Records Management
OIG—USDA Office of Inspector General
OMB—The United States Office of Management and Budget
ORAS—Operations Review and Analysis Staff
OSU—Oregon State University

P

P&S—Packers and Stockyards
PAR—Performance and Accountability Report
PAS—Performance Accountability System
PART—Performance Assessment Rating Tool
PCR—Polymerase Chain Reaction
PFGE—Pulse-field Gel Electrophoresis
PHIS—Public Health Information System
PLAS—Program Loan Accounting System
PP&E—Propety, Plant, and Equipment
PPA—Plant Protection Act
PPV—*Plum Pox Virus*
PRF—Pasture, Range, Forage
ProTracts—Program Contracts Database
PRRA—Payment Recapture/Recovery Auditing
PRS—Performance Results System
PRV—Plant Replacement Value
PSU—Primary Sampling Unit

Q

QC—Quality Control
QMS—Quality Management Systems

R

RA—Rental Assistance
RAP—Rental Assistance Program
RBCP—Rural Business and Cooperative Programs
RBOG—Rural Business Opportunity Grant
RC&D-- Resource Conservation and Development
RD—Rural Development
REAP—Rural Energy for America Program
REE—Research, Education, and Economics
RFS—2 Renewable Fuel Standard
RII—Regional Innovation Initiative
RIT--Regional Innovation Team
RMA—Risk Management Agency
RME—Risk Management Education
RORA—Regional Office Review of Applications
RRV—Red River Valley
RTE—Ready-to-Eat
RULSS—Rural Utilities Loan Servicing System
RUS—Rural Utilities Service

S

SA—State Agency
SARE—Sustainable Agricultural Research and Education
SBP—School Breakfast Program
SFA—School Food Authority
SIP—*Salmonella* Initiative Program
SME—Small and Medium Enterprise
SMI—School Meal Initiative
SNAP—Supplemental Nutrition Assistance Program
SO—State Office
SOP—Standard Operating Procedure
SPC—Soy Protein Concentrate
SPS—Sanitary/Phytosanitary
SPT—Seed Production Technology
SRA—Standard Reinsurance Agreement
SY—School Year

T

TA—Trade Agreement
TANF—Temporary Assistance for Needy Families
TBT—Technical Barrier to Trade
TEFAP—The Emergency Food Assistance Program
TFP—Total Factor Productivity
TIR—Thermal Infrared
TME—Targeted Management Evaluation
TPP—Trans-Pacific Partnership
TXHPET—Texas High Plains Evapotranspiration Network

U

USDA—The United States Department of Agriculture
USF—Universal Service Fund
USTR—Office of the U.S. Trade Representative

V

VFA—Volatile Fatty Acid
VHS—*Viral Hemorrhagic Septicemia*
VSH—Varroa Sensitive Hygiene

W

WBSCM—WebBased Supply Chain Management
WCF—Working Capital Fund
WEP—Water and Environmental Programs
WEPP—Water Erosion Prediction Project
WEPS—Wind Erosion Prediction System
WFSM—Wildland Fire Suppression Management
WIC—Special Supplemental Nutrition Program for Women, Infants and Children
WRP—Wetlands Reserve Program
WRSIS—Wetland-Reservoir-Subirrigation System
WSU—Washington State University
WTO—World Trade Organization
WUI—Wildland Urban Interface