

2011

# Summary of Performance and Financial Information



United States Department of Agriculture

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# Table of Contents

<b>Table of Contents .....</b>	<b>1</b>
<b>Message from the Secretary.....</b>	<b>2</b>
<b>About this Report .....</b>	<b>6</b>
<b>1. Summary of Performance and Financial Information.....</b>	<b>7</b>
Resources .....	10
Performance Goals, Objectives, and Results .....	11
Future Demands, Risks, Uncertainties, Events, Conditions, and Trends.....	13
Financial Statement Highlights.....	16
Systems, Controls, and Legal Compliance (Statement of Assurance).....	21
Federal Managers' Financial Integrity Act Report on Management Control .....	22
Federal Financial Management Improvement Act Report on Financial Management Systems.....	25
Federal Financial Management System Requirements.....	26
Eliminating Improper Payments .....	28

# 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 14 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 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 facilitating additional economic activity.

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 21<sup>st</sup> 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.

A handwritten signature in blue ink, reading "Thomas J. Vilsack". The signature is fluid and cursive, with the first name "Thomas" and middle initial "J." written in a larger, more prominent script than the last name "Vilsack".

Thomas J. Vilsack  
Secretary of Agriculture  
November 15, 2011

## About this Report

This *Fiscal Year 2011 Summary of Performance and Financial Information* was originally published as the Management's Discussion and Analysis section of the *Fiscal Year 2011 Performance and Accountability Report* (PAR), 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](http://usda.gov).

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.



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.

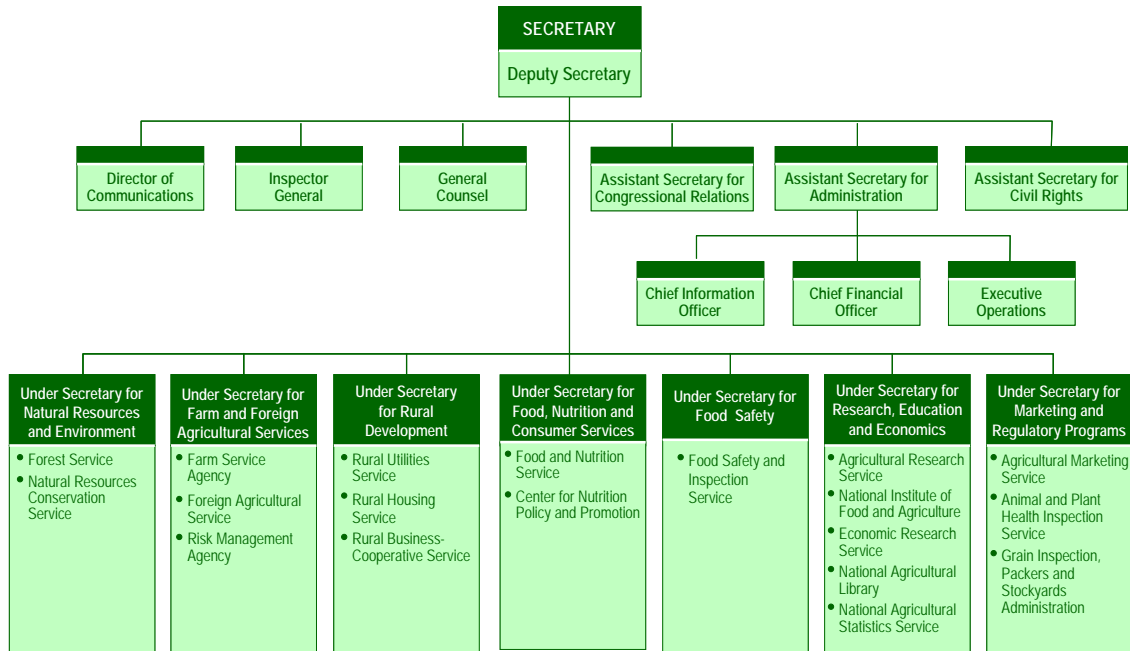
USDA's strategic goals, as outlined in the *Strategic Plan for FY 2010-2015* ([usda.gov](http://usda.gov)), are:

- 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**

<b>Mission Statement</b>
<p><i>USDA provides leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management.</i></p>

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**

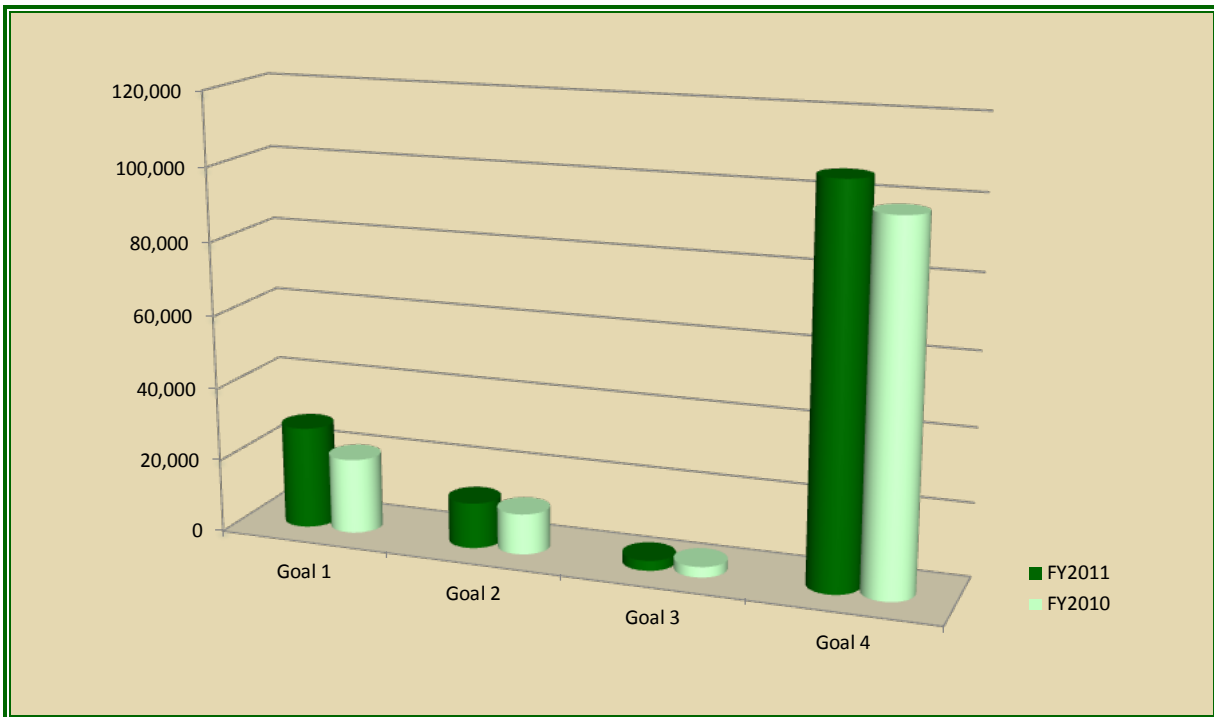
Department-level offices provide centralized leadership, coordination, and support for USDA’s policy and administrative functions. Their efforts maximize the energy and resources agencies devote to the delivery of services to USDA customers and stakeholders.

**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	
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

PERFORMANCE SCORECARD FOR FY 2011		
Objectives	Annual Performance Goals	Result
	2.1.6 FRPP: Prime, unique, or important farmland protected from conversion to nonagricultural uses by conservation easements	Exceeded
	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	Met
	<ul style="list-style-type: none"> <li>• National School Lunch Program</li> <li>• School Breakfast Program</li> </ul>	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 <i>Salmonella</i> 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	Exceeded
	<ul style="list-style-type: none"> <li>• Large Establishment</li> <li>• Small Establishment</li> <li>• Very Small Establishment</li> </ul>	
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%
<b>Total Assets</b>	<b>178,128</b>	<b>176,408</b>	<b>1%</b>
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%
<b>Total Liabilities</b>	<b>136,252</b>	<b>128,924</b>	<b>6%</b>
Unexpended Appropriations	30,469	36,261	-16%
Cumulative Results of Operations	11,407	11,223	2%
<b>Total Net Position</b>	<b>41,876</b>	<b>47,484</b>	<b>-12%</b>
<b>Total Liabilities and Net Position</b>	<b>\$178,128</b>	<b>\$176,408</b>	<b>1%</b>

**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%
<b>Net Cost of Operations</b>	<b>\$148,847</b>	<b>\$132,438</b>	<b>12%</b>

**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

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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.

A handwritten signature in blue ink that reads "Thomas J. Vilsack". The signature is written in a cursive, flowing style.

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 Restatement	Unqualified					
	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
<b>TOTAL MATERIAL WEAKNESSES</b>	<b>2</b>					<b>2</b>

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

<b>Material Weakness Existing</b>	<b>1. USDA Information Technology (IT)</b>	<b>Overall Estimated Completion Date</b>	<b>FY 2012</b>
	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.		
<b>FY 2011 Accomplishments:</b>		<b>FY 2012 Planned Actions:</b>	
<ul style="list-style-type: none"> <li>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;</li> <li>Completed majority of the ICAM functional requirements cases;</li> <li>Continued implementation of Security Operations Centers to increase real-time operational security monitoring of USDA networks;</li> <li>Deployed 11 remote network monitoring sites;</li> <li>Implemented Endpoint Security Whole Desk Encryption to 99</li> </ul>		<ul style="list-style-type: none"> <li>Continue development of IT Security Architecture that incorporates automated tools for network monitoring and situational awareness;</li> <li>Implement the continuous monitoring and continuous assessment initiatives in accordance with the National Institute of Standards and Technology (NIST);</li> <li>Continue outreach and education programs to ensure USDA's Chief Information Officers (CIOs) are fully informed and participating in OCIO IT Security initiatives;</li> <li>Continue to improve the security governance process by</li> </ul>	

<b>Material Weakness Existing</b>	<b>1. USDA Information Technology (IT)</b>	<b>Overall Estimated Completion Date</b>	<b>FY 2012</b>
	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.		
<b>FY 2011 Accomplishments:</b>		<b>FY 2012 Planned Actions:</b>	
<ul style="list-style-type: none"> <li>percent of its end-user systems and servers;</li> <li>Monitored agency-wide Federal Desktop Core Configuration compliance and software patch installation;</li> <li>Institutionalized the Risk Management Framework, which provides increased real-time security control assessment and continuous monitoring; and</li> <li>Ensured key IT security controls are tested annually for all systems.</li> </ul>		<ul style="list-style-type: none"> <li>further implementation of the Risk Management Framework as outlined in NIST security requirements;</li> <li>Continue monitoring, investigating, reporting of compliance and remediation of non-compliance to Department policies, guidance, processes, and procedures;</li> <li>Improve agency oversight and compliance with USDA and NIST security requirements; and</li> <li>Reduce the security risks associated with USDA IT Systems.</li> </ul>	

<b>Material Weakness Existing</b>	<b>2. Financial Reporting – Unliquidated Obligations</b>	<b>Overall Estimated Completion Date</b>	<b>FY 2012</b>
	Lack of consistent review and follow-up on unliquidated obligations (ULO). (Department and NRCS)		
<b>FY 2011 Accomplishments:</b>		<b>FY 2012 Planned Actions:</b>	
<p><b>Department:</b></p> <ul style="list-style-type: none"> <li>Worked with USDA agencies to complete cleanup of obligations recorded in the Foundation Financial Information System (FFIS) and the Financial Management Modernization Initiative (FMMI);</li> <li>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;</li> <li>Improved agency monitoring of unliquidated obligations via monthly working group meetings;</li> <li>Provided monthly scorecard in the Chief Financial Officer (CFO) Council to track status of unliquidated obligations;</li> <li>Distributed ULO aging reports to USDA agencies;</li> <li>Reviewed quarterly certifications by agency CFOs; and</li> <li>Monitored monthly corrective action status reports on review of unliquidated obligations under OMB Circular A-123, Financial Reporting, Appendix A.</li> </ul> <p><b>NRCS:</b></p> <ul style="list-style-type: none"> <li>Created a risk-based statistical sample that segments the obligation population, then selected samples for testing and performed testing on a quarterly basis;</li> <li>Increased accountability by including an unliquidated obligation performance objective in the performance plans of State Conservationists;</li> <li>Provided training for open obligation reviews that address audit findings; and</li> <li>Published procedures for fund certification.</li> </ul>		<p><b>Department :</b></p> <ul style="list-style-type: none"> <li>Draft memorandum to obtain leadership commitment to properly monitor and review obligation balances from the Office of the Secretary to all USDA Senior Executives;</li> <li>Continue working with USDA agencies to complete cleanup of obligations recorded in FFIS and FMMI; and</li> <li>Continue monthly review of corrective action status reports on review of unliquidated obligations under OMB Circular A-123, Financial Reporting, Appendix A.</li> </ul> <p><b>NRCS:</b></p> <ul style="list-style-type: none"> <li>Increase monitoring and testing of open obligations;</li> <li>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</li> <li>Evaluate number and skill of resources at headquarters and State level to perform required obligation and related accrual activities.</li> </ul>	



**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:	
<p><b>CCC:</b></p> <ul style="list-style-type: none"> <li>Completed transaction level obligations for the Conservation Reserve Program (CRP), Annual Rental Program as well as additional Farm Program;</li> <li>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</li> <li>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.</li> </ul> <p><b>NRCS:</b></p> <ul style="list-style-type: none"> <li>Implemented an administrative trainee program to assist a pipeline of employees in financial management;</li> <li>Deployed detailed procedures and training on obligations; reimbursable agreements, leases, property, and advances;</li> <li>Instituted processes to ensure financial statements are reviewed and approved by management;</li> <li>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;</li> <li>Implemented an enhanced Office of Management and Budget (OMB) Circular A-123, "Management's Responsibility for Internal Control" program</li> <li>Ensured the completeness of unfilled customer order population;</li> <li>Established a robust procedure for monitoring of unliquidated obligations; and</li> <li>Made significant improvements to document the completion of stewardship land.</li> </ul>		<p><b>CCC:</b></p> <ul style="list-style-type: none"> <li>Complete software modifications to program applications to send obligation transactions; and</li> <li>Continue to select and implement software, while migrating to the Department's enterprise solution under FMFI.</li> </ul> <p><b>NRCS:</b></p> <ul style="list-style-type: none"> <li>Hire additional staff with experience in financial statement preparation and reporting;</li> <li>Establish controls for the reporting of human capital and research and development costs as part of Requirement Supplementary Stewardship information;</li> <li>Perform asset valuation reviews to improve property and deferred maintenance reporting;</li> <li>Continue improvements regarding stewardship reporting, particularly the condition of closed easements;</li> <li>Continue improvements in IT general and application access controls;</li> <li>Continue to evolve a more robust A-123 program; and</li> <li>Implement an agency wide Compliance Review Program to ensure compliance with applicable laws, regulations, and policies.</li> </ul>	

**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 <sup>1</sup>	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

<sup>1</sup> 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 FFMIA 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.