

# 2009 PERFORMANCE AND ACCOUNTABILITY



REPORT



**USDA** United States Department of Agriculture

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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 2009 Performance and Accountability Report*.

The Department's wide range of programs and responsibilities touch the lives of every American, every day. And as we fulfill our responsibility to serve the American people, we strive to answer President Obama's call to deliver the most transparent, accountable, and responsive government in history.



Through implementation of the American Recovery and Reinvestment Act of 2009, USDA funded more than 50,000 projects to put Americans back to work and help rejuvenate the Nation's ailing economy. We provided grants, loans, and other support to help create economic opportunities in America's rural communities so that they are self sustaining, repopulating, and thriving economically. And, we have begun the process of distributing billions of dollars in loans and grants to bring broadband for high speed Internet service to rural communities across the country.

USDA supported farmers and ranchers across American with disaster assistance, technical advice, and marketing and regulatory programs. Through high-level trade meetings, we worked to expand agricultural exports in order to ensure the future prosperity of America's agricultural economy. And we are working to fully enforce the Packers and Stockyards Act to crack down on unfair or deceptive practices and ensure a fair marketplace for livestock and poultry.

I have outlined a new vision for management of our Nation's forests with a focus on improving water resources and mitigating the effects of climate change. This will create jobs for folks working to conserve and restore private and public forests, and provide new opportunities for renewable energy generation. Adequate protection of roadless areas is also a critical part of my vision to preserve the character of America's forests, which is why I am currently personally approving any new projects.

In Fiscal Year 2009, USDA conducted and supported cutting edge research into nutrition, food safety, agricultural management, and technologies to secure America's energy future from new domestic sources. In conjunction with President Obama's Biofuels Interagency Working Group, we worked to expedite Farm Bill provisions to support the development of a renewable energy economy through research and funds for commercial and demonstration-scale bio-refineries.

The Department fought hunger across the globe, working with the U.S. Department of State to outline a new strategy for global Agricultural development that will focus on promoting availability, and improving accessibility and utilization. And at home we worked to ensure healthier lives and better nutrition for America's children through improvements to the food provided to women and their infant children, the expansion of programs and public-private partnerships to encourage nutritious eating and healthy lifestyles.

In Fiscal Year 2009, USDA utilized the \$170.5 billion appropriated by Congress to accomplish the following:

- Provided most four-person households receiving Supplemental Nutrition Assistance Program (SNAP) benefits an \$80 monthly payment increase, cushioning the impact of the current economic downturn and generating local economic activity worth \$1.84 for each \$1.00 spent;
- Provided nearly \$3 billion in administrative assistance to States to distribute SNAP benefits to 36 million Americans;

- Provided nearly \$875 billion for building and repairing 1,828 community facilities including childcare centers, hospitals, medical clinics, fire and rescue stations, police stations, and community centers that will improve the quality of life for more than 19 million rural Americans;
- Provided 11,000 grants and loans worth \$16.6 billion to preserve rural housing in all 50 states and U.S. Territories to help nearly 140,000 rural Americans become homeowners;
- Began a 12-state effort worth \$320 million over 5 years to improve conservation and water quality in the Mississippi River Basin;
- Helped individuals and groups apply conservation management measures to maintain or improve habitat on 11.6 million acres of non-Federal land;
- Provided loans and grants worth more than \$112 million for 1,557 renewable energy and energy efficiency projects in 47 states through the Rural Energy for America Program;
- Issued more than \$2.5 billion in grants and loans to bolster rural water and wastewater infrastructure in more than 1,200 rural communities, expected to benefit nearly 3.4 million users;
- Supported the hard-hit dairy and pork industries with more than \$700 million in Milk Income Loss Contract payments and the purchase of \$165 million in pork products for federal food nutrition assistance programs;
- Facilitated a first-of-its-kind equivalency agreement between the U.S. and Canada to create greater market opportunities and economic growth for the organic products industry;
- Granted a conditional license for a vaccine to reduce the prevalence of *E. coli* O157:H7 in feedlot cattle; and
- Awarded disaster relief funds to rural businesses, communities, and public entities impacted by floods, tornadoes and other disasters.

The Food Safety and Inspection Service (FSIS) was identified by the Government Accountability Office's high-risk report in 2007, the only USDA issue area on their list. Ensuring the safety of the American food supply and protecting the American people from foodborne illness is a top priority for President Obama and the Department. I have initiated a top-to-bottom review of the FSIS food safety system with the goal of eliminating hospitalizations and deaths due to foodborne illnesses. Additional actions taken by FSIS in Fiscal Year 2009 include:

- Participating in President Obama's Food Safety Working Group to build a food safety system that will meet the challenges posed by the global food supply of the 21st century;
- Beginning to conduct routine sampling of bench trim for *E. coli* O157:H7;
- Building a quality public health infrastructure with data that is readily accessible to key decision-makers and front-line personnel; and
- Conducting real time surveillance of high-risk shipments of meat, poultry, and egg products coming into the United States and vulnerability assessments focused on imports through partnerships with other Federal agencies.

We are also working to transform USDA into a more productive and engaged organization. I have made civil rights a top priority, taking definitive action to improve the Department's record and to move USDA into a new era as a model employer and premier service provider. We temporarily suspended all foreclosures within the Farm Service Agency's farm loan program; we began a review of program civil rights complaints to improve the complaint process; and I have ordered an external, independent analysis of program delivery to USDA constituents in the field. Additionally, I have made it clear to all employees that discrimination of any form will not be tolerated at USDA.



To improve management of the Department, strengthen integration of activities, and increase our capacity for accomplishing mission critical work, we replaced the Departmental Administration organization with a new USDA Departmental Management organization. We have implemented reforms to avoid costs to the Department of more than \$50 million since January 2009. These cost-avoidance measures have included eliminating unnecessary travel and conferences, increasing administrative efficiencies, and terminating contracts that are no longer needed.

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 the taxpayers reasonable assurance that the content of this report is based on sound, accurate data.

Nevertheless, continued improvement is needed to remediate existing material weaknesses and financial system non-compliance. 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 meet the objectives of FMFIA and FFMIA. The financial and performance information presented herein is complete and accurate, and in accordance with law and Office of Management and Budget guidance.

We have accomplished a lot in my first months as Agriculture Secretary. However, President Obama and I have a broad and ambitious agenda for USDA as an 'Every Way, Every Day' organization. I salute USDA employees for their outstanding work and want to let them know that there will be much more to accomplish as we move forward.

Finally, I want thank you for your interest in USDA. I am proud to share this information with our stakeholders, employees, federal partners and the American people.

A handwritten signature in black ink, appearing to read "Tom Vilsack", is positioned above the typed name.

Thomas J. Vilsack  
Secretary of Agriculture  
November 13, 2009

## About this Report

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

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

This Fiscal Year 2009 Performance and Accountability Report is the year-end progress report of the U.S. Department of Agriculture (USDA). It reviews the strategic goals and objectives the Department set for itself at the beginning of the fiscal year and compares initial targets to actual performance. The data used by USDA to measure actual performance are collected using standardized methodology that has been vetted by Federally employed scientists and policymakers and, ultimately, by the undersecretaries of the respective mission areas, all of whom attest to the completeness, reliability, and quality of the data.

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

This report strives to provide transparency to all Americans interested in the workings of their government and USDA's ability to "manage for results" in performing its many vital public functions.

USDA is working to implement provisions of the American Recovery and Reinvestment Act of 2009 (ARRA) to put Americans back to work and rejuvenate the Nation's ailing economy. Information on implementing ARRA at USDA can be found on the Internet at [USDA.gov/recovery](http://USDA.gov/recovery).



# 1. Management's Discussion and Analysis



The U.S. Department of Agriculture (USDA) touches the lives of all Americans every day. More than 100,000 employees deliver more than \$170.5 billion in budgetary resources to provide public services through USDA's more than 300 programs worldwide.

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

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

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

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

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

These six goals mirror USDA's commitment to provide first-class service, state-of-the-art science, and consistent management excellence across the 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) 2009 are included in this document at the end of Section 2, "Annual Performance Report."

Although change has been a constant in the evolution of the U.S. farm and food sector, the current marketplace emphasizes the growing importance to consumer preferences and the reach of global markets. USDA's objectives reflect this. Through these objectives, USDA strives to:

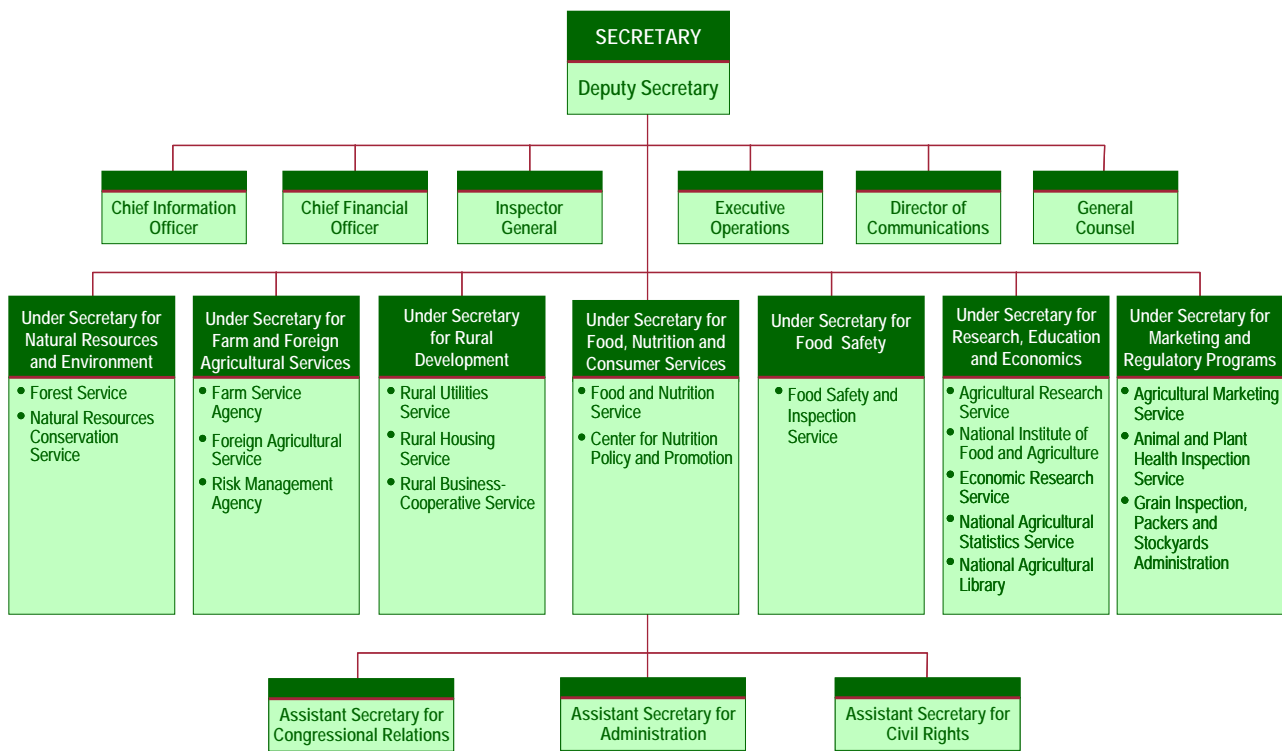
- Expand international trade for agricultural products and support international economic development;





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

Exhibit 1: Headquarters Organization (FY 2009)



USDA's FY 2009 accomplishments include:

- Implemented provisions of ARRA (see [USDA.gov/recovery](http://USDA.gov/recovery)) to put Americans back to work and rejuvenate the Nation's ailing economy;
- Granted a conditional license for a vaccine to reduce the prevalence of *E. coli* O157:H7 in feedlot cattle;
- Launched the National Institute of Food and Agriculture, which is designed to advance knowledge for agriculture; the environment; and human health and well-being by supporting research, education, and extension programs through the Land-Grant University System and other partner organizations;
- Developed new food safety rules as part of a joint effort with the U.S. Food and Drug Administration;
- Provided grants to preserve rural housing in 48 States and Puerto Rico;
- Provided loan guarantees and grants for 233 renewable energy projects in 38 States under the Rural Energy for America Program;
- Issued more than \$1 billion in grants and loans to bolster rural water and waste disposal infrastructure;

- Helped 50,000 rural Americans become homeowners;
- Facilitated a first-of-its-kind agreement between the U.S. and Canada designed to create greater market opportunities and economic growth for the organic products industry;
- Awarded disaster relief funds to rural businesses and communities impacted by floods and tornadoes;
- Provided over \$3 billion in administrative assistance to States to distribute SNAP benefits; and
- Provided nearly \$1.2 billion in loans and grants for building and repairing community facilities including childcare centers, hospitals, medical clinics, fire and rescue stations, police stations, and community centers.

## MISSION AREAS

### Mission Statement

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

To ensure that USDA’s efforts focus on meeting its real world objectives, the Department’s work is organized by mission areas, which are a collection of agencies that work together to achieve USDA’s aforementioned strategic goals. 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 (FS) and the Natural Resources Conservation Service (NRCS). FS 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, State, and local Governments; community-related groups; and other Federal agencies 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 commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength of the agricultural economic sector. The 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 farm commodity, credit, conservation, disaster, and loan programs as laid out by Congress through a network of Federal, State, and county offices. 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.

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

### Rural Development

The Rural Development (RD) mission area focuses on helping improve the economy and quality of life in all of rural America. RD provides financial programs to support such 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 loans to businesses through banks and community-managed lending



pools, while also helping communities participate in community empowerment programs. RD provides grants, loans, and loan guarantees to farmers, ranchers, and rural small businesses to develop renewable energy systems and make energy efficient 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's 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 fifteen 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**

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

### **Research, Education, and Economics**

The Research, Education, and Economics (REE) mission area 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 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 AND OFFICES**

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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 2009 program obligations totaled \$170.5 billion, an increase of \$32.8 billion compared to FY 2008. These are current year obligations from unexpired funds. They do not include prior year upward or downward obligation adjustments. The variance is due, in general, to enactment of ARRA and the 2008 Farm Bill (Food, Conservation, and Energy Act of 2008, Public Law 110-234), indemnities paid, disaster programs, and domestic nutrition programs. The variance is explained in the “Financial Statement Highlights” and the “Financial Statements” in this document.

**Exhibit 2:** FY 2009 and 2008 USDA Program Obligations Dedicated to Strategic Goals

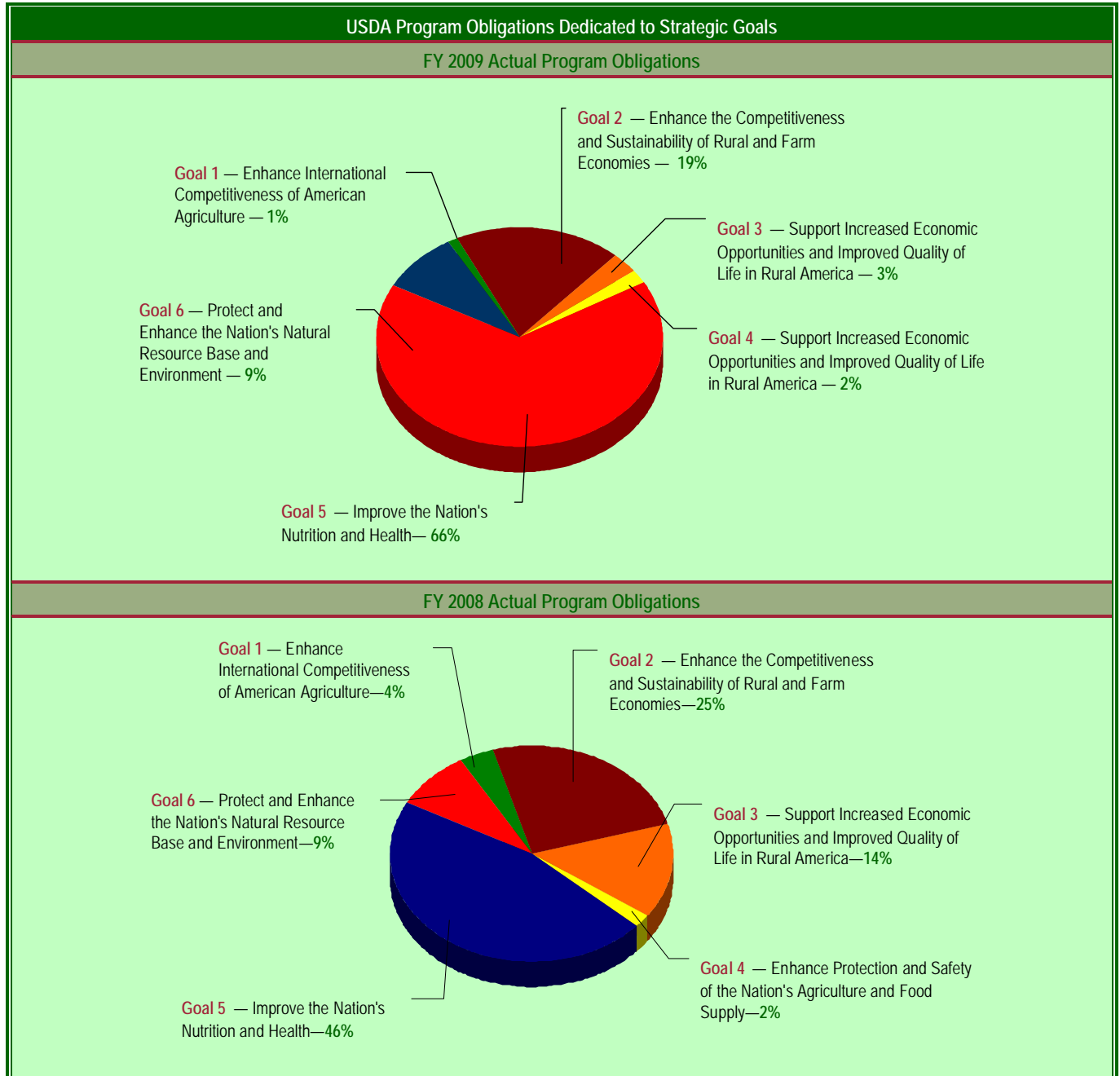
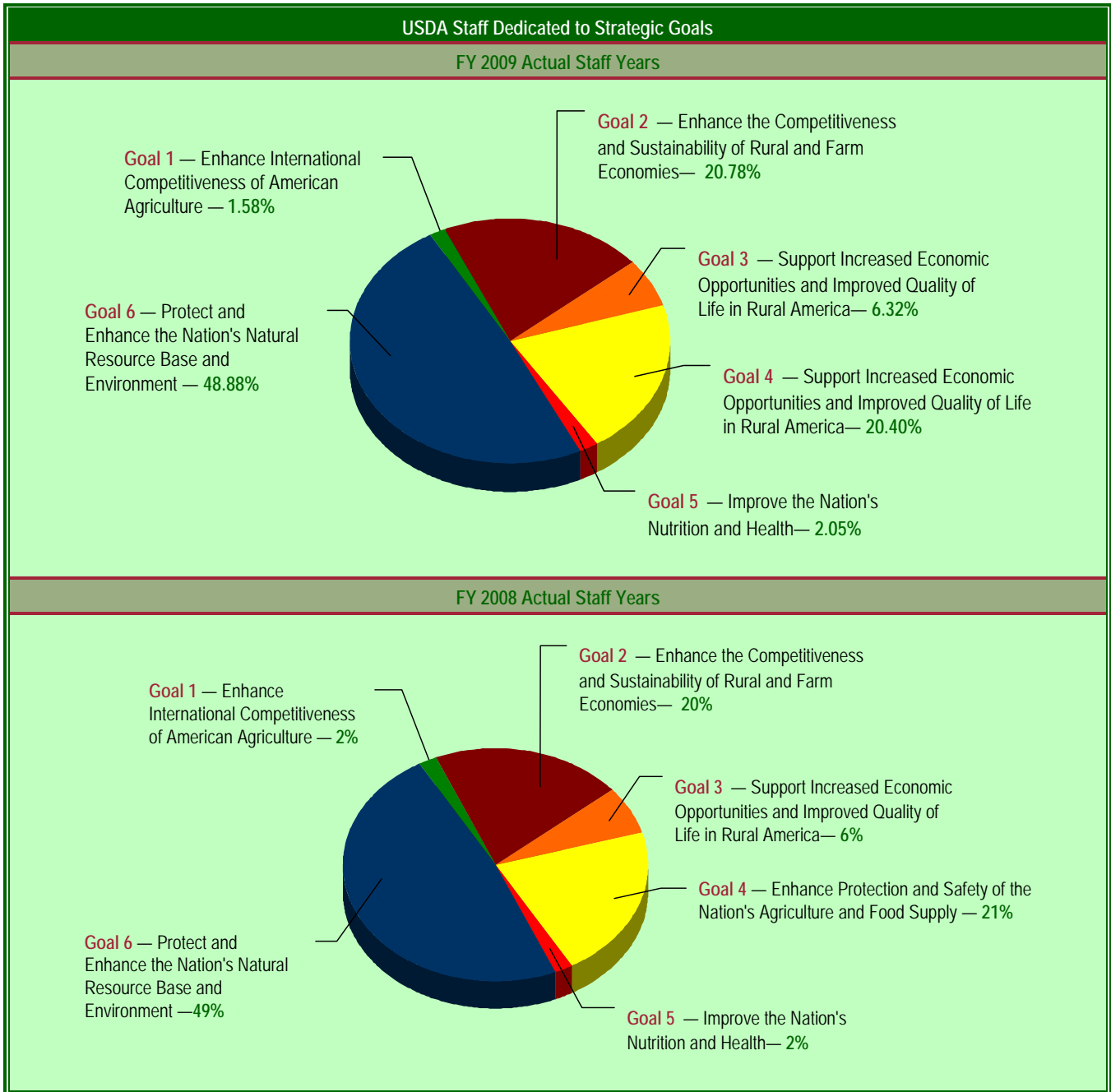






Exhibit 3: FY 2009 and 2008 USDA Staff Years Dedicated to Strategic Goals



## Performance Goals, Objectives, and Results

Of the 41 performance goals contained in USDA’s FY 2009 and Revised FY 2008 Budget Summary and Annual Performance Plan, 31 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. Measures 2.2.2 and 3.2.5 each combine two measures from the Budget Summary. Additional analyses of these results can be found in the Performance Section of this report.

PERFORMANCE SCORECARD FOR FY 2009				
Objectives		Annual Performance Goals		Result
<b>Strategic Goal 1: Enhance International Competitiveness of American Agriculture</b>				
1.1	Expand and Maintain International Export Opportunities	1.1.1	Dollar value of agricultural trade expanded through trade agreement negotiation, monitoring, and enforcement (Non-Sanitary and Phytosanitary)	Unmet
1.2	Support International Economic Development and Trade Capacity Building	1.2.1	Number of countries in which substantive improvements have been made in national trade policy and regulatory frameworks that increase market access	Exceeded
		1.2.2	Food Aid Targeting Effectiveness Ratio	Exceeded
1.3	Improved Sanitary and Phytosanitary (SPS) System to Facilitate Agricultural Trade	1.3.1	Value of trade preserved annually through USDA staff interventions leading to resolutions of barriers created by SPS or Technical Barrier to Trade (TBT) measures	Exceeded
<b>Strategic Goal 2: Enhance the Competitiveness and Sustainability of Rural and Farm Economies</b>				
2.1	Expand Domestic Market Opportunities	2.1.1	Number of items designated as biobased for Federal procurement	Unmet
2.2	Increase the Efficiency of Domestic Agricultural Production and Marketing Systems	2.2.1	Timeliness – Percent of time official reports are released on the date and time pre-specified to data users	Unmet
		2.2.2	Percent of market-identified quality attributes for which USDA has provided standardization	Met
2.3	Provide Risk Management and Financial Tools to Farmers and Ranchers	2.3.1	Increase the normalized value of risk protection provided to agriculture producers through FCIC-sponsored insurance (\$ Billion)	Met
		2.3.2	Increase percentage of eligible crops with Noninsured Crop Disaster Assistance Payments (NAP) coverage	Unmet
		2.3.3	Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA	Met
<b>Strategic Goal 3: Support Increased Economic Opportunities and Improved Quality of Life in Rural America</b>				
3.1	Expand Economic Opportunities by Using USDA Financial Resources to Leverage Private Sector Resources and Create Opportunities for Growth	3.1.1	Jobs Created or Saved	Met
3.2	Improve the Quality of Life Through USDA Financing of Quality Housing, Modern Utilities, and Needed Community Facilities	3.2.1	Number of borrowers/subscribers receiving new and/or improved electric facilities	Exceeded
		3.2.2	Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband)	Unmet
		3.2.3	Number of borrowers/subscribers receiving new or improved service from agency funded water facility	Exceeded
		3.2.4	Homeownership opportunities provided	Exceeded
		3.2.5	Percentage of customers who are provided access to new and/or improved essential community facilities – <ul style="list-style-type: none"> <li>• Health facilities</li> <li>• Safety facilities</li> </ul>	Exceeded



## PERFORMANCE SCORECARD FOR FY 2009

Objectives	Annual Performance Goals	Result
<b>Strategic Goal 4: Enhance Protection and Safety of the Nation's Agriculture and Food Supply</b>		
4.1 Reduce the Incidence of Foodborne Illnesses Related to Meat, Poultry, and Egg Products in the U.S.	4.1.1 Reduce overall public exposure to generic <i>Salmonella</i> from broiler carcasses using existing scientific standards	Unmet
	4.1.2 Reduce the overall public exposure to <i>Listeria monocytogenes</i> in ready-to-eat products	Met
	4.1.3 Reduce the overall public exposure to <i>Listeria monocytogenes</i> in post-lethality exposed ready-to-eat products	Met
	4.1.4 Reduce the prevalence of <i>E. coli</i> O157:H7 on ground beef	Unmet
4.2 Reduce the Number and Severity of Agricultural Pest and Disease Outbreaks	4.2.1 Number of significant introductions of foreign animal diseases or pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	Met
	4.2.2 Improve the capabilities of animal and plant diagnostic laboratories <ul style="list-style-type: none"> <li>• Specific plant diseases labs are prepared to detect</li> <li>• Specific animal diseases labs are prepared to detect</li> </ul>	Met Met
<b>Strategic Goal 5: Improve the Nation's Nutrition and Health</b>		
5.1 Ensure Access to Nutritious Food	5.1.1 Participation levels for the major Federal nutrition assistance programs (millions per month): <ul style="list-style-type: none"> <li>• Supplemental Nutrition Assistance Program (SNAP)</li> <li>• National School Lunch Program (NSLP)</li> <li>• School Breakfast Program (SBP)</li> <li>• Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)</li> </ul>	Met
5.2 Promote Healthier Eating Habits and Lifestyles	5.2.1 Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed)	Exceeded
5.3 Improve Nutrition Assistance Program Management and Customer Service	5.3.1 Increase SNAP payment accuracy rate	Deferred
<b>Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment</b>		
6.1 Protect Watershed Health to Ensure Clean and Abundant Water	6.1.1 Comprehensive nutrient management plans applied (number of plans) <ul style="list-style-type: none"> <li>• Conservation Technical Assistance</li> <li>• Environmental Quality Incentives Program</li> </ul>	Exceeded Met
	6.1.2 Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers	Met
6.2 Enhance Soil Quality to Maintain Productive Cropland Base	6.2.1 Cropland with conservation applied to improve soil quality (millions of acres) <ul style="list-style-type: none"> <li>• Conservation Technical Assistance Program</li> <li>• Environmental Quality Incentives Program</li> </ul>	Met Unmet
	6.3 Protect Forests and Grasslands	6.3.1 Total acres of hazardous fuel reduction treatments
	6.3.2 Acres of Wildland Urban Interface (WUI) high-priority fuels treated to reduce the risk of catastrophic wildland fire	Exceeded
	6.3.3 Acres of hazardous fuels treated outside the WUI to reduce the risk of catastrophic Wildland fire	Exceeded
	6.3.4 Percentage of acres treated in the WUI that have been identified in community wildfire protection plans or equivalent plans	Exceeded
	6.3.5 Percentage of total National Forest System land base for which fire risk is reduced through movement to a better condition class	Unmet
	6.3.6 Grazing and forest land with conservation applied to protect and improve the resource base (millions of acres)	

PERFORMANCE SCORECARD FOR FY 2009			
Objectives		Annual Performance Goals	Result
		<ul style="list-style-type: none"> <li>Conservation Technical Assistance</li> <li>Environmental Quality Incentives Program</li> </ul>	Exceeded Exceeded
Strategic Goal 6: Protect and Enhance the Nation's Natural Resource Base and Environment (cont'd)			
6.4	Protect and Enhance Wildlife Habitat to Benefit Desired, At-Risk, and Declining Species	6.4.1 Wetlands created, restored, or enhanced (acres) <ul style="list-style-type: none"> <li>Conservation Technical Assistance</li> <li>Wetlands Reserve Program</li> <li>Conservation Reserve Program</li> </ul>	Exceeded Met Exceeded

### ACTIONS ON UNMET AND DEFERRED GOALS

USDA continuously works to improve its performance across all of its strategic goals and objectives. Sometimes circumstances arise that result in the Department falling short of its goals. At other times, the Department consciously alters its approach in ways that enhance its service to the public, but that make a specific performance goal a less effective indicator of real progress. In FY 2009, USDA shifted its focus to stimulate the economy via ARRA. The “Annual Performance Report” section of this report offers further discussion of the Department’s actions on its goals.

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

Farmers and food companies operate in highly competitive markets with constantly changing demand for high quality food with a variety of characteristics, including convenience, taste, and nutrition.

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

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

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





## 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 was \$208.7 billion for FY 2009 compared to \$172.7 billion in FY 2008, an increase of \$36 billion.

The unobligated balance brought forward including recoveries of prior year unpaid obligations decreased \$213 million, budget authority net of transfers and resources temporarily not available increased \$28.9 billion and budgetary resources permanently not available decreased \$7.3 billion. The increase in budget authority was primarily due to \$28 billion in appropriations received from ARRA.

	2009	2008	% Change
Total Budgetary Resources	\$208,761	\$172,749	21%
Obligations Incurred	\$170,508	\$139,357	22%
Net Outlays	\$121,759	\$96,182	27%

Data in millions

### Obligations Incurred And Net Outlays

Obligations Incurred increased \$31.2 billion in FY 2009. This increase is primarily due to a \$18.9 billion increase at FNS for the Women, Infants and Children (WIC) and Supplemental Nutrition Assistance (SNAP) programs; a \$5.3 billion increase at RMA for indemnities paid; a \$2.1 billion increase at RD for credit programs; offset by a \$2.5 billion decrease at FSA for disaster programs.

Net Outlays increased \$25.6 billion in FY 2009, primarily in relation to the increase in obligations described above.

## BALANCE SHEET

### Condensed Balance Sheet Data

	FY 2009	FY 2008	% CHANGE
Fund Balance with Treasury	\$72,334	\$64,595	12%
Accounts Receivable, Net	8,866	10,298	-14%
Direct Loan and Loan Guarantees, Net	85,657	81,774	5%
General Property, Plant and Equipment, Net	2,972	2,973	0%
Other	810	733	11%
<b>Total Assets</b>	<b>170,639</b>	<b>160,373</b>	<b>6%</b>
Debt	84,119	77,577	8%
Loan Guarantee Liability	1,844	1,333	38%
Benefits Due and Payable	3,119	2,764	13%
Other	36,642	39,298	-7%
<b>Total Liabilities</b>	<b>125,724</b>	<b>120,972</b>	<b>4%</b>
Unexpended Appropriations	38,302	30,783	24%
Cumulative Results of Operations	6,613	8,618	-23%
<b>Total Net Position</b>	<b>44,915</b>	<b>39,401</b>	<b>14%</b>
<b>Total Liabilities and Net Position</b>	<b>\$170,639</b>	<b>\$160,373</b>	<b>6%</b>

**AS OF SEPTEMBER 30, 2009 AND 2008 (IN MILLIONS)**

**Total Assets**

Total assets increased \$10.3 billion in FY 2009. This increase is primarily due to an increase in Fund Balance with Treasury of \$7.7 billion; an increase in Direct Loan and Loan Guarantees, Net of \$3.9 billion, offset by a decrease in accounts receivable for the Tobacco Transition Payment Program at CCC of \$597 million and premiums from Approved Insurance Providers at RMA of \$777 million.

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 86 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 6 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 \$4.8 billion in FY 2009. This increase is primarily due to a \$6.5 billion increase in Debt, offset by a decrease in other liabilities for repayments to Treasury of \$941 million and \$490 million at FSA and CCC, respectively.

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 increased \$5.5 billion in FY 2009. This increase is due to an increase in unexpended appropriations of \$7.5 billion less \$2 billion in cumulative results of operations.

**NET COST OF OPERATIONS**

**Condensed Statement of Net Cost**

**For the Years Ended September 30, 2009 and 2008  
(in million)**

	FY 2009	FY 2008	% CHANGE
<b>Goal 1:</b> Enhance International Competitiveness of American Agriculture	\$1,362	\$2,029	-33%
<b>Goal 2:</b> Enhance the Competitiveness and Sustainability of Rural and Farm Economies	22,116	17,159	29%
<b>Goal 3:</b> Support Increased Economic Opportunities and Improved Quality of Life in Rural America	3,233	3,879	-17%
<b>Goal 4:</b> Enhance Protection and Safety of the Nation's Agriculture and Food Supply	2,612	2,439	7%
<b>Goal 5:</b> Improve the Nation's Nutrition and Health	78,757	60,132	31%
<b>Goal 6:</b> Protect and Enhance the Nation's Natural Resource Base and Environment	10,988	11,095	-1%
<b>Net Cost of Operations</b>	<b>\$119,068</b>	<b>\$96,733</b>	<b>23%</b>



## Net Cost of Operations

Net cost of operations increased \$22.3 billion in FY 2009. This increase is primarily due to increased participation in the WIC and SNAP programs at FNS of \$18.6 billion; increased Price Support and Milk Income Loss program payments at CCC of \$1.7 billion; increased indemnities paid less underwriting gains at RMA of \$1.7 billion; offset by a decrease in disaster program payments at FSA of \$2.2 billion.

## Stewardship Investments

	2009	2008	% Change
Non-Federal Physical Property	\$87	\$59	47%
Human Capital	\$643	\$630	2%
Research and Development	\$2,202	\$2,137	3%

Data in millions

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.

## 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 GAAP for Federal entities and the formats prescribed by 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.

## Systems, Controls and Legal Compliance

### Management Assurances

#### STATEMENT OF ASSURANCE

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



USDA conducted an assessment of its financial management systems and internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009, and 2) financial reporting as of June 30, 2009, which includes safeguarding of 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." Based on the results of these evaluations, USDA has three existing material weaknesses and one system non-conformance in fiscal year 2009.

Other than the exceptions noted in the FMFIA and FFMIA sections, financial management systems conform substantially with the objectives of FMFIA and the internal controls were operating effectively and no other material weaknesses were found in the design or operation of the internal control over 1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2009, and 2) financial reporting as of June 30, 2009.

A handwritten signature in black ink, which appears to read "Tom Vilsack". The signature is fluid and cursive.

Thomas J. Vilsack  
Secretary of Agriculture  
November 13, 2009





## Federal Managers' Financial Integrity Act Report on Management Control

### BACKGROUND

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The Federal Managers' Financial Integrity Act (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 OIG and 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 2009 Results

USDA has three existing material weaknesses: Information Technology, Financial Reporting – Unliquidated Obligations, and Financial Reporting – Credit Reform. 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 control complies with FMFIA objectives. The following exhibit summarizes the results reported in USDA's Consolidated Financial Statements Audit Report.

An auditor-identified deficiency for Rural Development (RD) was found relating to the assumption curves used in cash flow models to perform the annual reestimate calculations. While various processes are in place to ensure the accuracy and completeness of the assumption curves, the overall controls surrounding these processes need improvements to prevent errors.

Exhibit 4: 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
<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 5: 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
Financial Reporting - Credit Reform	1					1
<b>TOTAL MATERIAL WEAKNESSES</b>	<b>3</b>					<b>3</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>
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		



## MATERIAL WEAKNESSES

### Summary of Outstanding Material Weaknesses

Material Weakness Existing	1. USDA Information Technology	Overall Estimated Completion Date	FY 2012
	Internal control design and operating effectiveness deficiencies in four areas: logical access controls, configuration management, physical access and environmental protection, and disaster recovery. These deficiencies represent an overall Information Technology (IT) material weakness.		
FY 2009 Accomplishments:		FY 2010 Planned Actions:	
<ul style="list-style-type: none"> <li>Began implementing whole disk encryption on portable computers;</li> <li>Implemented a Department-wide end-point management software tool ensure complete and timely weakness remediation, improve client management, and ensure compliance with security standards;</li> <li>Established secure coding requirements and improved application coding by providing a Department-wide tool to ensure compliance;</li> <li>Improved access controls through dual-factor authentication for network and remote access;</li> <li>Improved network and boundary protections through a Department Security Operations Center;</li> <li>Updated regulations to meet the National Institute of Standards and Technology and other Federal requirements relating to change control processes;</li> <li>Established an Identity and Access Management team to implement a Department-wide approach toward improving and automating access and segregation of duties controls; and</li> <li>Conducted a policy gap analysis and revised access control and configuration management policies and procedures.</li> </ul>		<ul style="list-style-type: none"> <li>Expand encryption to include mobile media such as USB thumb drives by the end of the fiscal year;</li> <li>Finalize deployment of the Department-wide end-point management tool;</li> <li>Expand the Department-wide Security Operations Center incorporating 24/7 border protection and monitoring, end point compliance, and improved incident response processes;</li> <li>Establish improved and sustainable processes and procedures for identity and access management;</li> <li>Standardize the configuration management and change control processes through improved processes and procedures;</li> <li>Improve the A-123 and FISMA monitoring and reporting process to ensure weaknesses are timely identified and corrected; and</li> <li>Establish functional disaster recovery site for mainframe and critical mid-range systems.</li> </ul>	

Material Weakness Existing	2. Financial Reporting – Unliquidated Obligations	Overall Estimated Completion Date	FY 2010
	Lack of consistent review and follow-up on unliquidated obligations (ULO).		
FY 2009 Accomplishments:		FY 2010 Planned Actions:	
<ul style="list-style-type: none"> <li>Revised Departmental guidance to require quarterly reviews and certifications for obligations;</li> <li>Established ULO data mart and aging report for management review and monitoring;</li> <li>Established ULO Department-wide working group to monitor open obligations, share best practices, and measure agency performance;</li> <li>Completed statistical sampling of aged ULOs to identify root causes of invalid ones and formulate corrective actions; and</li> <li>Monitored agency compliance with revised Departmental guidance on quarterly reviews and certifications for obligations.</li> </ul>		<ul style="list-style-type: none"> <li>Modify systems and related policies, procedures and processes to improve the management, review, and closeout of ULOs;</li> <li>Conduct training on new processes to manage, review, and closeout ULOs;</li> <li>Implement automated controls to deobligate invalid ULOs; and</li> <li>Institute continuous monitoring of controls over ULOs at successive levels of management.</li> </ul>	

<b>Material Weakness Existing</b>	<b>3. Financial Reporting – Credit Reform</b>	<b>Overall Estimated Completion Date</b>	<b>FY 2010</b>
	Controls are lacking in the credit reform quality assurance process to ensure that cash flow models, data inputs, estimates, and reestimates are subject to appropriate management oversight.		
<b>FY 2009 Accomplishments:</b>		<b>FY 2010 Planned Actions:</b>	
<p><b>CCC:</b></p> <ul style="list-style-type: none"> <li>Established a team to review all model changes to include members of both the budget and the accounting disciplines. Invited OIG to all Configuration Control Board meetings to monitor CCC's efforts;</li> <li>Established a timeline for all model changes to allow adequate time for testing and review prior to delivery to the auditors;</li> <li>Tested all model changes/development results to ensure that model outputs properly capture all elements of the cash flow, not just those affected by change(s) in OMB's Credit Subsidy Calculator 2 to ensure that those results do not produce unintended consequences; and</li> <li>Procured a contractor for Independent Verification and Validation review and oversight for any newly developed models.</li> </ul> <p><b>USDA:</b></p> <ul style="list-style-type: none"> <li>Reinstituted the Credit Reform Working Group to improve communication and address issues related to credit reform budgeting and accounting; and</li> <li>Coordinated consistent application of new credit reform guidance.</li> </ul> <p><i>*Note:</i> CCC reported an auditor-identified weakness in controls for the credit reform assurance process in FY 2008. Better procedures were needed to ensure that cash flow models, data inputs, estimates, and reestimates were performed with appropriate management oversight. The material weakness for financial reporting - credit reform has been resolved for CCC.</p>		<p><b>RD will:</b></p> <ul style="list-style-type: none"> <li>Ensure that detailed second party review procedures are performed and documented by personnel independent of those preparing the assumption curves;</li> <li>Establish process improvements for version control related to the curves;</li> <li>Evaluate automation support to determine the feasibility of performing curve calculations systematically;</li> <li>Enhance review procedures over the quality and accuracy of Cohort Sheet materials; and</li> <li>Determine the reasonableness of the curves for reestimation purposes and also focus on accuracy of the calculations and portfolio trends.</li> </ul>	

**SUMMARY OF OUTSTANDING SYSTEM NON-CONFORMANCE**

<b>System Non-Conformance Existing</b>	<b>1. Funds Control Management</b>	<b>Overall Estimated Completion Date</b>	<b>FY 2012</b>
	System improvements needed in recording obligations at the transactions level.		
<b>FY 2009 Accomplishments:</b>		<b>FY 2010 Planned Actions:</b>	
<ul style="list-style-type: none"> <li>Developed functionality in the electronic Funds Management System (eFMS) to process funds control at the time of obligation request from FSA/CCC program applications; and</li> <li>Began acquisition and planning phase of Farm Program Payment System/Modernize and Innovate the Delivery of Agriculture Systems (MIDAS).</li> </ul>		<ul style="list-style-type: none"> <li>Enhance the eFMS by incorporating transaction level obligations for the Tobacco Transition Payment Program, Direct Payments, and Conservation Reserve Program (CRP) Annual Rental programs that will check funds availability at the time of obligation;</li> <li>Implement Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for the Commodity Credit Corporation (CCC) Commodity Operations programs into eFMS; and</li> <li>Complete planning phase and begin software and acquisition phase of MIDAS project.</li> </ul>	





## Federal Financial Management Improvement Act Report on Financial Management Systems

### BACKGROUND

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

#### Exhibit 6: 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 system requirements, and Information security policies, procedures, and/or practices.	Multiple	9/30/2012
Funds Control Management	Federal Financial System requirements.	CCC	10/31/2012
	U.S. Standard General Ledger at the transaction level, and Federal financial management system requirements.	FS	10/1/2010
	Federal financial management system requirements, Federal Accounting Standards, and U.S. Standard General Ledger at the transaction level.	NRCS	12/31/2009

<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, configuration management, physical access and environmental protection, and disaster recovery.

### FY 2009 RESULTS

During FY 2009, 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 2008 Performance and Accountability Report. 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.

FS is working to mitigate auditor-identified deficiencies related to its systems and methodologies to comply with USSGL at the transaction level and Federal financial management system requirements.

NRCS is working to mitigate auditor-identified deficiencies. Financial management systems did not substantially comply with Federal financial management system requirements, the USSGL at the transaction level, and applicable Federal Accounting Standards for internal use software (including work in progress), undelivered orders, unfilled customer orders, expense accruals, and capital leases. Deficiencies were also noted regarding proper use of USSGL.

### **Federal Financial Management System Requirements**

CCC continues to develop an integrated funds control system, the electronic Funds Management System (eFMS), within the FSA/CCC Core financial management system. This work includes integration with CCC's general ledger system at the transaction level. eFMS will also provide management with timely information to monitor and control the status of budgetary resources recorded in the general ledger.

FY 2009 accomplishments included:

- Developed functionality in eFMS to process funds control at the time of obligation request from FSA/CCC program applications; and
- Began Acquisition and Planning phase of Farm Program Payment System/Modernize and Innovate the Delivery of Agriculture Systems (MIDAS).

In FY 2010, CCC will:

- Enhance eFMS by incorporating transaction level obligations for the Tobacco Transition Payment Program, Direct Payments, and CRP Annual Rental programs that will check funds availability at the time of obligation;
- Implement Web-based Supply Chain Management (WBSCM) to integrate obligation transactions for CCC Commodity Operations programs into eFMS; and
- Complete Planning phase and begin Software and Acquisition phase of MIDAS.

In FY 2011 CCC will:

- Complete Proof of Concept and System Design for MIDAS.

In FY 2012, CCC will:

- Complete software modifications to program applications to send obligation transactions for CCC Farm, Foreign, and remaining commodity operations programs;
- Implement Financial Management Modernization Initiative and FSA's Modernize and Innovate the Delivery of Agricultural Systems packages; and
- Begin Initial Operating Capability for MIDAS.



## 2. Annual Performance Report



The U.S. Department of Agriculture's (USDA) mission is to provide leadership on food, agriculture, natural resources, and related issues based on sound public policy, the best available science, and efficient management. The Department executed this mission in fiscal year (FY) 2009 through activities such as:

- Helping millions of low-income households and America's children improve their health and diets via targeted nutrition assistance programs;
- Engaging in activities designed to bolster healthcare in rural America;
- Opening new international markets, and maintaining existing markets;
- Supporting the objectives of the National School Breakfast and School Lunch Programs;
- Providing farmers and ranchers with risk management and financial tools;
- Working with other Federal departments to create and implement new food-safety regulations;
- Meeting with experts from around the globe to discuss current and emerging economic opportunities;
- Researching ways to keep gas prices down, reduce America's dependence on oil, and reduce greenhouse gas emissions;
- Providing aid to those affected by severe weather and other disasters;
- Fighting potential pest and disease outbreaks; and
- Working to ensure the health and protection of the environment.

### Strategic Goal 1: Enhance International Competitiveness of American Agriculture

Expanding global markets for agricultural products will increase demand and contribute directly to economic stability and prosperity for America's farmers. USDA accomplishes this through negotiation, monitoring, and enforcement of trade agreements. Working with producers and commodity trade associations, USDA administers an array of market development and export promotion programs designed to build long-term markets abroad. The Department helps expand trade opportunities through technical assistance and training programs. USDA also provides food assistance programs to developing countries. These programs are designed to provide greater food security which leads to greater economic stability in the recipient countries. These tools support agricultural development and growth in developing countries. They also help these countries participate in, and benefit from, international trade. USDA works to facilitate trade by adopting and promoting science-based regulatory systems and standards. These activities are reflected in the three objectives and four performance measures that follow.

#### OBJECTIVE 1.1: EXPAND AND MAINTAIN INTERNATIONAL EXPORT OPPORTUNITIES

**Measure 1.1.1: Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring, and enforcement**



## Overview

The Department works closely with the Office of the U.S. Trade Representative to negotiate new trade agreements to expand access to global markets for U.S. agriculture. USDA continues to play a leadership role in negotiating the Doha Development Agenda under the auspices of the World Trade Organization (WTO).

### Key Outcome

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

To further expand global trade, U.S. officials negotiated bilateral accession agreements with countries seeking WTO membership. In FY 2009, USDA played a critical role in supporting negotiations with Russia, Kazakhstan, and several other countries.

The Department works to expand U.S. agricultural export opportunities by supporting regional and bilateral free trade agreements. USDA is awaiting congressional approval of free trade agreements with Colombia, Panama, and Korea. It also is closely monitoring implementation of existing free trade agreements, including the two newest agreements with Peru and Costa Rica.

## Analysis of Results

USDA uses a performance measure that estimates the value of trade preserved through enforcing trade agreements, creating and maintaining new export opportunities, and addressing trade barriers. USDA failed to meet its targeted level of performance. The 2008 collapse of the Doha Round of WTO negotiations, coupled with the global economic climate, and delays in approval of already negotiated free trade agreements were significant factors. Extensively monitoring and enforcing existing trade agreements, which USDA can influence, will help the Department reach its 2010 targets.

**Exhibit 7:** Increase U.S. Export Opportunities and Trends in Expanding and Retaining Market Access

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
1.1.1 Dollar value of agricultural trade preserved through trade agreement negotiation, monitoring, and enforcement (Non-Sanitary and Phytosanitary) (\$ millions) Baseline: 1999 = \$2,567	\$800	\$14	\$670	\$484	\$900	\$368 (estimated)	Unmet
<p><b>Rationale for Met Range:</b> The target for this measure is controlled by international parties. It reflects U.S. expectations for negotiating new agreements, addressing compliance with existing trade agreements and resolving trade access issues that arise so that domestic exports can continue.</p> <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range \$810-\$990. (\$ millions)</li> </ul>							
<p><b>Data Assessment of Performance Measures 1.1.1</b></p> <p>Data for the World Trade Organization and tariff rates are projected estimates based on results posted to the performance tracking system within USDA. 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 2009.</p> <ul style="list-style-type: none"> <li><b>Completeness of Data</b>—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 2009.</li> <li><b>Reliability of Data</b>—Data are reliable and used by the Department to highlight successes in the trade-policy arena.</li> <li><b>Quality of Data</b>—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 Department of Homeland Security's U.S. Customs and Border Protection, the Census Bureau, the USDA publication <i>Foreign Agricultural Trade of the United States</i>, and other databases. Other sources include market reports compiled by USDA and industry estimates. Since measuring expected trade benefits from broad new trade agreements is extremely difficult, the Department evaluates its estimates against other outside estimates when available.</li> </ul>							



## Challenges for the Future

The key challenge for increasing access to global markets is progress in the WTO negotiations. The conclusion of the Doha negotiations has been delayed due to external factors and the difficulties inherent in negotiating sensitive agricultural issues. Improvement in market opportunities under bilateral and regional trade agreements is contingent on approval and implementation of agreements by all partners. Currently, three bilateral agreements are pending approval by Congress and waiting implementation by Free Trade Agreement partners. Approval procedures may include legislative, administrative, and judicial processes.

### Selected Results in Research, Extension, and Statistics

**2008 – 2009 World Economic Crisis.** The world economic crisis that began in 2008 has major consequences for U.S. agriculture. In a new ERS analysis, *The 2008/2009 World Economic Crisis: What It Means for U.S. Agriculture*, ERS discusses the effect of the U.S. and global economic downturn on the U.S. agricultural sector. The weakening of global demand because of emerging recessions and declining economic growth results in reduced export demand and lower agricultural commodity prices, compared with those in 2008. These, in turn, reduce U.S. farm income and place downward pressures on farm real estate values. So far, the overall impact on U.S. agriculture is not as severe as on the broader U.S. economy, because the record-high agricultural exports, prices, and farm income in 2007 and 2008 put U.S. farmers on solid financial ground.

## OBJECTIVE 1.2: SUPPORT INTERNATIONAL ECONOMIC DEVELOPMENT AND TRADE CAPACITY BUILDING

### Measure 1.2.1: Number of countries in which substantive improvements have been made in national trade policy and regulatory frameworks that increase market access

#### Overview

##### Key Outcome

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

Global food insecurity impacts people worldwide, with more than one billion who go hungry. The problem is exacerbated by the current global economic downturn. Food security exists when food is available, accessible, and appropriately used. Food assistance alone is not enough, as food availability also concerns trade and increases in in-

country production. The largest contributing factors to insufficient production are chronic under-investment in agriculture, inefficient inputs and markets, and poor governance. To address food insecurity, improvements need to be made in the entire value chain from farm to table. These improvements include increasing production and efficient inputs, reducing post-harvest losses, and supporting mechanisms that encourage local, regional, and international trade. Food security must be country-driven and focused at the local level.

A major goal of USDA trade and development programs is increasing agricultural productivity and trade. Another goal is investing in developing countries to enhance food security, economic growth, and the supply and affordability of food. USDA is deploying its experts and institutional resources to help developing countries become economically stable and capable of supporting their populations. This is mutually beneficial. The Department's trade and development programs help foreign Governments strengthen food security by adopting productivity-enhancing technologies and policies. USDA programs also reconstruct the agricultural sector in war-torn, post-conflict, and disaster areas; develop sustainable natural resource management systems; and strengthen agricultural research and extension programs.

Agricultural development and food security are key components of the Department's strategy for Afghanistan. In response, USDA has created an Afghanistan-Pakistan Fusion Cell to manage Afghan programs, policy, and



analysis. More than 10 Departmental agencies have contributed employees as agricultural experts in Afghanistan since 2003 to serve on Provincial Reconstruction Teams (PRTs). These civilian-military units assist local agricultural communities in developing and managing agricultural reconstruction according to their own needs assessments. In 2007, the Department expanded these efforts to Iraq. USDA advisors traveled there to work directly with the Ministry of Agriculture in Baghdad and serve on PRTs. USDA has sent more than 120 experts to both countries for 3-to-12-month tours. Some advisors sign up for multiple tours.

With trade a key component for bolstering food security, USDA measures the number of countries that have benefited from improved trade policy and regulatory frameworks. These improved systems help build the capacity of developing countries to grow economically and prosper from international trade. The Department implemented more than 150 technical assistance activities in FY 2009 to develop trade capacity and facilitate market access for U.S. agricultural products. These activities targeted regulatory systems in sub-Saharan Africa, the Middle East and North Africa, Eastern Europe, Central America, and Asia. They focused on plant and animal disease surveillance, diagnosis and mitigation, laboratory efficiencies, biotechnology and biosafety outreach, and maximum pesticide residues. USDA also studied improving sanitary and phyto-sanitary (SPS) systems to improve WTO SPS agreement compliance. The Department implemented capacity building projects that transfer skills in laboratory analysis, detection of pesticide residues, risk assessment, surveillance and diagnosis of plant and animal health diseases, and policy regulations.

As examples, USDA implemented capacity building programs targeting plant disease and food safety under the Africa Global Competitiveness Initiative. The Department worked with the Food and Agriculture Organization of the United Nations to develop the East Africa Phytosanitary Information Committee (EAPIC) as the official host for the pest-and-disease-reporting database for the region. EAPIC's goal is to reduce the number of pests and increase market access. Under the Dominican Republic-Central America-United States Free Trade Agreement, USDA concentrated on helping the countries of Costa Rica, the Dominican Republic, El Salvador, Guatemala, Honduras, Nicaragua benefit from participation in the agreement. The Department trained the countries on maximum pesticide residues, laboratory analysis, and plant and animal health and food safety capacity building activities. As a member of the Asia Pacific Economic Cooperation group, USDA contributed expertise to biotechnology, food safety, and food defense outreach activities. For WTO accessions, USDA specialists worked with Cape Verde, Ethiopia, Liberia, Sao Tome, Comoros, and the Seychelles to help those countries better understand the accession process, and the rights and obligations involved in organization membership.

USDA also continued to encourage and support developing countries to participate in international regulatory and standard-setting organizations like Codex Alimentarius, the World Organization for Animal Health, and the International Plant Protection Commission. The Department has initiated an outreach program for members of the Codex Committee for Africa to strengthen their understanding of Codex, the importance of participating as an active member, and the need for informed decision making based on sound science. In addition, USDA actively engaged members of the Codex Committee for Latin America and the Caribbean to discuss science-based positions on, for example, committees on food hygiene, fats and oils, and pesticide residues. One of the major challenges facing U.S. agriculture is the differing pesticide maximum residue level (MRL) standards required of U.S. trading partners. The Department has worked to strengthen global MRL harmonization by proposing new standards-setting procedures and initiatives at the Codex general committee sessions. It also has initiated an outreach activity for African countries that encourages the understanding of MRL issues and the effects of those issues on trade.

## **Analysis of Results**

The performance target to make substantive improvements in nine countries' national trade policy and regulatory frameworks was exceeded. USDA's pest-surveillance programs helped small-scale, women beekeepers in Swaziland to continue to export organic honey to South Africa without the use of irradiation. The Department's fruit fly

control program helped facilitate the restoration of banana exports from Mozambique to South Africa. These exports are valued at more than \$20 million per year. USDA also worked successfully with Namibia and Honduras to prepare them for Department audits on equivalency in meat processing and poultry processing, respectively. If the countries pass the audits, exports of those products to the United States will be permitted. Because of USDA training, an institute in Costa Rica conducted its first Hazard Analysis and Critical Control Point Plan Validation and Verification (a systematic preventive approach to food safety) for 20 local firms. Following assistance from the Department and the U.S. Food and Drug Administration on processed-food labeling requirements, El Salvador decreased the number of detentions at the border for poor labeling by 68 percent from the previous year. USDA technical assistance helped to significantly decrease levels of the hazardous-to-humans pesticide methamidophos in fresh vegetables in Guatemala. This decrease allowed the resumption of fresh-vegetable exports to the United States, while facilitating passage of a new law banning the pesticide's use and sale.

Cochran Fellowship Program training has increased market access opportunities for U.S. agricultural exports. The program provides U.S.-based agricultural training opportunities for senior- and mid-level specialists and administrators from public and private sectors concerned with agricultural trade, agribusiness development, management, policy, and marketing. As a result of the Cochran training opportunities, Colombia updated its biotechnology labeling requirements for consistency with U.S. standards. Jamaica changed its position to support U.S. policies and initiatives at the April 2009 Codex Committee on Pesticide Residues meeting. St. Kitts opened its market to U.S. beef and beef product exports. USDA's resolution of meat and poultry trade issues with the Philippines resulted in a tripling of exports. The Ukraine lifted its ban on pork imports. Its lifting allowed an estimated \$24 million in U.S. exports during 2009.

Following a scientific capacity-building visit to the United States, the Saudi Arabian Government reversed its decision to ban live bovine imports from the United States. The reversal increased U.S. exports in FY 2009 by \$14 million. Scientific and policy exchanges with China resulted in that country's willingness to work with the United States on setting maximum residue limits for pesticides in a new food-safety law under development. The exchanges also helped USDA negotiate an agreement with China that permitted the entry of 60 containers of U.S. poultry products being investigated by the Chinese Government.

In the Republic of Georgia, USDA supported the creation of three Regional Veterinary Service Units that will serve as key nodes for a pilot animal-disease surveillance network. These units will also make way for the creation and launch of Georgia's National Animal Health Plan Steering Group. With USDA assistance, Serbia successfully resolved issues of overlapping food safety inspection authorities between the Ministries of Agriculture and Health. This step was necessary for revising of its SPS checklist for WTO's consideration of Serbia's accession. With Department training, the Armenian food processing industry is meeting new food safety regulations. Armenian citizens also are learning about safe food-handling through a USDA-assisted consumer awareness campaign.

**Selected Results in Research, Extension, and Statistics**

**International Food Security Assessment.** With volatile agricultural prices, USDA's analysis of food insecurity in developing countries takes on added importance. Food security in 70 developing countries is projected to deteriorate over the next decade. Estimates indicate that the number of food-insecure people in those countries is rising. Price hikes for food and fuel, coupled with a slowdown in global economic growth, hinder progress. USDA estimates and projects the number of food-insecure people globally, regionally, and in each of the 70 developing countries studied. Food-insecure people are those consuming less than the nutritional target of 2,100 calories per day. The research also measures the food distribution gap (the amount of food needed to raise consumption of each income group to the nutritional requirement), and examines the factors that shape food security.

Exhibit 8: Support International Trade Capacity Building

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
1.2.1 Number of countries in which substantive	n/a	6	13	9	8	9	Exceeded



Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
improvements have been made in national trade policy and regulatory frameworks that increase market access							
<p><b>Rationale for Met Range:</b> The target for this measure, based on 3 years of program history, is driven by foreign Governments and parties, and U.S. reimbursable-program funding levels. Annual targets reflect USDA expectations for substantive improvements in national trade policy and regulatory frameworks that increase market access for U.S. agricultural products in developing countries.</p> <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range 5-8.</li> </ul>							
<p><b>Data Assessment of Performance Measures 6.4.1</b></p> <p>Data for WTO and tariff rates are projected estimates based on results posted to the performance tracking system within the USDA. 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 2009. Fourth-quarter estimates were derived using the average quarterly reporting and discounting the results to reflect any large, one-time annual events not expected to be repeated in the final quarter.</p> <ul style="list-style-type: none"> <li><b>Completeness of Data</b>—Data are based on specific criteria developed for measuring intangible and qualitative outcomes and those which are concrete and quantifiable.</li> <li><b>Reliability of Data</b>—Data are reliable, of good quality, and used by agency officials to highlight successes in the trade capacity building arena.</li> <li><b>Quality of Data</b>—Data for successfully verifying the numbers of countries in which USDA has made significant impact in trade capacity building are captured from a variety of credible sources, including: <ul style="list-style-type: none"> <li>Reports from overseas posts and project offices, such as Global Agriculture Information Network reports and progress reports;</li> <li>Individual activity reports as provided by USDA partner institutions;</li> <li>Questionnaires submitted by international participants regarding training programs;</li> <li>Reports from other USDA agencies, the U.S. Department of State, the Agency for International Development, the Office of the U.S. Trade Representative, and U.S. embassies;</li> <li>Assessment of the progress of projects through interviews conducted with ministry officials and other host-country recipients on the impact of USDA technical assistance;</li> <li>Written and verbal observations by program managers who regularly monitor projects in the field;</li> <li>Internal evaluations of activities conducted by the agency and evaluations conducted by external parties;</li> <li>Special workshops designed to elicit feedback and evaluation on “how things are working;” and</li> <li>“Lessons learned” workshops conducted with facilitators to review what is working and what can be improved.</li> </ul> </li> </ul>							

## Challenges for the Future

The food-security situation has become precarious for many lower-income countries because of the current global economic downturn and recent volatility of food and fuel prices. Moreover, failing and post-conflict states pose one of today's greatest national and international security challenges. Struggling states often attract terrorism, crime, trafficking, and human catastrophe. In response, USDA is sustaining and expanding its participation in the cross-government approach to help stabilize and reconstruct societies in transition from conflict, civil strife, or natural disasters. An example is USDA technical assistance to the Afghan Government that supports that country's National Development Strategy and aligns with the three mandates established under the United States-Afghanistan-Pakistan Trilateral Initiative: food security, trade, and water management.

USDA is also building agricultural development and trade capacity building programs in priority countries in Sub-Saharan Africa, South Asia, and Latin America. This work is designed to focus on increasing agricultural productivity, while maintaining the natural resource base; improving food availability, accessibility, and utilization; and encouraging science-based approaches to policies, regulations, and management practices in line with international standards-setting bodies. By working with relevant U.S. Government agencies, land-grant universities, and multilateral organizations, USDA will continue to lead efforts to increase trade and reduce food insecurity worldwide.

**Measure 1.2.2: Food Aid Targeting Effectiveness Ratio**

**Overview**

<b>Key Outcome</b>
<b>Reduce Food Insecurity Worldwide</b>

The United States leads the world in food aid. It provides more than half of total worldwide assistance in combating malnutrition. U.S. food-aid programs are a joint effort across several Federal Departments. USDA works with the U.S. Agency for International Development, the U.S.

Department of State, the U.S. Office of Management and Budget, private voluntary relief and development organizations, and the United Nations' World Food Program. These groups provide targeted food aid and assistance where it is needed most. Economic development activities aimed at market-capacity building for both domestic and international trade are supported through the provision of food assistance.

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

All private voluntary organizations that offer food aid through McGovern-Dole are required to conduct operational and results surveys. USDA monitors program activities and accomplishments to determine their effectiveness. Additionally, semi-annual reports from private voluntary organizations share results and challenges.

The Food for Progress program provides for the donation of U.S. agricultural commodities to developing countries and emerging democracies committed to introducing and expanding free enterprise in the agricultural sector. Priority determination is based on the greatest need for food, as well as individual country efforts to improve food security and agricultural development; alleviate poverty; and promote broad-based, equitable, and sustainable development.

Food assistance to needy people overseas can be provided through in-kind food aid, which is usually purchased in the country donating the assistance, and local and regional purchases of food overseas. Until 2008, the United States provided almost all of its food aid from domestic sources. The 2008 Farm Bill (Food, Conservation, and Energy Act of 2008, Public Law 110-234) established a pilot project for USDA to implement a local and regional purchase program in developing countries during 2009-2012. The Department is required to conduct four phases within the project. The initial study phase was completed in January 2009 when USDA submitted a study to Congress that described past local and regional procurement efforts by the World Food Program, private voluntary organizations and other donors. During the second phase the Department will develop guidelines for a pilot project. In FY 2010, USDA will begin implementing the pilot program and supporting local and regional purchases in Africa and other developing countries. In 2012, the Department plans to hire a third party to evaluate the project and report the findings to Congress.

USDA is also working with the development community to create strategic frameworks for its food assistance programs that support agency strategic goals. The effort will provide an outline for the grant application process. It will also allow USDA to measure progress in meeting goals during the implementation of activities.





## Analysis of Results

USDA exceeded its performance target. The Food Aid Targeting Effectiveness Ratio (FATER) is based on a USDA food security assessment. For countries with greater food insecurity, there is a larger estimated food gap. FATER measures the effectiveness of USDA food aid in closing the gap. The higher the FATER score, the larger the percentage of the estimated food gap met by USDA programmed food aid. In countries with greater food insecurity, the FATER value would be relatively low because of large food gaps in those countries. The FATER value would be higher in countries with less food insecurity, where the food gaps are smaller. A target of 35 percent represents a balance of food aid programming across countries with greater and lesser levels of food insecurity.

Exhibit 9: Support Foreign Food Assistance

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
1.2.2 Food Aid Targeting Effectiveness Ratio	30-35% <sup>1</sup>	30-35% <sup>1</sup>	38%	57%	36%	48.7%	Exceeded
<sup>1</sup> Measure was new in FY 2007; FY 2004-FY 2006 figures are estimates. Rationale for Met Range: <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range 30-35 percent.</li> </ul>							
<b>Data Assessment of Performance Measures 6.4.1</b> Data on quantities and use of food aid commodities of food aid are captured through the USDA Food Assistance Division database. <ul style="list-style-type: none"> <li><b>Completeness of Data</b>— Data for successfully reporting on the effectiveness ratio are based on the annual provision and use of food aid. Total quantities of commodities and how these commodities are used by the beneficiary in the country of donation is compiled and analyzed by USDA. Data include food aid provided by the Department.</li> <li><b>Reliability of Data</b>— Data are reliable, of good quality, and used by agency officials to highlight the success and impacts of food aid programs and strengthen food security.</li> <li><b>Quality of Data</b>—Data for successfully verifying the quantities and use of food aid commodities in which USDA analyzes to show the effectiveness of food aid are captured through the USDA Food Assistance Division database. The outcome from the analysis also is further confirmed through a variety of credible sources, including:               <ul style="list-style-type: none"> <li>Reports from USDA and U.S. Department of State personnel at overseas posts;</li> <li>Program activity reports as provided by USDA partner organizations;</li> <li>Follow-on evaluations conducted by USDA;</li> <li>Reports from other USDA agencies, the U.S. Department of State, and the U.S. Agency for International Development;</li> <li>On-going assessment of the progress of projects; and</li> <li>Evaluation of activities by outside consulting firms.</li> </ul> </li> </ul>							

## Challenges for the Future

USDA faces similar challenges in meeting its food assistance targets as it does with maintaining or expanding market access. Uncertainty about World Trade Organization negotiations and the volatility in food prices and transportation costs are major challenges. New regulations for USDA's food assistance programs will improve their effectiveness and efficiency. An independent review of program operations is expected to strengthen financial and management controls. Planned efforts to improve procurement and project monitoring will also help to meet future challenges. The Web-based Supply Chain Management Project and the Food Aid Information System will bring improved technology and up-to-date information to the grants process. These tools will cover the budget cycle through procurement, ending with closeout and evaluation of agreements. The systems will enhance the implementation of the new food assistance regulations published in May 2009. USDA will also create program efficiencies by using additional, authorized flexibilities in administering grants and procuring commodities and freight.

**Selected Results in Research, Extension, and Statistics**

**USDA Assists in Improving International Agricultural Statistics.** USDA's International Programs Office staff provided briefings or workshops for 13 groups, with 70 visitors representing the following 14 countries: Argentina, Azerbaijan, Brazil, China, Ghana, Japan, Kazakhstan, Russia, Serbia, South Africa, South Korea, Ukraine, Uzbekistan, and Vietnam. USDA provided technical assistance and training to improve agricultural statistics programs in Argentina, Armenia, China, Georgia, Madagascar, Mongolia, Peru, Russia, and Vietnam. The technical assistance ranged from basic survey concepts and procedures to complete national Census of Agriculture support. These activities promote better data and improved access to data from other countries, which allows U.S. analysts to better understand world supply and demand. Improved analysis supports trade and more efficient marketing of U.S. agricultural products.

**OBJECTIVE 1.3: IMPROVED SANITARY AND PHYTOSANITARY (SPS) SYSTEM TO FACILITATE AGRICULTURAL TRADE**

**Measure 1.3.1: Value of trade preserved annually through USDA staff interventions leading to resolutions of barriers created by SPS or Technical Barrier to Trade (TBT) measures**

**Overview**

<b>Key Outcome</b>
<b>An Improved Global SPS System for Facilitating Agricultural Trade</b>

SPS measures are those imposed by Governments to protect human, animal, and plant health from pests, diseases, and contaminants. USDA works closely with the U.S. Trade Representative and other agencies to pursue and enforce trade agreements to ensure that technical regulations and measures designed to enhance food safety and protect plant

and animal health do not become barriers to trade. USDA staff working on such issues in more than 90 countries includes veterinarians, economists, marketing experts, plant pathologists, and others.

USDA resolved numerous SPS and technical barriers to trade (TBTs) in FY 2009, including several that have been outstanding for many years.

The largest single technical trade issue of concern to USDA for the past few years has been the normalization of beef trade after the market closures caused by the findings of *Bovine Spongiform Encephalopathy* (BSE) in the United States since 2003. In FY 2009, Nicaragua and St. Kitts joined the growing list of countries that now comply with World Organization for Animal Health (OIE) standards on beef, allowing complete market access for U.S. beef and beef products of all ages. Expanding access to the Japanese beef market remains a USDA priority. Discussions with China, Taiwan, and other trading partners also continue. OIE's 2007 classification of the United States as "controlled risk" for BSE has been a cornerstone of domestic efforts at improving market access.

Another notable long-term success was the May 2009 United States-European Union (EU) Memorandum of Understanding relating to the 20-year-old beef hormones dispute. The agreement will provide U.S. beef producers with significant additional access, at zero duty, to the EU market for high-quality beef produced from cattle not treated with growth-promoting hormones. Resolution of this issue required significant USDA staff intervention on SPS and TBT issues.

Issues related to biotechnology require increasing attention and resources from the Department to maintain trade, and gain additional market access. During the third quarter of FY 2009, USDA persuaded Japan to eliminate an 8-year-old requirement that all U.S. corn be tested for the presence of an unapproved variety of biotech corn. The elimination of the testing requirement is expected to save U.S. exporters \$20 million annually. Meanwhile, USDA



negotiators persuaded EU to approve some types of biotech soybeans, and Korea to approve three new biotech corn and soy varieties. These actions prevented the possible stoppage of \$2.4 billion of U.S. exports to these markets.

Country-by-country variation in maximum residue limits (MRLs) for pesticides threatens U.S. fruit and vegetable exports to many countries. During FY 2009, USDA comments on Indonesian World Trade Organization (WTO) notices persuaded that country to recognize and accept U.S. MRLs for fresh foods of plant origin in the absence of Codex MRLs. USDA also proved to Malaysia that U.S. apples comply with that country's MRL standards. Additionally, the Department persuaded Taiwan to establish an MRL for a pesticide widely used in U.S. apples. Meanwhile, Thailand indefinitely postponed implementing a disruptive inspection procedure that would have required all fruit and vegetable imports to be accompanied by a certification confirming compliance with Thai MRLs.

June 17, 2009, marked the signing of a United States-Canadian equivalency agreement for organic products. The agreement allows products certified as organic in the United States to be sold as such in Canada without recertification to that country's standards. The equivalency agreement affects annual U.S. exports of organic products to Canada valued at more than \$2 billion. Without the agreement, the U.S. industry anticipated losing more than half that amount during the year after the Canadian standard took effect. This anticipated loss would be added to ongoing additional certification and labeling costs.

Japan and USDA agreed to a protocol for the shipment of non-fumigated U.S. cherries. The agreement made way for U.S. shipments to begin in time for this year's growing season. The United States and Vietnam signed a protocol for the shipment of U.S. potatoes. Consumer food labeling issues with the potential to affect U.S. beef and processed product exports with an annual value of \$464 million were resolved in India and Korea. USDA comments through the WTO Notification Process and with interaction at WTO committee meetings persuaded Israel, Brazil, and Colombia to bring alcoholic beverage standards and terminology in line with United States and international standards this quarter.

In FY 2009, USDA led efforts that helped avert major interruptions in the export of meat and poultry products to Mexico. December 2008 negotiations with Mexico resulted in that country's Government reinstating the eligibility of 130 U.S. meat and poultry processing establishments to export there. USDA negotiations also eased a Mexican ban on a particular type of bin in which a large percentage of U.S. meat and poultry is shipped to Mexico. In March 2009, USDA hosted Mexican representatives on a visit to the United States-Canadian border to view inspections of the containers. This visit provided Mexico the opportunity to view how North American Free Trade Agreement partners inspect products. It resulted in Mexico limiting the restriction to frozen products.

USDA's work on SPS and TBT issues is felt beyond the agricultural realm. During the first quarter of FY 2009, EU delayed implementing a wood packaging material bark requirement. Instead, the EU agreed to accept international standards. This action saved exporters an estimated \$1 billion on products shipped to EU on wood packing material.

## **Analysis of Results**

The Department measures the value of trade preserved by resolving trade barriers arising from SPS and TBT measures imposed by foreign Governments. Trade issues and their impact on U.S. exports depend primarily on foreign action, sometimes in response to such domestic events as a livestock disease outbreak. Both the problems and the solutions are unpredictable. Resolution could come from a quick agreement with officials at the port of entry. Or, it could require lengthy negotiations followed by a slow regulatory or legislative process in the country in question. The impact of an action can range from a few thousand to billions of dollars. While USDA can establish priorities in advance for known constraints, unforeseen events will occur that require realigning priorities.

**Exhibit 10: Increase U.S. Export Opportunities**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
1.3.1 Value of trade preserved annually through USDA staff interventions leading to resolutions of barriers created by SPS or TBT measures (\$ millions)	\$2,000	\$2,600	\$2,457	\$7,316	\$2,000	\$9,500	Exceeded
Baseline: 1999 = \$2,567 <b>Rationale for Met Range:</b> 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.							
<ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range \$1,980-\$2,420.</li> </ul>							
<b>Data Assessment of Performance Measures 1.3.1</b>							
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, provides trade negotiation support to the U.S. Trade Representative.							
<ul style="list-style-type: none"> <li><b>Completeness of Data</b>—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 2009.</li> <li><b>Reliability of Data</b>—Data are reliable and used by agency officials to highlight successes in the trade-policy arena.</li> <li><b>Quality of Data</b>—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.</li> </ul>							

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

**Challenges for the Future**

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



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

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

### OBJECTIVE 2.1: EXPAND DOMESTIC MARKET OPPORTUNITIES

#### Measure 2.1.1: Number of Items Designated as Biobased for Federal Procurement

#### Overview

##### Key Outcome

Increase the number of products designated under the BioPreferred Program

USDA is the lead agency in the Federal Government for the biobased products program, referred to as the BioPreferred Program. BioPreferred is comprised of two programs: a preferred procurement program for Federal agencies and a voluntary labeling program for the broad scale marketing of biobased products. The program is being implemented

through a variety of means including rulemakings, education and outreach, and training of procurement personnel.

BioPreferred promotes the procurement and use of biobased products throughout the Federal government and commercial sectors. The BioPreferred program offers three major benefits:

- **Climate Change Impact Reduction**—The use of qualifying biobased products reduces the introduction of new fossil carbon into the atmosphere;
- **Energy/Environmental Security**—Biobased products replace petroleum products helping to increase U.S. energy and environmental security and independence. Many biobased products are sustainable, renewable, and compostable; and
- **Economic Development**—Biobased products create jobs by increasing demand for agricultural and forestry materials and by increasing new product development, manufacturing, and ultimately sales.

The 2008 Farm Bill requires every Federal agency to give a procurement preference to designated items composed of biobased products, unless those items are not reasonably available, do not perform adequately, or are not reasonably priced.

Biobased products are those determined to be composed in whole or large part of renewable domestic agricultural or forestry materials. Such products, often made from plant, animal, and marine substances, include items such as cleaners, lubricants, building materials, insulation, roof coatings, and fuel additives as well as a host of other sustainable industrial items that the Federal Government can use.

USDA’s goal is to increase Federal procurement of biobased products government-wide and develop government and consumer markets through a voluntary labeling program.

Through published regulations, USDA has designated a total of 33 biobased items or product categories representing nearly 3,000 individual products. Federal procurement requirements are in place for all 33 of the product categories. Approximately 2,100 companies, many of which are small businesses, currently offer more than 14,500 biobased products.



USDA conducts outreach and has developed a series of BioPreferred tools, such as model contract language, to assist Federal agencies and the business community in the implementation of the program.

### Analysis of Results

The performance measure was unmet. Currently, 33 items are designated as BioPreferred and receive preferred procurement preference. USDA missed the target of designating 42 items in FY 2009, but will reach the goal in the first quarter of FY 2010. Unexpected delays were encountered in the rulemaking process, but the final regulation is set to be published in the coming weeks. Three more rounds of designations are in the approval process, and there are five more planned rounds of rulemaking.

On July 31, 2009, BioPreferred accomplished a significant program milestone with the publication of the proposed Voluntary Labeling rule. USDA intends to create a product label that would appear on qualifying BioPreferred biobased products. When final, this regulation will allow biobased product manufacturers to participate in a voluntary labeling program to identify biobased products on retail store shelves.

Technical information to support each proposed rule, as well as background information on products and procurement training, is available at the BioPreferred Web site [www.biopreferred.gov](http://www.biopreferred.gov).

**Exhibit 11:** Number of Items Designated as Biobased for Federal Procurement.

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.1.1 Number of items designated as biobased for Federal procurement	Deferred	6	6	33	42	33	Unmet
Numbers signify Items published as final rule in <i>Federal Register</i> . Increase in FY 2008 target reflects larger number of items to be designated in the year's series of rulemakings. <b>Rationale for Met Range:</b> Based on a count of items for designation, the target is a number with no range.							
<b>Data Assessment of Performance Measures 6.4.1</b>							
The performance measure is the number of items included in final rule designations for the BioPreferred Program (formerly known as the Federal Biobased Preferred Procurement Program).							
<ul style="list-style-type: none"> <li><b>Completeness of Data</b>—The performance data are complete and unambiguous. The performance indicator for reporting past performance is a straightforward counting of the number of items included in final rule designations. Projections are based on “rule designations” in process.</li> <li><b>Reliability of Data</b>—The information is reliable. There is no subjectivity or ambiguity in determining the measure's value.</li> <li><b>Quality of Data</b>—The quality of the data are very high due to its reliability. The data for projections is more ambiguous as it incorporates “rule designations” in process and expected progress by multiple federal agencies in the process of designating additional rules. The performance measure “items” included in final rule designations does not reflect the amount of BioPreferred program work. Multiple stakeholders and federal agencies are involved. In addition, there are technical demands in reporting information and support of the program not reflected in the measure.</li> </ul>							

### Challenges for the Future

USDA continues to address the challenge of marketing BioPreferred products through [www.biopreferred.gov](http://www.biopreferred.gov). The site now offers online training for procurement officials and allows buyers to easily locate biobased products in the online catalog. New functionality as well as more intuitive search functions and expanded site navigation have improved user access to BioPreferred information and products.

USDA is developing a model procurement program for Federal agencies and continues to educate Federal agencies, manufacturers and vendors about the program. Through expanded outreach and education, as well as a continued focus on marketing, USDA will increase the purchase of biobased products throughout the Federal and consumer market.



## OBJECTIVE 2.2: INCREASE THE EFFICIENCY OF DOMESTIC AGRICULTURAL PRODUCTION AND MARKETING SYSTEMS

### Measure 2.2.1: Timeliness: Percent of time official reports are released on the date and time pre-specified to data users

#### Overview

##### Key Outcome

Agricultural Producers Who Compete Effectively in the Economic Market

Fundamental to the long-term viability of an agricultural producer is the ability to manage an efficient and profitable operation. USDA activities make this possible through programs that develop and transfer technology, production practices, and business and marketing tools and information to producers. The programs' offerings represent the

centerpieces for an efficient and economically sustainable agricultural sector. To support an efficient marketing environment, efforts are directed toward providing the necessary infrastructure and market information to reduce per unit and overall production costs, and improve quality, yields, management, and marketing decisions. These USDA programs provide the scientific, marketing, and other assistance necessary to increase the efficiency and, correspondingly, the competitiveness of the agricultural producer. An economically prosperous agricultural production sector contributes to the Nation's economic vitality and standard of living. Consumers benefit from efficiently produced and marketed agricultural products that minimize their food costs and maximize their consumption choices.

USDA supports sound decision making about agriculture by providing readily available, accurate data and assessments. The Agricultural Statistics Board (ASB) prepares and issues official national and State forecasts and estimates relating to numerous agricultural subjects. ASB covers crop production, stocks of agricultural commodities, livestock products, dairy products, poultry products, agricultural prices, agricultural wage rates, chemical usage, and other related subjects. The reports calendar lists release dates and specified times for USDA's national agricultural statistics reports. These reports cover more than 120 crops and 45 livestock items. All 519 of the agricultural statistics reports, except for 1 scheduled by ASB, were released on time to achieve a 99.8 percent performance level in FY 2009.

#### Analysis of Results

USDA seeks to enhance agricultural competitiveness by providing timely data, which are measured by the percentage of statistical reports released on time. The Department did not meet its performance target of 100 percent for FY 2009. One report was late due to a data provider delivering incorrect data, followed by technical difficulties in issuing the report.

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

Exhibit 12: Agricultural Statistics Reports Released On Time

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.2.1 Timeliness – Percent of time official reports are released on the date and time specified to data users	99.8%	100%	100%	99.6%	100.0%	98.9%	Unmet
Rationale for Met Range: Based on a count of reports issued on time. The target is a number with no range.							
Data Assessment of Performance Measures 2.2.1							
<p>Each fall, USDA publishes the Agricultural Statistics Board (ASB) calendar. The calendar lists the dates and times of all ASB reports to be issued the following year. It allows all data users and the public to plan ahead for important reports. Additionally, when special reports are issued during the year, a press release announces their release dates and times. Press releases are also used when there are planned report delays or other changes. USDA counts the number of paper-copy releases scheduled for release and determines how many are delivered as promised. Thus, the percent of reports released by the prescribed date and time is the number delivered on time multiplied by one hundred, equaling the total count of announced reports. USDA defines its performance as "on time" if the paper product is created, the appropriate Department official is briefed (for reports with scheduled briefings), and the press has access to the report.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—The data are considered complete as of September 30, 2009.</li> <li>• <b>Reliability of Data</b>—The data are considered reliable.</li> <li>• <b>Quality of Data</b>—Agency performance information on timeliness is maintained internally at the Washington, D.C., Headquarters. USDA's Marketing and Information Services Office maintains the performance data for national reports released. After the release of each report, data on timeliness are recorded. Quarterly reports are submitted to the Office of Budget and Program Analysis.</li> </ul>							

### Challenges for the Future

Delayed data collection from sources and unanticipated technical or other difficulties impact timeliness. Reports released later than indicated on the ASB release date calendar may cause data users a delay in making decisions that could affect their marketing efforts. USDA has many checks in place designed to limit the occurrence of delayed reports, resulting in a near perfect track record.

### Measure 2.2.2: Percent of market-identified quality attributes for which USDA has provided standardization

### Overview

**Key Outcome**

**Economically Sound Agricultural Production Sector**

USDA facilitates the competitive and efficient marketing of agricultural products in domestic and international markets. The Department's marketing support programs benefit local farmers and communities; small farmers and small businesses; agribusiness; sustainable agriculture; and

producers, traders, and consumers of U.S. food and fiber products. Activities include:

- Developing commodity grade and certification standards, and offering grade, contract, and audit verification services;
- Developing organic standards and managing the National Organic Program (NOP);
- Generating and disseminating market news information;
- Providing technical assistance, conducting studies, and establishing grants aimed at improving food
- Purchasing nutritious, quality specialty crops, meats, fish, and poultry products that are distributed by USDA nutrition assistance programs;
- Monitoring and enforcing Country of Origin Labeling (COOL);
- Sampling and testing commodities for pesticide residues and pathogens;
- Verifying pesticide recordkeeping; and



marketing and distribution, including farmers, direct, and alternative markets;

- Protecting producers from unfair marketing practices.

Setting official standards for agricultural products and regulating and monitoring them enhances the marketing and distribution of agricultural products. USDA establishes official U.S. standards, specifications, and marketing claim descriptions for cotton, dairy products, fruits, vegetables, other specialty crops, meat, poultry products, and eggs. These standards and descriptions, supported by official (but voluntary) verification services, facilitate sales and purchases of agricultural commodities. In 2009, USDA began development of catfish standards and updated standards for other commodities.

Organic standards and certification are managed by the NOP. Organic agricultural production is the fastest growing segment of U.S. agriculture. The NOP is responsible for managing the development and interpretation of NOP regulations; the accreditation, auditing, and training of certifying agents; and ensuring compliance with and enforcement of the regulations. The regulations cut across all commodity groups and address every aspect of the organic industry, including: crop production; livestock production; processing; labeling; the accreditation of certifying agents; the certification of organic operations; the petitioning, review, and approval of materials to be added to the National List of Allowed and Prohibited Substances; compliance; testing; and the governing of States' Organic Programs. The NOP oversees the operation and ensures the compliance of 98 domestic and foreign certifying agents, which certify nearly 28,000 certified organic production and processing operations worldwide. The NOP is a worldwide program, and participates in trade negotiations, along with the Foreign Agriculture Service and the Office of the U.S. Trade Representative, to establish organic equivalence with U.S. trading partners. During 2009, NOP established its first equivalency agreement with Canada—the largest U.S. trade partner and largest estimated export market for U.S. organic products. The NOP also has eight recognition agreements or arrangements with foreign governments which are negotiated at the program level, and which require regular service and monitoring.

USDA Market News reports use U.S. standards and official marketing descriptions to describe agricultural trading. The Market News program improves market competitiveness and increases the efficiency of agricultural marketing systems by gathering and publishing price and other market data on a wide range of agricultural commodities, including cotton; milk and dairy products; fruits, vegetables, and other specialty crops; eggs and poultry products; livestock and meat; and grains. These reports make available timely, accurate, and unbiased market information that covers local, regional, national, and international markets. USDA continued to expand reporting on the production and marketing of organic commodities, which included working closely with U.S. producers and marketers of organic poultry and eggs, and their respective trade associations, to obtain their commitment to voluntarily provide organic market information. USDA increased its reporting on organic fruits and vegetables at shipping point by 17%, at terminal market by 35%, and with shipment information by 75%. To support export marketing, Market News improved two international quarterly publications regarding commodity shipments and participated in various market news capacity building activities in the Western Hemisphere and with the Market Information Organization of the Americas (MIOA).

USDA provided technical support to a wide range of interested parties—from small farmers to consumers—on a host of marketing initiatives that facilitate sustainable agricultural practices, local farmers and communities, and small farmer/small business access to new markets and business opportunities. During FY 2009, USDA launched the “Know Your Farmer, Know Your Food” initiative to help develop local and regional food systems and spur economic opportunity. The initiative helps connect children to where their food comes from and creates opportunities for farmers and USDA to provide and purchase more locally grown foods to schools. As part of this initiative, the Farmers Market Promotion Program (FMPP) awarded 86 grants totaling more than \$4.5 million that reaching into communities across America. FMPP grants were awarded to encourage and support the viability of farmers markets and direct marketing projects nationwide.

USDA, as authorized through the Specialty Crop Block Grant Program, awarded over \$57 million to the State departments of agriculture, the District of Columbia, and the Commonwealth of Puerto Rico. These funds were used to enhance the competitiveness of the specialty crop industry to support commodities that include fruits, vegetables, tree nuts, dried fruits, and nursery crops (including floriculture). USDA initiated a site visit program to evaluate the efficiency and effectiveness of the administration of grant funds and provides feedback to State agencies in order to assist in this administration.

USDA procured a variety of non-price-supported commodities in order to provide nutritious food to needy recipients and much needed assistance to the beef, pork, poultry, seafood, and fruit and vegetable industries. A total of more than \$439 million in foods were purchased to support agricultural producers and growers, plus another \$468 million to meet entitlement requirements for Child Nutrition programs. As part of a pilot program, USDA purchased 3.3 million pounds of fresh-cut apples for limited national distribution to National School Lunch Program recipients. USDA also developed and published guidelines for food companies to use for developing and submitting child nutrition labeling quality control plans for USDA review and approval, and began design on a database to monitor child nutrition label program activities, including the status of quality control plans, label approvals, and plant reviews.

During 2009, USDA began administering a comprehensive Country of Origin Labeling (COOL) program for all covered commodities. USDA published a final rule in 2009 which became effective on March 16 and expanded COOL to include chicken, goat, macadamia nuts, pecans, and ginseng as covered commodities and added provisions for labeling products of multiple origins. USDA conducted several training sessions for cooperating state reviewers, informational sessions for retailers and other stakeholders, and began retail compliance reviews.

### Analysis of Results

USDA initiates a process to develop and implement standards when new ones are needed. Measuring the number of standards developed by the Department to meet market needs indicates how USDA is performing in its efforts to support a sound agricultural sector in the economy. The Department met its standards development goal by developing draft quality standards for catfish and catfish products in collaboration with the U.S. Department of Commerce and National Marine Fisheries Service.

**Exhibit 13:** Percent of market-identified quality attributes for which USDA has provided standardization

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.2.2 Percent of market-identified quality attributes for which USDA has provided standardization	96%	94%	95.7%	98.0%	97.0%	97.0%	Met
<p><b>Rationale for Met Range:</b> The target is a number with no variance. Any result greater than or less than 97 percent is considered unmet or exceeded, respectively.</p>							
<p><b>Data Assessment of Performance Measures 2.2.2</b></p> <p>The development of quality standards is a complex, multi-stage process requiring extensive review and discussion with the client industry. Thus, yearly milestones have been established for completing of the standards development process. For USDA, the development of a new standard requires a great deal of research into a wide range of activities, including: 1) a study of the product to determine the quality factors involved and the range of quality produced; 2) an investigation into the production practices in major producing areas, varieties or types of production, packing, processing techniques, and consumer-buying practices; 3) a statistical plan for sampling product; and 4) interviews with producers, packers, processors, shippers, receivers, consumers, and scientists.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Data used in conjunction with performance information are based on information reported by USDA and each Commodity Standards Branch: Cotton, Tobacco, Dairy, Fruits and Vegetables, Livestock and Seed, and Poultry – through the end of the third quarter of the reporting year, and a projection for the fourth quarter of the fiscal year based on prior-year performance. The Department also calculates the quarterly and annual results based on a statistical model of percentage of goal attained for standards development.</li> </ul>							





Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
<ul style="list-style-type: none"> <li>• <b>Reliability of Data</b>—The data are reliable because of extensive research and field testing. These tests are used to adjust the standard or specification until it is an accurate measure of the commodity. It is then made available for review and comment in the <i>Federal Register</i> by industry stakeholders, clients, and customers. Performance shortfalls may occur if resources are limited or if the standard under development is controversial.</li> <li>• <b>Quality of Data</b>—Data are projected based on industry requirements, program plans, and historical performance trends. The target information uses data dependent upon the baseline projections from the Department's commodity standards programs. To the extent that any of the USDA projections are inaccurate, the projection of value will also be inaccurate.</li> </ul>							

### Challenges for the Future

USDA must react quickly to changes in consumer demand, domestic and international marketing practices, and new technologies.

**Selected Results in Research, Extension, and Statistics**

**Improving Fisheries and Preserving Jobs.** USDA funded New Jersey scientists to produce the fifth generation of tetraploid oysters and continued selection for disease resistance and fast growth. Tetraploid oysters have been used for commercial production of triploids. Triploid oysters grow significantly faster than normal diploids, and have become an important product of the oyster culture industry. Oyster survival rates in the Delaware Bay have increased more than twofold, preserving a regional fishery and thousands of jobs. The restored harvest has had a direct impact on the economy of the region with a return of \$40 for each \$1 spent.

### OBJECTIVE 2.3: PROVIDE RISK MANAGEMENT AND FINANCIAL TOOLS TO FARMERS AND RANCHERS

**Measure 2.3.1: Increase the normalized value of risk protection provided to agriculture producers through FCIC-sponsored insurance**

#### Overview

<b>Key Outcome</b>
<b>Economically Sound Agricultural Production Sector</b>

USDA provides and supports cost-effective means of managing risk for agricultural producers. This assistance is designed to improve the economic stability of agriculture. It assesses the producers' need and develops a variety of suitable risk-management tools. These tools help farmers and ranchers protect their livelihood in times of disasters or

other uncontrollable conditions. USDA uses the value of risk protection to measure the effectiveness of risk management. The value of risk protection denotes the amount of insurance used to protect and stabilize the agricultural economy.

The USDA Federal Crop Insurance Program provides an actuarially sound risk management program to reduce agricultural producers' economic losses due to natural disasters. This program is available to producers solely through private insurance companies. These companies market and provide full service on policies upon which they share the risk with USDA. A Standard Reinsurance Agreement (SRA) defines the amount of risk they share. The SRA calls for insurance companies to deliver risk-management insurance products to eligible entities under certain terms and conditions. Companies are responsible for all aspects of customer service and guarantee payment of producer premiums to the Federal Crop Insurance Corporation (FCIC). In return, FCIC reinsures the policies and



provides premium subsidy to producers. It also reimburses for administrative and operating expenses associated with the companies delivering the insurance products.

USDA has implemented initiatives to increase awareness and service to small and limited resource farmers and ranchers and other under-served groups and areas. Through partnership agreements, the Department provides a venue for public and private agricultural organizations, land grant colleges and universities, community-based organizations, farmers and ranchers, and other stakeholders. USDA also partners with community-based organizations, and Hispanic Serving Institutions. These partnerships provide technical program assistance and risk-management education on strategies associated with legal, production, marketing, human resources, and labor risks.

### Analysis of Results

USDA assesses producers' needs and private risk-management tools. This work ensures that new, sound, and innovative alternatives are available to increase program participation with greater protection for producers.

The Department is projected to exceed its target by \$0.5 billion. The final actual results may vary significantly from this projection. The performance measure illustrates the normalized/real dollar value of FCIC coverage in force within the agricultural economy. FCIC promotes the economic stability of agriculture through a sound system of crop insurance. The measure also shows the amount of potential collateral provided to qualify for commercial loans. Since the 1999 crop year, the normalized value has increased by approximately \$19 billion. While there are a number of factors that influence these figures, including market-price increases and inflation, they represent a major growth in the amount of the agricultural economy insured via the FCIC-sponsored insurance. During the 2008 crop year, which covered parts of both the 2008 and 2009 fiscal years, the economic risk or liability of American agricultural producers was reduced by approximately \$88.5 billion through Federal crop insurance coverage.

USDA's challenge is to expand and improve insurance coverage and other risk management solutions, particularly for underserved States, areas, communities, and commodities. Thus, the Department addresses the management and financial information technology costs associated with operating and maintaining existing program data needs. These systems and technologies also service new and revised products.

USDA researches how to deliver more crop and livestock products. This research includes reviewing and approving private-sector insurance products reinsured by FCIC that are targeted to the needs of underserved areas and various specialty crops. The Department also evaluates and ensures the efficient delivery of risk-management products to agricultural producers. To further contribute to the producers' ability to protect their financial stability, USDA provides education, outreach, and non-insurance risk management assistance initiatives and tools through partnerships. 44.7 \$48.1 \$50.7 \$51.5 \$51.4

Exhibit 14: Providing Risk Management Tools to Farmers and Ranchers

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.3.1 Increase the normalized value of risk protection provided to agriculture producers through FCIC-sponsored insurance (\$ billions)	\$44.7	\$48.1	\$50.7	\$51.5	\$51.4	\$51.4	Met
Rationale for Met Range: Annual targets for this measure have consistently seen a variation of plus or minus 4.4.							
Data Assessment of Performance Measures 2.3.1							
The value of risk protection denotes the amount of insurance in effect protecting and stabilizing the agricultural economy. USDA's value projection target is based on projections developed in November 2008, forecasted participation, and conditions current at that time. The baseline model uses the latest information from the crop insurance program and combines it with USDA 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



Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
<p>depend on baseline projections from numerous USDA agencies.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—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 USDA during the first quarter of the next fiscal year. The Department receives the actual data from insurance companies. It then maintains data through two integrated processing systems that validate the information. The data then are 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.</li> <li>• <b>Reliability of Data</b>—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. While the data are deemed reliable, a recent audit by the Office of Inspector General found that USDA's Risk Management Agency (RMA) information technology environment might be vulnerable to errors, misuse, abuse, unauthorized access, disruption of service, and willful destruction. RMA generally agreed with these findings and has made substantial progress in implementing the agreed to recommendations.</li> <li>• <b>Quality of Data</b>—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.</li> </ul>							

### Challenges for the Future

USDA's challenge is to continue expanding and improving insurance coverage and other risk-management solutions, particularly for underserved States, areas, and communities. The Department needs to address the management and financial information technology costs associated with operating and maintaining existing program data needs.

#### Measure 2.3.2: Increase the percentage of eligible crops with Noninsured Crop Disaster Assistance Payments (NAP) Coverage

### Overview

Key Outcome
Economically Sound Agricultural Production Sector

Farmers must have access to timely and accurate information. Without it, they will not be able to compete in a rapidly growing marketplace. USDA provides farmers with the risk-management and financial tools needed to minimize risk and enhance their operations.

The Department's programs are designed to reduce the volatility of price and climate fluctuations. Stable commodity supplies and prices assure an affordable supply of food for the Nation. In response to natural disasters, USDA also administers emergency loan and disaster relief programs to return farms and ranches to their pre-disaster state as quickly as possible. The Department's NAP provides financial assistance to producers of non-insurable crops when natural disasters cause low yields or inventory loss, or prevent planting.

Those eligible for assistance through NAP are landowners, tenants, or sharecroppers who share in the risk of producing an eligible crop. Eligible crops must be non-insurable agricultural commodities for which there is no available crop insurance. By obtaining NAP coverage, producers are able to provide some level of assurance to lending institutions that USDA will assume a portion of the insurance risk.

## Analysis of Results

This measure, like the previous one, shows performance in providing a sound agricultural sector by helping mitigate severe losses. The 2009 data for the NAP measure is created by using proxy information from claims made on the 2008 crop year. USDA did not meet its target for increasing the percentage of eligible crops with NAP coverage due to policy changes that negatively impacted the validity of data, and significant changes in commodity prices. Because the NAP figure depends on proxy data from several program partners, the results are dependent on reconciling operational parameters so that data are comparable. Targets were set based on agency practices that have recently been altered.

Significant 2008 commodity price differences resulted in a negative crop value for NAP. This is not accurate as demonstrated by NAP participation fees and crops covered. Each increased by 14 percent and more than 34 percent, respectively, after removal of mandated NAP fee increases during 2009. To compensate for the anomaly affecting the NAP formula, data inputs were adjusted to compensate for changes in operational parameters, resulting in a NAP eligibility figure of 6.4 percent, similar to previous years. However, with this adjustment, the data are still not representative of actual producer participation in NAP.

Due to the changing policies across programs, the current NAP measure does not provide data that accurately reflects NAP progress and cannot be effectively used to set performance targets. A new NAP measure will need to be developed. Due to the eligibility requirement in the 2008 Farm Bill, NAP performance is expected to increase in the next fiscal year. This measure requires NAP participation and/or the purchase of crop insurance to gain eligibility for USDA permanent disaster programs. Permanent disaster programs include:

- The Supplemental Revenue Assistance Payments Program;
- The Livestock Forage Program;
- Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program; and
- The Tree Assistance Program.

**Exhibit 15:** Providing Tools to Help Farmers and Ranchers Stay Economically Viable

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.3.2 Increase percentage of eligible crops with Noninsured Crop Disaster Assistance Payments (NAP) coverage	12.82%	12.70%	11.76%	7.2%	23.52%	6.4%	Unmet
Estimated results as of September 30 2009 and adjusted for data anomaly. The target and threshold represents the value of crops participating in the program compared to the universe of the value of crops eligible to participate in the NAP program. <b>Rationale for Met Range:</b> Data assessment metrics to meet the target allow for an actual number in the range 22.52-24.52 percent.							
<b>Data Assessment of Performance Measures 2.3.2</b>							
<ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—The result is based on final FY 2009 data.</li> <li>• <b>Reliability of Data</b>— USDA collects performance information from key program partners that it uses to manage NAP and improve performance. The Department conducts numerous edit checks of its source data. Its review of the data includes peer review. USDA correlates data from multiple partners to compile NAP. It uses a formula approved by the Office of Management and Budget. External factors which contribute to and impact the program's performance data include natural disasters, crop eligibility, legislated linkage requirements, commodity price fluctuations, and policy changes. The 2008 Farm Bill links eligibility requirements to receive disaster benefits to NAP participation. While the participation rate may fluctuate from year to year, the program is on track towards meeting long-term targets.</li> <li>• <b>Quality of Data</b>—USDA and its partner agencies conduct data reviews for integrity and accuracy. Due to recently changing policies among program partners which affect the comparability of data, the current NAP measure does not provide an acceptable level of quality. A new NAP measure will need to be developed.</li> </ul>							

## Challenges for the Future

Because of the volatile nature of the market and the unpredictability of natural disasters, USDA regularly reviews NAP and other farm support programs in keeping with legislation to provide effective, customer-focused programs.



Information technology and infrastructure modernization also pose an ongoing challenge to the Department. Significant costs are associated with providing adequate technical assistance to support USDA programs and management.

**Measure 2.3.3: Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA**

**Overview**

**Key Outcome**

**Greater Diversity of Agricultural Producers**

USDA Farm Loan Programs (FLP) provides loans and loan guarantees to eligible farmers and ranchers. The programs are designed to promote, build, and sustain family farms, which help support a thriving agricultural economy.

Departmental assistance is particularly important to minorities, women, and beginning farmers. Barriers to entering production agriculture are quite high. They include the initial capital investment, high land values, and increasing input costs. Beginning farmers, minorities, and women are particularly impacted by these barriers. Access to credit is an important tool in overcoming the barriers and allowing these groups to begin or maintain a farming operation.

**Analysis of Results**

USDA met the target for this performance measure. The Department currently provides agricultural credit to more than 17 percent of the Nation’s minority, women, and beginning farmers. This credit includes direct and guaranteed farm ownership and operating loans. Farm ownership loans are used to purchase farm real estate, enlarge existing farms, construct or improve farm structures, and improve the environmental soundness of farms. Farm operating loans are used for normal operating expenses, equipment, machinery and livestock purchases, and refinancing existing debt. In FY 2009, USDA provided over 18,000 loans to the targeted groups – valued at more than \$1.82 billion. USDA currently has 47,503 minority, women, and beginning farmers in its loan portfolio, a 7 percent increase from FY 2008.

USDA experienced a significant increase in demand for its farm loan programs in FY 2009. A total of 32,150 loans were made compared to 26,305 in FY 2008. This surge in demand is partially because of increased credit requirements for mortgage loans by commercial lenders. The instability in the credit market resultant from the housing industry has impacted the agricultural credit sector. Additionally, dramatic downturns in the dairy, hog, and poultry industries further increased demand for the Department’s loan programs. USDA met the increased demand partially because of additional funding for the Direct Operating Loan program provided through the American Reinvestment and Recovery Act (ARRA). USDA funded an additional 2,600 operating loans through ARRA funds. Nearly 64 percent of these loans were issued to minority, women, and beginning farmers.

**Exhibit 16: Providing Tools to Help Farmers and Ranchers Stay Economically Viable**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
2.3.3 Increase percentage of beginning farmers, racial and ethnic minority farmers, and women farmers financed by USDA	15.00%	15.50%	15.9%	16.22%	17.0%	17.4%	Met
<b>Rationale for Met Range:</b> Data assessment metrics to meet the target allow for an actual number in the range 16.5-17.5 percent.							
<b>Data Assessment of Performance Measures 2.3.3</b>							
<p>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 number 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.)</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Data reported is final as of September 30, 2009.</li> <li>• <b>Reliability of Data</b>—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 USDA's service to these targeted groups. It does not account for how many of these farmers would meet USDA's test for credit. Given that less than 50 percent of farm operators have any debt, it is unlikely that all of the targeted farm operators identified in the census would meet the credit test. Despite this limitation, these data are the best available for estimating USDA's performance in reaching the targeted groups.</li> <li>• <b>Quality of Data</b>—FLP data are of high quality. Most FLP data originate from accounting systems, which are subject to OIG 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 and will be used until new performance targets are developed as part of the Department's strategic planning process. When new performance targets are developed, the 2002 Census data will be replaced with data from the 2007 Census.</li> </ul>							

### Challenges for the Future

U.S. agriculture continues to change as most farms become larger and increasingly dependent on technology. These changes increase the capital needed to enter farming. The costs of operating a farm continue to increase because of higher input costs. These factors result in significant barriers and challenges for the groups that the USDA farm loan programs are intended to assist. To keep pace, the Department will continue efforts to modernize the program delivery system, and refine and adjust program requirements to maximize opportunities for the Nation's minority, women, and beginning farmers.

#### Selected Results in Research, Extension, and Statistics

**Helping Farmers and Ranchers Increase Profits.** USDA's Western Sustainable Agriculture Research and Education (SARE) is funded to help the agriculture industry become more profitable, protect natural resources/the environment, and improve the quality of life for producers and consumers. The number of separate SARE-impacted farms and ranches, which increased profits and/or reduced costs, was documented as at least 1,452, with adjacent farms and ranches totaling over 3000, impacting 4,178,000 acres. Of these farms and ranches, 82 percent reported sustained usage of the research-based idea or practices tested. Finally, for the 5-year life-span of this Cooperative Agreement there was a positive economic impact of over \$500 million.



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

### OBJECTIVE 3.1: EXPAND ECONOMIC OPPORTUNITIES BY USING USDA FINANCIAL RESOURCES TO LEVERAGE PRIVATE SECTOR RESOURCES AND CREATE OPPORTUNITIES FOR GROWTH

#### Measure 3.1.1: Jobs Created or Saved

#### Overview

##### Key Outcome

Enhanced Capital Formation for Rural Communities

USDA has the responsibility of coordinating Federal assistance to rural areas of the Nation. The Department strives to help rural Americans improve the quality of their lives.

Each year, USDA programs create or save thousands of rural jobs, build and update rural infrastructure, and create or improve more than 60,000 units of quality rural housing. To multiply the impact of its programs, the Department works with State, local, and Tribal Governments; private and nonprofit organizations; and user-owned cooperatives. USDA programs are administered by the Department's network of State and local offices.

The Department 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.

USDA Business Programs help fund projects that create or preserve quality jobs and/or promote a clean rural environment. Its financial resources are often leveraged with those of other public and private credit source lenders to meet business and credit needs in under-served areas. Program recipients may include individuals, corporations, partnerships, cooperatives, public bodies, nonprofit corporations, Native American tribes, and private companies.

The Department is providing capital to enable rural businesses to participate in the developing global economy. One of the primary programs assisting the USDA in realizing this goal is the Business and Industry (B&I) Guaranteed Loan Program. B&I provides capital in the form of loan guarantees to improve, develop, or finance businesses, and improve the economic and environmental climate in rural communities. This is achieved by bolstering the existing private credit structure through the guarantee of quality loans, which will provide lasting community benefits. In FY 2009, B&I obligated \$993 million in guaranteed loans. It is estimated that the ARRA dollars will create or save more than 20,000 jobs for rural Americans.

In addition to B&I, Rural Business and Cooperative Programs offer a full menu of economic development loan and grant options that are delivered through cooperatives, non-profit organizations, institutions of higher learning, local and Tribal governments, and other rural business and economic development stakeholders. These programs increase access to capital and business-based services for rural communities. They can also assist with infrastructure to support local business development.

USDA's Cooperative Programs help rural residents form new cooperative businesses and improve the operations of existing cooperatives (user-owned businesses). To accomplish this, Cooperative Programs provide technical assistance to cooperatives, conduct cooperative-related research, and produce educational materials that promote public understanding of cooperatives.



USDA’s Rural Business Enterprise Grant Program (RBEG) provides grants for rural projects that finance and facilitate development of small and emerging rural businesses, help fund distance learning networks, and help fund employment related adult education programs. RBEG received \$19 million in ARRA funds. In one instance, the Minnesota Chippewa Tribe in rural northern Minnesota has already received an \$83,149 RBEG grant to help its Business Development Center provide training for area businesses to expand. The grant created new jobs and spurred economic growth in the region. The funding also is expected to help lower chronically high unemployment and poverty rates among Native Americans who live in the region. So far, four Native American-owned businesses have been selected to use the funding to expand their operations. The Rural Business Opportunity Grant program (RBOG) promotes sustainable economic development in rural communities with exceptional needs. RBOG allows for the provision of training and technical assistance for business owners, entrepreneurs, and economic development officials. It also assists with economic development planning.

### Analysis of Results

USDA has met its goals for this objective. The number of jobs created or saved is linked directly to the total amount of USDA business program funding, amounts obligated and disbursed to awardees, and local economic conditions. Annual job targets are based on historical program operations, subsidy rates and annual appropriations, all of which can vary annually. The job target numbers assume a level funding horizon and timely allocations of funds without regard to the potential impact of major natural disasters or local economic conditions. Recently, these factors, particularly the struggling economy, have caused a general decline in annual job numbers. The FY 2009 targets reflect the additional ARRA funding. Any remaining program funds will be carried over into FY 2010 and continue to provide benefits to rural communities in the next fiscal year.

Exhibit 17: Strengthen Rural Businesses

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.1.1 Jobs Created or Saved	73,328	71,715	72,710	70,476	83,083	83,083	Met
<p><b>Rationale for Met Range:</b> Job projected data are gathered when projects are obligated in the Guaranteed Loan System (GLS) based on a formula driven by historical results. Final job counts are verified on closing the loan and grant. A met range of 5 percent is used.</p> <ul style="list-style-type: none"> <li>• Target and threshold data were recalculated midway through the fiscal year to reflect American Recovery and Investment Act of 2009 funds.</li> <li>• Data assessment metrics to meet the target allow for an actual number in the range 94,385- 99,225.</li> </ul>							
<p><b>Data Assessment of Performance Measures 3.1.1</b></p> <p>Business program data are collected in various systems and ways. The 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. USDA also uses its GLS to collect 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 B&amp;I's delinquency status are generally reported directly by lenders into GLS. For other programs, USDA staff reports delinquency information.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Business program data are considered final and complete as of September 30, 2009, unless there are any year-end closing adjustments.</li> <li>• <b>Reliability of Data</b>—Business and Industry guaranteed loan borrower financial performance is reported by many, but not all, lenders semi-annually to the Rural Business Cooperative Service. 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 Finance Office's financial data have been found acceptable to the 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 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 one fiscal year, the year 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.</li> <li>• <b>Quality of Data</b>—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. USDA is testing an economic model to show the impact of business programs in rural areas more accurately and completely.</li> </ul>							



## Challenges for the Future

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

- Historical dependence on local natural resources and farm commodities, subject to cyclical trends, and changing regulatory standards and oversight;
- Low profit margins on local commodity sales yet strong competition from international commodities;
- Large-scale changes in technology and related efficiency gains; and
- Inaccessibility and low-density populations resulting in limited foot traffic for retail establishments, and limited discretionary budgets for business improvements, upgrades, and modernization.

Additionally, rural areas typically have underdeveloped public services that make it difficult to attract or retain businesses. The lack of public funding for amenities which are common in urban areas, such as dedicated business parks or expanded transportation links, creates additional challenges. Education, health care, and entertainment are perceived to be marginally acceptable in many rural areas.

### Selected Results in Research, Extension, and Statistics

**Census of Agriculture.** On February 3, 2009, USDA released the results of the 2007 Census of Agriculture. The Census of Agriculture, taken every five years, is a complete count of U.S. farms and ranches and the people who operate them. The Census looks at land use and ownership, operator characteristics, production practices, income and expenditures, and many other areas. The Census provides the only source of uniform, comprehensive agricultural data for every county in the nation. In conducting the Census, USDA placed a special emphasis on outreach to traditionally under-represented populations, including small, minority, female, and limited resource farm operators. Working in partnership with community-based organizations nationwide, USDA engaged in an extensive effort to make sure the Census included all farms and ranches, regardless of size, location or type of operation. USDA also partnered with these groups to provide hands-on assistance and support to local producers – including non-English speakers – in filling out their Census forms. In addition, USDA targeted its media-outreach efforts towards publications and broadcast outlets that reach small, minority, and non-English-speaking producers.

## OBJECTIVE 3.2: IMPROVE THE QUALITY OF LIFE THROUGH USDA FINANCING OF QUALITY HOUSING, MODERN UTILITIES, AND NEEDED COMMUNITY FACILITIES

### Overview

#### Measures 3.2.1–3.2.5

- 3.2.1 Number of borrowers/subscribers with new and/or improved electric facilities
- 3.2.2 Number of borrowers/subscribers with new or improved telecommunication services (Broadband)
- 3.2.3 Number of borrowers/subscribers with new/improved service from agency funded water facility
- 3.2.4 Homeownership opportunities provided
- 3.2.5 Percentage of customers who are provided access to new and/or improved essential community facilities

#### Key Outcome

Improved Quality of Life in Rural Areas

Decent, affordable housing is indispensable to vibrant rural communities. USDA Housing Programs help finance new or improved housing for more than 60,000 moderate-, low-, and very-low-income families each year. No rural community can thrive without adequate community

facilities. Thus, USDA Community Programs also help rural communities finance, construct, enlarge, or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

Community Facilities Direct Loans, Loan Guarantees, and Grants are used to construct, enlarge, extend, or otherwise improve community facilities providing essential services in rural areas and towns.

In FY 2009, more than \$250 million was invested in 144 health care facilities serving 2.8 million rural residents. During the same period, 789 communities received more than \$38 million to finance fire, rescue, and public safety facilities, equipment, and vehicles. Overall, more than 15 million rural Americans will enjoy a better quality of life directly attributable to the \$532 million investment in essential community facilities.

USDA's Community Facilities (CF) Programs are designed to develop essential community facilities for public use in rural areas. Program management received additional ARRA funds, \$1.1 billion for direct loans and \$61 million for grants. The Department expects to have those funds all obligated by the end of FY 2010.

Revitalization of rural communities through the recovery of the ailing housing market is essential to a healthy national economy. USDA's Direct and Guaranteed Loan programs have helped to fill the void as private mortgage lenders pulled back from financing modest homes for low- and moderate-income families. In FY 2009, the agency provided record numbers of rural families with direct loans or Government guarantees for fair deals from participating lenders.

Since the start of USDA Housing programs 60 years ago, more than 2.7 million families have benefited. This includes some 140,000 loans or guarantees for rural homes in FY 2009 totaling nearly \$17.5 billion – a record amount. An additional 11,000 households received home repair assistance with 1-percent interest loans or grants. The record spending is part of the Department's economic stimulus for rural America, which combines annual appropriations with ARRA funds (through FY 2010) and targeted disaster recovery funding. An additional \$11.2 billion in ARRA funding was provided for Single Family Housing Loans, and they expect to have it obligated by the end of FY 2010.

The Rural Broadband program supports the expansion of broadband service in rural areas. This expansion occurs through financing and grants to projects that provide access to high-speed service and facilitate economic development in locations without sufficient access to such service. Applications come in from a diverse range of parties including State, local, and Tribal governments; nonprofits; industry; anchor institutions, such as libraries, universities, community colleges, and hospitals; public safety organizations; and other entities in rural, suburban, and urban areas.

The Broadband Program received \$2.5 billion in ARRA funding for up to \$9 billion in program level. USDA has partnered with the U.S. Department of Commerce's National Telecommunications and Information Administration and the Federal Communications Commission to ensure that these funds will be awarded competitively with transparency and accountability.

Through its water programs, USDA invested \$1.5 billion to finance construction, repairs, and upgrades. While an infusion of 2008 Farm Bill funds may have contributed to the Department exceeding its goals, USDA has also marketed its water programs aggressively to rural communities. This marketing has created brand-name recognition for its services and financial assistance. Upgraded underwriting tools also have improved the water programs' performance by helping to identify communities with greater loan potential. Additionally, the Rural Water & Waste Disposal program received \$3.6 billion in ARRA funding for loans and grants, and expects to obligate them by the end of FY 2010.

## **Analysis of Results**

The electric programs have fully utilized their FY 2009 loan-lending authority, and the improved electric facilities performance measure was exceeded. The telecommunications measure was unmet, as programs were affected by the 2008 Farm Bill, which required modifications to the Broadband Loan Program. Revisions to the ongoing 2008



Farm Bill broadband loan program are currently under development. Permanent regulations are anticipated to be published in fiscal year 2010. The broadband measure was exceeded.

The community facilities program met its goal by emphasizing health care and public safety facilities. USDA staff provided outreach at national, state, and regional conferences, showing its ability to provide facilities at reasonable rates and terms for rural Americans.

The performance of the housing programs has far exceeded the target. The demand for the guaranteed loan program doubled, and the direct program increased by one-fourth this year. Additionally, home costs for the direct program were lower than expected. Direct and guaranteed loans have been made totaling nearly \$17.5 billion – a record amount. USDA anticipates a growing need for increased funding in coming years as demand continues to spiral upwards.

The water and environmental programs fully utilized their FY 2009 lending authority and exceeded their target performance measures. Projections for FY 2010 are 1.457 million borrower customers (subscribers). Water and waste facilities funded through ARRA are projected to serve 2.6 million borrower customers.

**Exhibit 18: Improving Rural Quality of Life Through Electric Opportunities**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.2.1 Number of borrowers/subscribers receiving new and/or improved electric facilities (thousands)	2,360	8,184	5,826	8,103	7,100	9,759	Exceeded
<p><b>Rationale for Met Range:</b> Annual targets for this measure are based on historical activity and adjusted according to program level received each fiscal year. Met range represents a 5-percent deviation from target.</p> <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range 5,818-6,431.</li> </ul>							
<b>Data Assessment of Performance Measures 3.2.1</b>							
<p>Electric programs data are collected from various Rural Utilities Service (RUS) documents including RUS Forms 740c and 130, Borrower's Statistical Profile, Information Publication 201-1 and the borrower's loan application.</p> <ul style="list-style-type: none"> <li><b>Completeness of Data</b>—The data are complete and accurate, collected at the time of loan approval, and reported annually.</li> <li><b>Reliability of Data</b>—Applicants are required to report essential data to the Electric programs. These data are used to administer USDA loan funds and ensure loan security. The Electric Program is developing a new loan tracking and data collection system as part of the Community Program Application Processing – Electric Programs.</li> <li><b>Quality of Data</b>—Applications are reviewed to ensure the borrower meets the eligibility requirements for the various loans, guarantees, and grants offered by Electric programs. All approved applications must show feasibility from a financial standpoint and ensure loan security. Loan funds may be used only for the approved purposes for which the loan was made.</li> </ul>							

**Exhibit 19: Improving Rural Quality of Life Through Telecommunication Services**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.2.2 Number of borrowers/subscribers receiving new or improved telecommunication services (Broadband) (thousands)	232,249	297,027	356,440	775,342	370,000	187,000	Unmet
<p><b>Rationale for Met Range:</b> Annual targets for this measure are based on historical activity and adjusted according to program level received each fiscal year. Met range represents a 7-percent deviation from target.</p> <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range 344,100-395,900.</li> </ul>							
<b>Data Assessment of Performance Measures 3.2.2</b>							
<p>The county data are collected from each approved loan application. Applicants identify their proposed service territories, including the number of subscribers to be served in the location by county. Measuring the extent to which broadband service is deployed in rural America on a county-by-county</p>							

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
basis will enable USDA to assess improved economic conditions. The data on the number of counties to be served for each loan are derived from applicants' loan applications.							
<ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Data are complete and final.</li> <li>• <b>Reliability of Data</b>—While applicants are required to perform market surveys of their proposed service areas, the actual counties served may vary if all funds are not used or the borrower later requests a change of purpose from the original loan application. Overall, the data are reliable.</li> <li>• <b>Quality of Data</b>—All applications are reviewed to determine eligibility. These applications must show feasibility from financial and technical standpoints. Applicants must perform market surveys of their proposed service areas. The data depend on the borrower drawing down loan funds and constructing the system as portrayed in the applicant's loan design. 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, resulting in differences in the number of counties served and the number specified in the plan.</li> </ul>							

Exhibit 20: Improving Rural Quality of Life Through Water and Waste Disposal Facilities

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.2.3 Number of borrowers/subscribers receiving new or improved service from agency funded water and/or waste facilities	1,325,000	1,637,554	1,332,063	4,361,872	4,018,000	8,208,689	Exceeded
<b>Rationale for Met Range:</b> Annual targets for this measure are based on historical activity and are adjusted according to program level received each fiscal year. ARRA performance goals were set based on funding provided for the program level according to historical activity. Met range represents a 5-percent deviation from target.							
<ul style="list-style-type: none"> <li>• Data assessment metrics to meet the target allow for an actual number in the range 3,817,100-4,218,900.</li> </ul>							
<b>Data Assessment of Performance Measures 3.2.3</b>							
The Water and Environmental Program (WEP) collects data through the Community Programs Application Processing (CPAP) system. CPAP is a non-financial system in which agency field staff input data about applicants, borrowers, funding, and services provided. The data obligations flow through the Rural Utilities Loan Servicing System to the Program Loan Accounting System and through a data server to a data warehouse.							
<ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—CF data are complete and final.</li> <li>• <b>Reliability of Data</b>—USDA's data warehouse stores historical information on Departmental 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 obligations data, used to measure the number of loans, loan amounts, number of borrowers, and funds advanced.</li> <li>• <b>Quality of Data</b>—Based on CPAP information, 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 Departmental accounting systems to review or evaluate the financial, operational, and managerial programs of the utilities serving rural customers.</li> </ul>							

Exhibit 21: Homeownership Opportunities Provided

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.2.4 Homeownership opportunities provided							
• Guaranteed Loans	34,251	31,131	32,481	54,660	68,627	115,981	Exceeded
• Direct Loans	11,744	11,041	10,646	9,474	11,074	11,262	
• Total	45,995	42,172	43,532	66,574	63,434	127,243	
<b>Rationale for Met Range:</b> The range of 10 percent 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. Target and Actual include both Annual and ARRA funds.							
<ul style="list-style-type: none"> <li>• First figure in each column represents guaranteed loans, the second row is direct loans, and the total is listed in the third row.</li> <li>• Excludes an (estimated) additional 13,200 hurricane supplemental/natural disaster homeownership opportunities (12,800 Guaranteed, 400 Direct).</li> <li>• Data assessment metrics to meet the target allow the actual total number in the range 75,716 - 83,686 for Direct and Guaranteed loans combined.</li> </ul>							
<b>Data Assessment of Performance Measures 3.2.4</b>							





Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
<p>Homeownership data are entered in the Web-based DLOS system. This centralized server application ensures viable data collection. It tracks performance and can be used to forecast needs. Information is entered into UniFi and uploaded nightly into the MortgageServ system. This system obligates funds, establishes closed loans, administers escrow accounts, and performs other administrative function. Hyperion, a query and reporting tool, serves as the interface between the data warehouse and USDA staff.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Homeownership data are complete and final.</li> <li>• <b>Reliability of Data</b>—Homeownership data originate in systems used to obligate funding and are reliable. Data for initial placement of households into their own homes 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.</li> <li>• <b>Quality of Data</b>—Homeownership data are based on loan obligations collected in the Dedicated Loan Origination and Servicing System, 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 information.</li> </ul>							

Exhibit 22: Improving Rural Quality of Life Through Community Facilities

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
3.2.5 Percentage of customers who are provided access to new and/or improved essential community facilities							
<ul style="list-style-type: none"> <li>• Health facilities</li> <li>• Safety facilities</li> </ul>	3.5%	3.8%	7.2%	4.8%	5.4%	5.5%	Exceeded
	4.1%	3.8%	6.16%	5.7%	5.0%	9.06%	
<p><b>Rationale for Met Range:</b> It is a challenge to measure the range of residents served because grants may vary widely, even within a category. One grant for a fire engine, for example, may serve 1,000 people, whereas another grant for a similar amount for a health care project might serve 10,000. Therefore, USDA would consider its FY 2009 goal unmet if CF serves fewer than 4.7 percent of the rural population with new health care facilities and provides new fire, rescue, and public safety facilities for less than 2.5 percent of the rural population. The ranges include all CF program funding, including ARRA funds.</p> <ul style="list-style-type: none"> <li>• Data assessment metrics to meet the target allow for an actual number in the range 4.7 to 5.7 percent for health facilities and the range 2.5 to 3.5 percent for safety facilities. Both areas met the goals.</li> </ul>							
<p><b>Data Assessment of Performance Measures 3.2.5</b></p> <p>Program data are collected by means of two streams of input. The finance office records and reports total loan and grant obligations as of the date of obligations. These data are collected as part of the obligation process. Additionally, USDA collects information for management and evaluation purposes. Data on delinquency status are reported by the finance office for community facilities direct loans, and by lenders for CF guaranteed loans.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—CF program data are complete and final.</li> <li>• <b>Reliability of Data</b>—CF data are entered into GLS by field staff as the program funds are obligated. They also represent the population served based on available U.S. Census information. Population data served by community facilities are estimates. USDA screens data annually for irregularities. Population estimates served by community facilities are based on engineering studies used for the design of new or expanded public utilities systems. The Department is developing mapping technologies to improve the determination of service areas for community facilities.</li> <li>• <b>Quality of Data</b>—Data are constantly monitored and any irregularities or ambiguities are questioned and resolved. Because data are derived from actual obligations and constantly monitored, the quality of the data is ensured.</li> </ul>							

### Challenges for the Future

The demand for increased energy efficiency and conservation poses both opportunities and challenges for USDA's electric programs. Challenges include control of greenhouse gas emissions through alternative fuels and renewable energy, addressing state and local support for power plant projects, legal issues, and containing escalating construction and fuel costs.

ARRA provided \$9 billion in program level for high-speed Internet service in communities that lack sufficient access. There are short-term challenges to implementing USDA's Broadband Initiative Program to distribute these funds and establish the appropriate monitoring and servicing of the investments. Regulations for the ongoing Farm



Bill broadband program must be revised and telecommunication program staff must develop and conduct outreach on the changes.

More than ever, rural communities must invest in water and wastewater facilities to upgrade aging facilities, meet new environmental quality standards and enhance the security of their operations. As communities increase their investments in water utilities, they must also manage costs better and set appropriate rates to ensure system sustainability. A regional approach to water and waste water service delivery in some rural areas helps address rising costs. Underwriting and meeting funding requirements for these larger regional systems will continue to challenge utilities programs.

USDA is committed to assisting the most rural of America's communities in planning, designing, and developing financial packages for renovating or replacing vital facilities. These facilities, which include hospitals, schools, and child-care businesses, are rapidly becoming more complex and expensive. The challenge is to develop a level of expertise that benefits communities the most.

USDA's direct loans are up by nearly 25 percent. Guaranteed loans have doubled from the previous year. With few other affordable lending products available, demand is expected to continue to skyrocket despite continued, high underwriting standards and documentation requirements. Processors in local offices, which have experienced staff reductions in recent years, are now at the limit of their capacity. Improvements to USDA's automation products will increase capacity and allow lenders, partners and remotely located employees to interface other data systems – increasing speed and efficiency of operations. Meanwhile, an automated “decision tool” is being developed to streamline the Direct Loan program. “Jump teams” of highly-qualified staff will be made available to areas with greatest demand.

Another challenge for the housing program is to meet the ongoing demand for funding. Demand by lenders for guarantees will continue for the foreseeable future. The long-time goal of increasing access to housing for those in the poorest and most remote areas remains unfulfilled. Despite serving a high portion of minorities, more help is needed. While economic stimulation is needed to get America's housing market growing again, USDA's housing programs will continue to play a central role in providing funding and support to the many rural Americans still in need of decent, safe, and affordable housing.

#### **Selected Results in Research, Extension, and Statistics**

**Status of Rural Health Care.** Rural residents have higher rates of mortality, disability, and chronic disease than their urban counterparts. A USDA study found several factors that contribute negatively to the health status of rural residents such as lower socioeconomic status, smoking, weight, and exercise levels. Farmers and their families also have higher risks of workplace hazards.

**Impact of Baby Boom Migration on Rural America.** A USDA analysis of age-specific migration during the 1990s reveals extensive shifts in migration patterns as Americans move through different life stages. The analysis finds a significant increase in migration to non-metropolitan areas as people reach their fifties and sixties, and projects a shift in migration among “baby boomers” toward more isolated settings.



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

### OBJECTIVE 4.1: REDUCE THE INCIDENCE OF FOODBORNE ILLNESSES RELATED TO MEAT, POULTRY AND EGG PRODUCTS IN THE UNITED STATES

#### Measures 4.1.1–4.1.4

- 4.1.1 Reduce the overall public exposure to generic *Salmonella* from broiler carcasses using existing scientific standards
- 4.1.2 Reduce the overall public exposure to *Listeria monocytogenes* in ready-to-eat products
- 4.1.3: Reduce the overall public exposure to *Listeria monocytogenes* in post-lethality exposed ready-to-eat products
- 4.1.4: Reduce the overall public exposure to *E. coli* O157:H7 in ground beef

#### Overview

##### Key Outcome

Basing Policy on Science

USDA verifies and enforces Federally regulated establishments’ compliance with their science-based food safety system, the Hazard Analysis and Critical Control Point (HACCP) system. HACCP is designed to prevent the contamination or adulteration of food products. The

establishments may have other supporting programs and must have Sanitation Standard Operating Procedures (SSOPs). SSOPs are written procedures that show how an establishment is meeting basic sanitation requirements every day. These programs represent USDA’s foundation of preventing and controlling contamination of the food supply during slaughter and processing. By placing the responsibility on the slaughter or processing facility to implement systems for preventing and controlling contamination, the Department can best use its inspection resources to ensure the safety of the Nation’s food supply. USDA verifies that establishments meet regulatory requirements, and inspects carcasses and products.

One critical element to verifying the effectiveness of the establishments’ HACCP system and supporting programs is the routine sampling of product for pathogens known to cause serious human illness. These pathogens include:

- *Salmonella* in broiler chickens;
- *Listeria monocytogenes* in ready-to-eat products; and
- *Escherichia coli* (*E. coli*) O157:H7 in raw ground beef.

Consumption of food contaminated with *Salmonella* can cause Salmonellosis, one of the most common bacterial foodborne illnesses. *Salmonella* infections can be life-threatening, especially to those with weak immune systems, such as infants, the elderly, and persons with *Human Immunodeficiency Virus* (HIV) infection or undergoing chemotherapy.

Consumption of food contaminated with *Listeria monocytogenes* can cause listeriosis, an uncommon but potentially fatal disease. While healthy people rarely contract listeriosis, it can cause high fever, severe headache, neck stiffness and nausea. Listeriosis can also cause miscarriages, stillbirths, and serious and sometimes fatal infections in those with weakened immune systems. The most susceptible are infants, the elderly, persons with HIV infection and those undergoing chemotherapy.

*E. coli* O157:H7 are a large and diverse, potentially deadly group of bacteria that can cause bloody diarrhea, dehydration, and kidney failure.

On-site USDA inspection personnel collect samples and send them for testing to Department’s field-service laboratories based on a pre-set schedule. Sampling allows USDA to verify that establishments ensure food safety through HACCP, sanitation and supporting programs. The Department focuses on the percentage of positive tests from all establishments. It measures the industry’s performance as a whole to form the basis of USDA’s food safety performance measures.

If a positive is detected at an establishment, USDA performs a series of follow-up activities. If the Department determines that the pathogen’s presence threatens public health and product has not been held, it works with the establishment in support of the product’s recall. Finally, in response to positive USDA test results for *E. coli* O157:H7 and *Listeria monocytogenes*, the Department performs a food safety assessment (FSA) to analyze an establishment’s control of the pathogen. USDA also uses FSAs to determine the design and implementation of an establishment’s food safety system, and why contamination occurred. Additionally, the Department requires the establishment to develop an action plan to address any problems.

Exhibit 23: Pathogen Reduction (Food Inspection)

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
4.1.1 Reduce overall public exposure to generic <i>Salmonella</i> from broiler carcasses using existing scientific standards <sup>1</sup>	n/a	45%	71%	80%	85%	82.08%	Unmet
4.1.2 Reduce the overall public exposure to <i>Listeria monocytogenes</i> in ready-to-eat products <sup>2</sup>	0.70%	0.60%	0.31%	0.29%	0.25%	0.08%	Met
4.1.3 Reduce the overall public exposure to <i>Listeria monocytogenes</i> in post-lethality exposed ready-to-eat products <sup>2</sup>	0.43%	0.23%	0.41%	0.35%	0.29%	0.1%	Met
4.1.4 Reduce the overall public exposure to <i>E. coli</i> O157:H7 in ground beef <sup>2</sup>	0.21%	0.40%	0.28%	0.48%	0.24%	0.36%	Unmet

<sup>1</sup>USDA measures its *Salmonella* performance in terms of a percentage of broiler chicken processing establishments that are in *Salmonella* performance Category 1. Establishments are placed in Category 1 if they demonstrate consistent process control in Department verification testing.

<sup>2</sup>USDA measures its performance for *Listeria monocytogenes* and *E. coli* O157:H7 in terms of a volume-adjusted percent-positive rate for the pathogen in the Department’s HACCP verification testing. USDA has based its performance objectives for those pathogens on the *Healthy People 2010* goals for reducing illnesses from *Listeria monocytogenes* and *E. coli* O157:H7. Volume adjusted percent positive rates are based on sampling results as of August 31, 2009. For *Listeria monocytogenes*, these are further adjusted by production category.

**Data Assessment of Performance Measures 4.1.1, 4.1.2, 4.1.3, 4.1.4**

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 monitors its performance against the Healthy People 2010 goals for these three critical pathogens — *Salmonella*, *Listeria monocytogenes* (*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.

- **Completeness of Data**—Results are based upon USDA’s laboratory results analyzed as of August 31, 2009 and are the best available indication of the FY 2009 fourth-quarter 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 the USDA’s field service laboratories for regulated establishments. Each positive 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 HACCP, 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 likely results in overestimates in public exposure to these two pathogens. For *E. coli* O157:H7, however, this is not the case because the sample collection is not biased because our programs sample every establishment and take into account establishment production volume. USDA is working towards incorporating statistical design into its verification testing programs for *Salmonella* and *Lm* in order to have true measures of prevalence.
- **Quality of Data**—The volume adjusted data show that these measures historically correlated with the Centers for Disease Control and Prevention foodborne illness outbreak data.



## Analysis of Results

### *Salmonella*

USDA has made consistent progress towards meeting its performance goal of reducing overall public exposure to generic *Salmonella* from broiler chicken carcasses. The FY 2009 target was 85 percent of broiler establishments in Category 1 and based upon data ending August 31, 2009. Additionally, 83 percent of broiler establishments were in Category 1 (USDA categorizes slaughter processing establishments as Category 1, Category 2 or Category 3 based on their consistency in process control for *Salmonella* reduction. Category 1 represents the most consistent and top performing category). USDA has met its *Healthy People 2010* goal for *Salmonella* broiler chickens of 0.68 cases per 100,000 people. However, USDA did not meet its goal for the number of establishments reaching Category 1 status as shown in Exhibit 23. With respect to the latter, USDA self-imposed a continuous improvement approach by placing establishments into one of three categories in order to further drive additional reductions in *Salmonella* illnesses beyond those for Healthy People 2010.

In March 2008, USDA started posting the names of broiler chicken processing establishments in Categories 2 and 3 to its Web site monthly. While establishments from the young turkey product class also are now eligible for posting, because more than 90 percent of young turkey establishments are in Category 1 and none are in Category 3, these facilities are currently not posted. Over time, USDA expects to post the establishments in Categories 2 and 3 from other product classes monthly. As more establishments attain Category 1 status, USDA believes that fewer people will be exposed to *Salmonella* from raw classes of USDA-regulated products. Consequently, as more establishments gain greater control over *Salmonella*, the goal of reducing the number of illnesses from *Salmonella* from USDA-regulated products is more likely to be achieved.

The category system provides incentives for industry to reduce the occurrence of *Salmonella* in operations. The Department has also developed a number of different initiatives to reduce the presence of *Salmonella* on USDA-regulated products.

USDA schedules food safety assessments (FSAs) in poor-performing establishments to analyze an establishment's control of *Salmonella*, and the design and implementation of an establishment's food safety system. FSA findings inform regulatory decisions and are also used to devise agency policies and outreach efforts. All enforcement analysis and investigations officers have been trained in updated methods for conducting FSAs.

USDA has also developed the *Salmonella* Initiative Program (SIP). SIP is designed to drive improvements in on-going control of *Salmonella* in broiler and turkey slaughter operations on a volunteer basis. Participating establishments must collect samples for microbial analysis on each line during each shift on every day of production. These additional samples will provide the agency with key microbial data on process control. These data may be used to inform performance standards development in the future.

USDA is conducting several baseline studies on raw classes of product in which the presence and numbers of *Salmonella* and other microorganisms are being assessed. For example, the Department completed a study on broilers in FY 2008 and one on young turkeys in FY 2009. USDA is also designing a baseline to measure prevalence on raw chicken parts. Finally, the market hog baseline began in FY 2009. Baseline data will be analyzed for trends and relationships between pathogen levels. New performance standards are intended to be derived from these studies.

Finally, in terms of training, USDA has conducted five face-to-face "how-to" workshops in FY 2009 on controlling *Salmonella*. These workshops are designed to help small and very small operators reduce this pathogen in poultry operations.

*Listeria monocytogenes*

USDA has met the performance goals of decreasing the percentage of all ready-to-eat (RTE) meat and poultry products testing positive for *Listeria monocytogenes* (*Lm*), and the percentage of post lethality exposed RTE meat and poultry products testing positive for *Lm*. The FY 2009 performance target for *Lm* in all RTE products was a volume adjusted percent positive rate of 0.25 percent. The actual performance in FY 2009 is 0.08 percent (as of August 31, 2009). The FY 2009 performance target for *Lm* in post-lethality exposed RTE products was a volume adjusted percent positive rate of 0.29 percent. The actual performance in FY 2009 is 0.17 percent (as of August 31, 2009). The Department also met the *Healthy People 2010* goals for human illnesses due to *Lm* in all RTE meat and poultry products. USDA also met its goal for post-lethality exposed RTE meat and poultry products.

In FY 2009, the Department began measuring its *Lm* performance in terms of both the all RTE product sampling program and the *Lm* sampling program targeted at post-lethality exposed products. USDA decided to begin measuring its performance in terms of post-lethality exposed products. These products pose a greater risk to public health. The Department targets most of its *Lm* initiatives toward post-lethality exposed products. Thus, USDA decided to report both a volume adjusted percent positive rate for all RTE products and post-lethality exposed products in FY 2009.

*E. coli* O157:H7

USDA has not met the performance goal for *E. coli* O157:H7 in ground beef. The FY 2009 target was 0.24 percent positive while the volume adjusted percent positive rate for *E. coli* O157:H7 in ground beef was 0.36 percent. Likewise, the Department did not meet its *Healthy People 2010* goal for illnesses from *E. coli* O157:H7 in ground beef of 0.28 cases per 100,000 people. USDA worked with the affected establishments on recalls of contaminated products if product testing positive was not held. As of September 21, 2009, it also conducted 182 FSAs related to *E. coli* O157:H7.

In July, 2009, USDA implemented a new sampling program for “bench trim.” Bench trim refers to trimmings derived from animals not slaughtered onsite at the establishment. This product was not already sampled under the Department’s routine trim testing program. The program’s goal is to encourage establishments that produce this product to apply an anti-microbial treatment or other intervention to all beef used in this product’s production prior to or after its removal. Alternatively, USDA sampling may provide an incentive for producers of bench trim to maintain purchase specifications that require their suppliers to apply an antimicrobial or other intervention to address *E. coli* O157:H7. USDA will track the results of this program to see whether it achieves these goals or whether the results indicate that new policy or guidance is necessary to protect the public health.

In July, 2009, USDA issued a directive to its inspection personnel consolidating multiple notices on USDA sampling and other verification activities for *E. coli* O157:H7, which clarifies policies and procedures, and implements new necessary sampling and verification procedures. By clarifying the procedures outlined in the directive, USDA inspection personnel should better understand their responsibilities and, thus, perform their sampling and verification activities more effectively. The new sampling and verification procedures should better protect the public’s health. The Department will track *E. coli* O157:H7 data to assess whether the revisions in the directive have produced improvements in its sampling and verification procedures to better protect the public’s health. Additionally, inspection personnel are completing training on the Directive to ensure that they fully understand their duties related to sampling and verification for *E. coli* O157:H7.

USDA is conducting more detailed analysis of recent FSAs concerning *E. coli* O157:H7. For these FSAs, USDA is analyzing:

- All recent noncompliance records and enforcement actions;
- Available USDA sampling history;
- The establishment’s sanitation system;
- The establishment’s microbiological testing programs;





- The establishment's hazard analysis and HACCP system;
- Interventions used to address *E. coli* O157:H7;
- Suppliers; and
- How the establishment defines its lots of raw beef products.

Based on this analysis, USDA intends to determine whether establishments that have produced *E. coli* O157:H7-positive products have common or recurring deficiencies that can be addressed by 1) new or modified compliance guidelines for industry; 2) clarifying instructions to USDA inspection program personnel concerning sample collection or other USDA verification activities; or 3) developing new policy or testing to address the pathogen.

### Challenges for the Future

USDA must continue to verify that regulated establishments' HACCP systems and supporting programs meet regulatory requirements. The Department will continue to provide training and outreach activities to educate industry personnel and consumers. It will also identify and disseminate information on best practices. Additionally, USDA will develop regulations and supporting guidance for all stakeholders as new scientific and technical information becomes available. USDA plans to begin phased-in implementation of the Public Health Information System (PHIS) in October 2010. PHIS is designed to maximize the performance of food safety verification and sampling procedures performed by USDA inspection program personnel. The data from inspection and sample analyses will be automated and, through predictive analytics, more intensified inspection and enforcement can be initiated sooner at poor-performing establishments. Additionally, PHIS will facilitate outbreak investigations by linking in real time the U.S. Centers for Disease Control (CDC) PulseNet data on human outbreak information, and the USDA sub-typing data from VetNet. PulseNet is a national network of public health and food regulatory agency laboratories coordinated by CDC. VetNet is designed to investigate animal and foodborne illness outbreaks. This linkage will allow USDA to target its investigations more quickly toward establishments likely to be the cause of human illness outbreaks under investigation.

In terms of cross-cutting training initiatives, USDA posted the content of its Web seminars to help small and very small operators understand how to reduce *Salmonella*, *Listeria monocytogenes*, and *E. coli* in their operations. This information can be viewed at [http://www.fsis.usda.gov/news\\_&\\_events/Reg\\_Education\\_Videos/index.asp](http://www.fsis.usda.gov/news_&_events/Reg_Education_Videos/index.asp).

In March 2009, President Obama established the Food Safety Working Group (FSWG). FSWG, which is chaired by the Secretaries of USDA and the U.S. Department of Health and Human Services, will advise the President on how to upgrade food-safety laws for the 21st century. Key FSWG findings and recommendations that affect USDA will be addressed over the next several years in response to these recommendations. The Department is:

- Developing more effective outreach and communication materials and tools for State/Multilateral organizations and consumers;
- Strengthening its data analysis and surveillance activities, and developing risk-based approaches to target inspection resources and enforcement actions;
- Enhancing its incident command system and updating its emergency operations procedures;
- Increasing its oversight of imported foods by developing risk-based approaches to import inspection and foreign country audits;
- Implementing science-based, data driven approaches to reduce the prevalence of foodborne pathogens;
- Developing tools to more rapidly recall contaminated products from commerce; and
- Improving its trace-back systems for food products.



**Selected Results in Research, Extension, and Statistics**

**Developing a Quick Method for Detecting *E. coli* O157:H7.** A USDA funded food scientist, in collaboration with a researcher at the National Chiao Tung University in Taiwan, has found a way to detect pathogenic *E. coli* O157:H7 in food visually, using nanotechnology. The quick, easy, and affordable method developed by this team of researchers could allow consumers and producers to know immediately whether their food is safe to eat, because the presence of pathogenic *E. coli* O157:H7 causes the nanoparticles to change color. The implications for the industry are revolutionary.

**Detecting Melamine Residues in Food.** USDA-funded researchers, collaborating with Beacon Analytical Systems, a Maine biotechnology company, have developed a commercial kit (EIA) for the rapid quantification of melamine residues in food. Beacon is currently the only manufacturer of melamine EIA kits in the world. In addition to their work on melamine contamination, USDA funded scientists are working with Beacon on new ways to detect paralytic shellfish poison (PSP) in seafood.

**OBJECTIVE 4.2: REDUCE THE NUMBER AND SEVERITY OF AGRICULTURAL PEST AND DISEASE OUTBREAKS**

**Measure 4.2.1: Number of significant introductions of foreign animal diseases or pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans**

**Overview**

<b>Key Outcome</b>
<b>A Healthy Food Supply</b>

USDA provides a secure agricultural production system for U.S. consumers. This is done by reducing the number and severity of pest and disease outbreaks by:

- Safeguarding animal and plant resources against the introduction of foreign pests and diseases;
- Detecting and quickly responding to new invasive species and emerging agricultural health situations;
- Eradicating or managing existing agricultural pests and diseases and wildlife damage; and
- Developing and applying more effective scientific methods.

The Department has several programs that focus on this goal each with its own set of performance measures. As an indicator of success in FY 2009, one performance measure has been selected to represent the range of activities conducted by its programs—one that pertains to the Animal Health Monitoring and Surveillance (AHMS) Program. It evaluates and enhances disease control and eradication programs. AHMS monitors surveillance activities to detect incursions of foreign and emerging animal diseases. AHMS also monitors international disease trends and threats, and provides timely and accurate animal health information. This work is designed to prevent the introduction of foreign animal diseases. If such diseases enter the country, AHMS works to prevent their spread. The program seeks to minimize economic and environmental damage, and threats to the health of animals or humans.

**Analysis of Results**

USDA met its target related to animal disease outbreaks in FY 2009. USDA developed animal-health monitoring and surveillance systems to ensure success in future years. There were no significant introductions of foreign animal diseases or pests that spread beyond the original area of introduction and caused severe economic or environmental damage, or damage to the health of animals or humans.



**Exhibit 24: Reduce the Number and Severity of Pest and Disease Outbreaks**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
4.2.1 Number of significant introductions of foreign animal diseases or pests that spread beyond the original area of introduction and cause severe economic or environmental damage, or damage to the health of animals or humans	0	0	0	0	0	0	Met
<ul style="list-style-type: none"> <li><b>Rationale for Met Range:</b> These foreign animal diseases could have significant economic impact and animal health consequences. USDA seeks to prevent the spread of every single one. Data assessment metrics to meet the target is 0 introductions. No threshold can be identified when the target is 0.</li> </ul>							
<b>Data Assessment of Performance Measures 6.4.1</b>							
Determining the performance result involves: (1) routine monitoring and surveillance of world animal health problems; (2) investigating reports identifying any new introduction of a significant foreign animal disease (FAD), testing to determine the extent of spread; and (3) evaluating the severity of the damage.							
<ul style="list-style-type: none"> <li><b>Completeness of Data</b>—The data are complete when the scheduled testing is finished; the samples are analyzed and the quarantined animals are tested and released. The cutoff for the data is set at one month before the reporting date.</li> <li><b>Reliability of Data</b>—The data are considered reliable when USDA’s Deputy Administrator of Veterinary Services has reviewed and approved them.</li> <li><b>Quality of Data</b>—The issues related to collection and reporting of performance information are described above.</li> </ul>							

**Challenges for the Future**

USDA faces many challenges in its efforts to reduce the number and severity of pest and disease outbreaks. Every year, the flow of animals, plants, and host material from abroad increases. This growth creates new pathways into the country. The social and biological environment in which Federal efforts must be coordinated is becoming more complex every year. Agencies must stay informed about new technologies. For each of these challenges, USDA has developed strategies. One of the strategies is surveillance and monitoring in cooperation with States and industry. Another strategy is to gather and update pest and disease information world wide. When learning of a possible threat, the Department conducts science-based, early-detection, and rapid-response efforts. It creates and enforces regulations to prevent the entry and spread of invasive species. USDA also develops new networks and tools in collaboration with States, universities, and the private sector.

**Measure 4.2.2: Improve Animal and Plant Diagnostic Laboratory Capabilities**

**Overview**

<b>Key Outcome</b>
<b>Improve Animal and Plant Diagnostic Laboratory Capabilities</b>

The National Animal Diagnostic Network and Plant Diagnostic Network Centers ensure timely disease detection. They also produce and maintain a timely, comprehensive catalog of pest and disease outbreak occurrences in a nationally accessible database. This

database allows USDA, in collaboration with the states, to expedite initial control responses, verify the physical boundaries of an outbreak and initiate regional or national containment strategies should an outbreak occur. These two networks continue to study new diseases regularly to protect the Nation from accidental or deliberate introduction of diseases.

**Exhibit 25:** Ensure the Capabilities of Plant and Diagnostic Laboratories are Improved

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
4.2.2 Improve the capabilities of animal and plant diagnostic laboratories.							
<ul style="list-style-type: none"> <li>Specific plant diseases (and insects) labs are prepared to detect</li> </ul>	5	6	7	8	9	10	Met
<ul style="list-style-type: none"> <li>Specific animal diseases labs are prepared to detect</li> </ul>	7	8	8	9	9	10	Met
<b>Data Assessment of Performance Measures 4.2.2</b>							
<ul style="list-style-type: none"> <li><b>Completeness of Data</b>—The data are complete when the scheduled testing is finished; the samples are analyzed and the quarantined animals are tested and released. The cutoff for the data is set at one month before the reporting date.</li> <li><b>Reliability of Data</b>—The data are considered reliable when USDA’s Deputy Administrator of Veterinary Services has reviewed and approved them.</li> <li><b>Quality of Data</b>—The issues related to collection and reporting of performance information are described above.</li> </ul>							

### Analysis of Results

The performance goal was met. Trend data show a steady increase in plant and animal diseases the networks are prepared to detect.

Plant disease (and insect) detection criteria have been developed for:

- *Soybean rust*;
- *Sudden oak death*;
- *Ralstonia stem rot*;
- *Plum pox virus*;
- Pink hibiscus mealybug;
- *Potato wart*;
- *Huanglongbing* (citrus greening);
- Potato Cyst Nematode;
- *Late Blight*; and
- *Beet Curly Top*.

The last two diseases were added in FY 2009. The plant laboratory network partnered with other cooperative extension officials to quickly and efficiently conduct a widespread outreach and detection campaign on tomato and potato *Late Blight*. This fungal disease, which triggered the great Irish potato famine of the 1840s, became a significant domestic problem in FY 2009. A new diagnostic test was also implemented for *Beet Curly Top*, a disease spread by insects that affects tomatoes, sugar and table beets, beans, and cucurbits. *Beet Curly Top* also was integrated into the Legume Integrated Pest Management (IPM) Pest Information Platform for Extension and Education (ipmPIPE). The ipmPIPE provides real-time information to disease detectors, including best practices for optimum scouting.

Animal disease-detection criteria have been developed for the following nine high-consequence diseases: *Foot-and-Mouth Disease*, *Exotic Newcastle Disease*, *Classical Swine Fever* (or *hog cholera*), *High Pathogen Avian Influenza*, *Low Pathogen Avian Influenza*, *Bovine Spongiform Encephalopathy*, *Scrapie*, *Chronic Wasting Disease*, and *Rift Valley Fever*. *Rift Valley Fever*, added in FY 2008, is a fever-causing disease that affects livestock (including cattle, buffalo, sheep, and goats) and humans. In FY 2009, the National Animal Health Laboratory Network (NAHLN) conducted a reorganization based on the recommendations of an independent review panel. This reorganization was designed to ultimately increase the network’s capability, capacity, and efficiency. NAHLN is part of a national strategy to coordinate the Nation’s Federal, State, and university laboratory resources.



## Challenges for the Future

Future challenges to improving laboratory capabilities include improving plant laboratory quality assurance and first-detector training. Plans are underway to cooperate with USDA's Plant Protection and Quarantine Program and Center for Plant Health, Science, and Technology to structure a quality-assurance system consistent with the policies of the International Organization for Standardization (ISO). ISO is a federation of 125 national bodies that promotes standardization and facilitates international exchange of goods and services through the development of technical, scientific, and quality standards. Improved first-detector training, conducted through the cooperative extension system, will improve laboratory sample quality and speed initial detection of high-consequence pathogens.

### Selected Results in Research, Extension, and Statistics

**Using *Salmonella* to prevent *Campylobacter* Contamination.** USDA funded faculty and graduate students at a veterinary school developed a new poultry vaccine using *Salmonella* to induce chicks to make antibodies to *Campylobacter* proteins in their intestines—where the infection begins. The vaccination process is simple, easy to produce and protective to the chick. The *Salmonella* lives four to five days, enough time to stimulate antibody production, and dies. The goal is to halt the contamination before it spreads and survives on raw chicken sold in stores. The vaccine may be available in 3 to 5 years. The vaccine's effect could be significant: about 8.9 billion broilers go to market annually in the U.S., with a value of \$21.5 billion.

**Protecting the Honey Bee.** USDA-funded researchers have teamed up with Mite Zapper (Detroit, MI) to further refine a mite control device for honey bee colonies. This research increases knowledge about mode of actions or effects of pests or diseases on honey bees to achieve better control of pests and diseases and to gain increased honey production and more effective pollination of agricultural crops.

**Identification of H2N3 *influenza A* viruses from swine in the United States.** Although viruses of each of the 16 *influenza A* hemagglutinin (H, the main binding site for flu viruses) subtypes are potential human pathogens, only viruses of the H1, H2, and H3 subtype are known to have successfully established infections in humans. H2 influenza viruses have been absent from human circulation since 1968, and as such pose a substantial human pandemic risk. USDA's National Animal Disease Center (NADC) scientists reported this year the isolation and characterization of an avian/swine virus reassortant (two viruses that interchange their genes resulting in a new virus) H2N3 *influenza A* virus isolated from diseased swine from two farms in the United States. This virus contained an amino acid on the H2 protein that has been associated with increased binding affinity to the mammalian receptor for influenza viruses, and the H2N3 viral isolate was shown to cause disease in experimentally infected swine. In addition, the swine H2N3 virus was infectious and highly transmissible in swine and ferrets. These findings suggest that this H2N3 virus has undergone some adaptation to the mammalian host and that its potential spread should be very closely monitored. Access to the virus for potential vaccine development is available should the H2N3 *swine influenza* virus re-emerge and begin to circulate among the U.S. swine population.

## Strategic Goal 5: Improve the Nation’s Nutrition and Health

Nutrition is the link between agriculture and the Nation’s health. USDA made significant progress in advancing its nutrition and health goal in FY 2009. The Department’s leadership in Federal nutrition assistance programs made a healthier diet available for millions of children and low-income families. Cutting-edge nutrition promotion efforts of the Center for Nutrition Policy and Promotion (CNPP) harnessed interactive technologies to motivate all Americans to make positive dietary behavioral changes consistent with the *Dietary Guidelines for Americans*. CNPP develops and promotes dietary guidance that links scientific research to consumers’ nutrition needs. The *Dietary Guidelines for Americans* provides authoritative advice for all persons about how good dietary habits can promote health and reduce risk for major chronic diseases.

Key FY 2009 accomplishments include:

- Promoting access to the Supplemental Nutrition Assistance Program (SNAP). Formerly the Food Stamp Program, SNAP is the Nation’s largest nutrition assistance program. This program is at record-breaking levels and serves roughly 34 million people monthly. The latest information on the rate of participation among eligible people showed that, in 2007, 66 percent of all eligible persons participated, compared with 54 percent in 2001;
- Promoting Nutrition Education by Using the MyPyramid Food Guidance System (MyPyramid). MyPyramid offers the American public an individualized approach to nutritional well-being and active living. This network of nutrition education tools, located at MyPyramid.gov, translates the *Dietary Guidelines for Americans* into understandable concepts for consumers. Users can access the site to assess and personalize their diet and physical activity plans. Its newest tool, MyPyramid for Preschoolers (ages 2 to 5 years old), helps parents help their young children eat well and be active and 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. In 2009, MyPyramid.gov and other nutrition related Web-based tools were accessed or used more than 3.5 billion times. This usage brought the overall total since April 2005 to 7.5 billion; and
- Continuing to ensure that SNAP benefits are accurately issued. The SNAP payment accuracy rate for FY 2008, announced in 2009, was 94.99 percent. This new record high reflects effective partnerships with State administering agencies. It also draws the extensive use of policy options to streamline program administration while improving access for working families.

### OBJECTIVE 5.1: ENSURE ACCESS TO NUTRITIOUS FOOD

#### Measure 5.1.1: Participation levels for the major Federal nutrition assistance programs

#### Overview

Key Outcome
Reduced Hunger And Improved Nutrition

Nutrition assistance programs represent the core of the Nation’s effort to improve food security and reduce and prevent hunger. USDA’s commitment to these programs is part of its goal to ensure that all eligible Americans who wish to participate can receive program services easily and

with dignity and respect. The programs’ strong FY 2009 performance reflects their fundamental strengths. It also demonstrates the Department’s efforts to promote access and improve service to its clients in cooperation with our State partners.



Exhibit 26: Improve Access to Nutritious Food

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
5.1.1 Participation levels for the major Federal nutrition assistance programs (millions per month):							
• Supplemental Nutrition Assistance Program (SNAP) Avg. (Monthly)	25.7	26.7	26.5	28.4	32.6	33.9	Met
• National School Lunch Program (NSLP) Avg.(Daily)	29.6	30.1	30.5	30.9	31.6	31.6	
• School Breakfast Program (SBP) Avg. (Daily)	9.3	9.8	10.1	10.6	11.0	11.0	
• Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Program (Monthly)	8.0	8.1	8.3	8.7	9.3	9.1	
<p>FY 09 data as of June 2, 2009.</p> <p><b>Rationale for Met Range:</b> Thresholds for 5.1 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). The threshold range for the school meals and WIC participation levels are 5 percent and 3 percent respectively. The range reflects the pattern of variance between actual and target performance for both programs over the past five years.</p> <ul style="list-style-type: none"> <li>• <b>Data assessment metrics</b> to meet the target allow for an actual number in the range (in millions) 31.4-36.5 for SNAP, 30.0- 33.2 for NSLP, 10.5-11.6 for SBP, and 9.0- 9.6 million for WIC.</li> </ul>							
<p><b>Data Assessment of Performance Measures 5.1.1</b></p> <p>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.</p> <ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—Figures for SNAP and WIC participation represent 12-month fiscal-year averages. 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 March 2009, as available, June 2, 2009.</li> <li>• <b>Reliability of Data</b>—The data are highly reliable. 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 (GAO), the Office of Inspector General (OIG) and the Office of Management and Budget.</li> <li>• <b>Quality of Data</b>—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.</li> </ul>							

**Analysis of Results**

As program participation is voluntary, projections are based on economic and other factors that impact the likely behavior of eligible populations. An analysis of the most recent information available follows.

**Supplemental Nutrition Assistance Program (SNAP)**—Program participation increased almost 21 percent between May 2008 and May 2009. USDA’s efforts to support and encourage SNAP participation included:

- Rapidly implemented key provisions of the 2008 Farm Bill that expanded availability, and increased benefits, and simplified program administration;
- Continued efforts with States to develop outreach strategies. Forty out of 53 State agencies now have formal outreach plans or other documented outreach activity;
- Supported innovative State practices to promote access by simplifying the application process. Twenty-three states have an Internet-based application filing system. Nearly 25 states allow telephone interviews. Twenty-seven states use call centers;



- Implemented ARRA provisions on time to increase benefits and eliminate time limits for able-bodied adults without children. ARRA also provided nearly \$300 million in 100 percent State administrative expense funding to State agencies in response to the economic downturn. ARRA provisions are designed to provide a stimulus to the U.S. economy in the wake of the economic downturn; and
- Provided numerous strategies to help States manage workloads as a result of increasing participation and decreasing State resources due to the economic downturn.

USDA also measures the number of people eligible for the program. This process determines the rate at which eligible people are participating. The latest study shows that, in 2007, 66 percent of all persons eligible for SNAP participated. The number reflects an increase in eligible individuals greater than the increase in participants. While the number of participants increased 2 percent, the number of eligible participants increased by 4 percent. Also in 2007, participants received 81 percent of all benefits available if every eligible person participated. This number indicates that the program is effectively reaching those most in need.

**National School Lunch Program (NSLP)**—Participation levels reached 31.6 million in FY 2009. This number is a slight increase from FY 2008. It continues the recent trend of increases. NSLP provides nutritious meals to millions of children at school. More than 100,000 schools and residential child care institutions operated the program in FY 2009.

**School Breakfast Program (SBP)**—Participation levels reached 11 million in FY 2009, continuing a trend of increases during the last several years. SBP makes healthy, nutritious meals available to millions of children at the start of each school day. More than 85,000 institutions operated the program in FY 2009.

**The Special Supplemental Nutrition Program for Women, Infants and Children (WIC)**—In FY 2009, approximately 9.1 million participants received WIC benefits. USDA addresses the health and nutritional needs of at risk, low-income pregnant, breastfeeding and postpartum women, infants, and children up to 5 years of age with supplemental food packages, nutrition education, and health and social services referrals.

### Challenges for the Future

Studies and analyses show that there continue to be large numbers of eligible people who do not participate in Federal nutrition assistance programs. Many may not be aware that they are eligible. Therefore, efforts to improve access to and promote awareness of these programs, and seeking improvements in policy and operations that make it easier to apply, 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 USDA’s efforts to reduce hunger and improve nutrition.

In FY 2009, the Department and its program delivery partners sustained effective access to the programs. The period was marked by greater-than-targeted participation in SNAP and expected levels of average monthly participation in NSLP, SBP, and WIC.

#### Selected Results in Research, Extension, and Statistics

**Healthier Food Research.** USDA-funded scientists have been advancing the knowledge of the role of black raspberries in cancer management. Findings from these studies suggest that a mixture of preventative agents, which berries provide, may more effectively prevent cancer than a single agent that targets only one or a few genes. Black raspberries have vitamins, minerals, phenols and phytosterols, many of which individually are known to prevent cancer in animals. Freeze drying the berries concentrates these elements about ten times, giving a power pack of chemoprevention agents that can influence the different signaling pathways that are deregulated in cancer.

**Creating a New Index for Ranking Nutritional Value of Food.** Through USDA National Research Initiative funding, scientists created a Relative Antioxidant Index (RACI) by statistically integrating the antioxidant capacity values generated using seven different chemical methods. The RACI was validated using 20 commonly consumed vegetables. This index provides standardization of information about the antioxidant content of various fruits and vegetables and is useful as a ranking tool for use by the food industry, scientists, and consumers.



## OBJECTIVE 5.2: PROMOTE HEALTHIER EATING HABITS AND LIFESTYLES

### Measure 5.2.1: Application and usage level of nutrition guidance tools

#### Overview

##### Key Outcome

Healthful Eating and Physical Activity across the Nation

Healthy eating and physical activity practices help reduce the risk of death or disability from a wide range of chronic diet-related illnesses. USDA uses Federal nutrition policy and nutrition education, both for the general public and those served by the nutrition assistance programs, to provide scientifically based information about healthful diets and

lifestyles.

USDA and the U.S. Department of Health and Human Services co-developed the *Dietary Guidelines for Americans*. The guidelines provide advice about food choices that promote health and prevent disease. The MyPyramid food guidance system provides the educational tools to help Americans take the necessary “Steps to a Healthier You.” A range of cutting-edge information tools, many available on the Internet, offer a personalized eating plan with the foods and amounts that are right for a given individual.

The Department will continue promoting diets and behaviors as a vital public-health issue. The *Dietary Guidelines for Americans* is the cornerstone of Federal nutrition guidance. USDA uses the 2005 *Dietary Guidelines for Americans* and MyPyramid to advise people in on how to improve their overall health through proper nutrition. The Department uses partnerships and “information multipliers” – such as shopkeepers who post public service messages in their shops, or school teachers who teach their students about nutrition – to maximize the reach and impact of its interventions, both within Federal nutrition-assistance programs and with the general public.

#### Analysis of Results

USDA continued its leadership role in promoting nutrition guidance through educational tools designed to motivate people to live healthier. For example:

- The Department distributed more than 3 billion pieces of nutrition guidance materials distributed via the Internet and print materials;
- USDA continued its collaborative effort to increase communication of dietary and physical activity guidance messages. The program “Partnering with MyPyramid,” (<http://www.mypyramid.gov/Challenge/index.html>) with more than 140 members, showcases the role of various industries and others (e.g., youth groups) as Government partners to encourage healthier eating and physical activity behaviors among families. The partnership is designed to empower nutrition gatekeepers by providing easy to apply guidance for modeling a healthy lifestyle. It also provides information to help them make healthy food choices for themselves and their families where they prepare foods, work, play, and purchase foods; and
- “MyPyramid for Preschoolers” is the newest educational tool. Located at [MyPyramid.gov](http://MyPyramid.gov), it helps parents create a customized eating plan for their preschooler. The tool also encourages parents to explore ways to help their preschooler (1) grow up healthy, (2) develop healthy eating habits, (3) try new foods, (4) play actively every day, and (5) follow food safety rules. Sample meals and snack patterns are designed to help parents translate MyPyramid Plan daily amounts into individual meals and snacks. Ideas are also offered for having a preschooler help the food preparer in the kitchen—a good way to encourage a child to try new foods.

Exhibit 27: Promoting Healthier eating Habits and Lifestyles

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
5.2.1 Application and usage level of nutrition guidance tools (pieces of nutrition guidance distributed, in billions)	n/a	1.5	2.6	3.2	2.5	3.5	Exceeded
<p><b>Rationale for Met Range:</b> Thresholds reflect trends of MyPyramid.gov "hits" and print materials distributed (MyPyramid and the Dietary Guidelines for Americans).</p> <ul style="list-style-type: none"> <li>Data assessment metrics to meet the target allow for an actual number in the range 2.3-2.7 billion.</li> </ul>							
<p><b>Data Assessment of Performance Measures 6.4.1</b></p> <p>Data on the application and usage level of nutrition guidance tools are drawn from electronic records associated with www.MyPyramid.gov, survey analysis and inventory records of print materials.</p> <ul style="list-style-type: none"> <li><b>Completeness of Data</b>—Data related to MyPyramid.gov are collected instantaneously, indicating the number of e-hits to the Web site and the number of registrations to the MyPyramid Tracker. For print materials, data from national headquarters represent the difference between what was distributed versus what remains in the inventory.</li> <li><b>Reliability of Data</b>—The data are highly reliable. The number of hits is instantaneously recorded, the online survey is continual and well-tested. The number of distributed print materials is tracked. Consumer satisfaction data are collected by predictive methodology of the American Customer Satisfaction Index (ACSI). The ACSI methodology is a measurement system that provides a rigorous scientific foundation to quantify the value of customer satisfaction. The survey used to test MyPyramid.gov is presented randomly during a customer's Web session subject to strategic parameters that qualify respondents. It incorporates a 10-point radio button scale for greater differentiation of responses.</li> <li><b>Quality of Data</b>—The data are used to report on the success of the MyPyramid Food Guidance System. The system offers simultaneous recording of MyPyramid.gov usage and a thorough and continual customer-satisfaction survey. Thus, usage and customer-satisfaction levels are high-quality indicators of the degree to which USDA promotes and customers respond to interactive tools and print materials designed to help Americans personalize their diets.</li> </ul>							

**Challenges for the Future**

Crafting more effective messages and nutrition education programs to help people make better food choices requires understanding their current choices. There also must be an awareness of the relationships between these choices and their attitudes towards and knowledge of diet/health links. The data that can address this information gap, however, are limited.

The ability of existing nutrition guidance and promotional materials to achieve behavior change remains challenging. Limited resources are available for nutrition promotion relative to other messages, products, and practices in the food marketplace. Physical activity and other lifestyle issues also significantly impact body weight and health.

USDA tracks its annual performance in promoting healthful eating and physical activity by monitoring its annual distribution of nutrition education materials. Over the longer term, the Department assesses the effect of these efforts with its Healthy Eating Index (HEI). HEI assesses the conformance to Federal dietary guidance and is based on nutrition surveillance data.



### Selected Results in Research, Extension, and Statistics

**Healthier Eating Habits of Low-Income Audiences Studied.** With funding by USDA, researchers tested their hypothesis that lower-cost diets among low-income women would be higher in calories but lower in nutrients. Their tests concluded that the more energy-dense (high-calorie) the diet, the less nutritious it is likely to be. Additionally, low-income women who ate more nutritious diets spent more money per calorie than those who ate less nutritious diets. The consumption of a higher energy-dense diet was associated with higher intakes of fat and lower intakes of calcium and vitamin A. Results of this project point out the need for more nutrition guidance materials for low-income audiences.

**Adherence to the 2005 *Dietary Guidelines for Americans* lowers risk for cardiovascular disease.** USDA and the U.S. Department of Health and Human Services share responsibility for revising the *Dietary Guidelines for Americans* every five years. In the Framingham Heart Offspring cohort study, USDA scientists in Boston, MA found a 50% lower prevalence of metabolic syndrome in men and women with high adherence to the *Dietary Guidelines for Americans*. Metabolic syndrome, characterized by abdominal obesity and the inability to use insulin efficiently, is a forerunner of type 2 diabetes and increases risk for coronary heart disease.

**Many Americans receive inadequate amounts of vitamins A, C, and E.** Using data from the "What We Eat in America/NHANES 2001-2002" national dietary survey, USDA scientists in Beltsville, MD found a high prevalence of inadequate intakes of vitamins A, E, and C for most age and gender groups in the United States.

**The U.S. Organic Sector: Emerging Issues and Policy Dimensions.** The federal organic regulatory program includes a "USDA organic" label that has bolstered consumer assurance and helped drive a rapid expansion in sales. Domestic supply now trails demand for many products. The first Congressional hearing on organic agriculture was held in 2007, and stakeholders called for additional research and other tools to help the domestic farm sector meet burgeoning consumer demand. USDA research describes changes in the character of the U.S. organic sector in response to this growth, and highlights some emerging issues and concerns. Recent findings provide supporting analysis on issues across the organic supply chain, from structural changes in the organic farm sector to the socioeconomic characteristics of organic consumers.

## OBJECTIVE 5.3: IMPROVE NUTRITION ASSISTANCE PROGRAM MANAGEMENT AND CUSTOMER SERVICE

### Measure 5.3.1: Increase SNAP Payment Accuracy Rate

#### Overview

#### Key Outcome

High Level of Integrity in the Nutrition Assistance Programs

USDA looks to ensure that nutrition-assistance programs serve those in need at the lowest possible costs. The Department also strives to offer its programs with a high level of customer service. Managing Federal funds for nutrition assistance effectively, including prevention of program error and fraud, is important for maintaining

program integrity.

#### Analysis of Results

SNAP payment accuracy reached a record-high 94.99 percent in 2008, the last year for which data are available. The number reflects the excellent performance by State agencies in administering the program. This combined rate reflects 4.01 percent in overpayments and 1.00 percent in underpayments for a total of 5.01 in erroneous payments.

Thirty-five States had a payment accuracy rate greater than 94 percent, including 15 States with rates greater than 96 percent.

An enhanced Partner Web (an Intranet for State SNAP agencies) and the National Payment Accuracy Work Group (consisting of representatives from USDA headquarters and regional offices) have allowed the Department to realize consistent increases in SNAP payment accuracy. These efforts help make timely and useful payment accuracy-related information, tools, and best practices available across the country.

Additionally, the Department continued to use an early detection system to target States that may be experiencing a higher incidence of errors based on preliminary quality control (QC) data. Actions then are taken by regional offices to address these situations in the individual States.

**Exhibit 28:** Increase Efficiency in Food Management

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
5.3.1 Increase SNAP Payment Accuracy Rate (Baseline: 2001 = 91.3%)	94.1%	94.2%	94.4%	94.3%	94.99%	Not Available	Deferred
FY 2009 data will be available in 2010. <b>Rationale for Met Range:</b> The 95-percent confidence interval around the estimate of payment accuracy is $\pm 33$ . Data assessment metrics to meet the target allow for an actual number in the range 94.1-94.7 percent.							
<b>Data Assessment of Performance Measures 5.3.1</b>							
SNAP, formerly the Food Stamp Program, uses annual payment accuracy data from the Quality Control (QC) process to support its 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.							
<ul style="list-style-type: none"> <li><b>Completeness of Data</b>—The most current data available for this measure are for FY 2008. The payment accuracy rate of 94.99 exceeded the Performance Goal/Measure target. FY 2009 performance will be deferred until next year's report, once data on that fiscal year are available.</li> <li><b>Reliability of Data</b>—QC data is valid and accepted by State SNAP agencies as a basis for performance-incentive payments and penalties. The Government Accountability Office and the Office of the Inspector General also use it regularly.</li> <li><b>Quality of Data</b>—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.</li> </ul>							

### Challenges for the Future

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

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



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

### OBJECTIVE 6.1: PROTECT WATERSHED HEALTH TO ENSURE CLEAN AND ABUNDANT WATER

<p><b>Measure</b></p> <p><b>6.1.1: Comprehensive Nutrient Management Plans applied</b></p> <ul style="list-style-type: none"> <li>• Conservation Technical Assistance</li> <li>• Environmental Quality Incentives Program</li> </ul> <p><b>6.1.2: Increase Conservation Reserve Program acres of riparian and grass buffers</b></p>
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#### Overview

<b>Key Outcome</b>
Clean and Abundant Water

Healthy landscapes and efficient water usage are essential to ensuring clean and abundant water resources. USDA manages national forests and grasslands to protect watersheds. The Department also provides science-based technical assistance to land users on privately owned lands

to help protect and enhance the Nation’s natural resources. With assistance delivered primarily through the Conservation Technical Assistance Program (CTA), USDA conservation experts assisted land users with conservation plans covering more than 37.6 million acres of working lands in FY 2009. These plans provide producers with information on soil quality, condition of their grazing lands and woodlands, irrigation water management, wildlife habitat needs, and measures to improve or protect soil, water and air quality. The Department also assisted agricultural producers with implementing water quality improvement practices on 35.2 million acres. Much of USDA’s assistance for water quality is directed towards livestock producers to reduce the risk of livestock waste and nutrients entering waterways. The Department also helped producers improve their irrigation practices on more than 2 million acres, a significant resource issue since a third of all ground and surface water is used for agricultural irrigation. USDA also provides time-sensitive water supply forecasting based on snow survey data.

USDA also provided producers with financial assistance to help offset the cost of installing riparian and grassland buffers, and other conservation practices. Major programs providing financial assistance for water resources included the Environmental Quality Incentives Program (EQIP) and the Conservation Reserve Program (CRP). EQIP is a voluntary conservation program that provides assistance to landowners and agricultural producers in a manner that promotes agricultural production and environmental quality as compatible goals. CRP is a voluntary program for agricultural landowners that allows them to receive annual rental payments and cost-share assistance to establish long-term, resource-conserving covers on eligible farmland.

#### Analysis of Results

USDA continues to make significant progress in protecting watershed health and ensuring clean and abundant water. The Department exceeded its target for CTA and met its target for EQIP by helping livestock producers apply comprehensive nutrient management plans (CNMPs). CNMPs are conservation systems for animal-feeding operations designed to ensure that the collection, storage, and utilization of animal waste are managed in ways that minimize the potential for environmental damage. These systems also include conservation practices implemented



for nutrient management, erosion control, and buffers to protect bodies of water. As animal agriculture has become more concentrated, public concern about potential environmental damage has increased. USDA focuses on helping producers comply with State and local regulations to minimize the potential for damage to water or air resources from livestock operations. EQIP performance reflects the continuing trend of producers utilizing financial assistance to apply CNMPs. EQIP financial assistance is used for capital-intensive, structural practices and the adoption of practices to improve the management of working land.

Riparian and grass buffers intercept sediment and nutrients before they reach surface waters. To measure performance in achieving its strategy, USDA monitors acreage of agricultural lands to be enrolled as buffer zones in CRP. During the past five years, the number of acres set aside as buffer areas under the CRP program has increased steadily. CRP met its performance target of 2.01 million acres for the measure. For FY 2009, producers have set aside approximately 2.03 million acres as CRP buffer areas. In 2009, these buffers intercepted at least 300 million pounds of nitrogen and 65 million pounds of phosphorus before they entered surface waters.

Exhibit 29: Healthy Watersheds, High Quality Soils, and Sustainable Ecosystems

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
6.1.1 Comprehensive Nutrient Management Plans applied (number of plans)							
• Conservation Technical Assistance	2,421	2,269	1,911	1,745	1,300	1,485	Exceeded
• Environmental Quality Incentives Program	2,032	2,774	2,490	2,520	2,000	2,019	Met
6.1.2 Increase Conservation Reserve Program (CRP) acres of riparian and grass buffers (million acres, cumulative)	1.75	1.86	1.95	2.00 <sup>1</sup>	2.01	2.03	Met
<sup>1</sup> Revised 7/09 due to updated enrollment data. <b>Rationale for Met Range:</b> <ul style="list-style-type: none"> <li>6.1.1: 1) Conservation Technical Assistance. Data assessment metrics to meet the target allow for an actual number in the range 1,170 – 1,430.</li> <li>2) Environmental Quality Incentives. Data assessment metrics to meet the target allow for an actual number in the range 1,800 – 2,200.</li> <li>6.1.2: Data assessment metrics to meet the target allow for an actual number in the range 1.90 - 2.11 million acres.</li> </ul>							
<b>Data Assessment of Performance Measures 6.1.1</b>							
<ul style="list-style-type: none"> <li>Please refer to goal 6, Objective 6.4.1.</li> </ul>							
<b>Data Assessment of Performance Measures 6.1.2</b>							
The data source for this measure is the USDA National CRP Contract and Offer Data Files. <ul style="list-style-type: none"> <li><b>Completeness of Data</b>—CRP targets and actual data are cumulative. Data are based on estimated results through September 30, 2009. The measure reports national acres under contract with the following types of conservation buffers: filter strips, riparian buffers, and wildlife habitat buffers on marginal pasture land. There are no known data limitations.</li> <li><b>Reliability of Data</b>—USDA considers the data to be reliable. CRP is authorized through FY 2012.</li> <li><b>Quality of Data</b>—While current information only provides the number of acres in these buffers, ongoing research will show models that estimate sediment and nutrients intercepted by these buffers. These estimates may also be used to track performance.</li> </ul>							

The Department has directed ARRA funds to cost-effective projects that provide public safety, flood protection, and economic and environmental benefits. USDA has approved nearly 400 projects to acquire floodplain easements (\$145 million), invest in watershed infrastructure improvements (\$145 million), and rehabilitate existing watershed dams (\$50 million) where there is the greatest risk of infrastructure failure and threat to life and property. Benefits include the protection of life and property by reduced threats and damage from flooding, improved water quality, safe and reliable water supplies, enhanced fish and wildlife habitat, erosion control, improved quality of life through expanded recreational opportunities, and added community green space. Detailed information on these projects can be found at <http://www.nrcs.usda.gov/programs/recovery/index.html#State Recovery Project Fact Sheets>. USDA received more than 4,500 applications totaling nearly \$1.8 billion. This demand necessitated a ranking process to ensure that eligible projects yielding the greatest public and environmental benefits were funded.



## Challenges for the Future

The quality of ground and surface waters to support intended uses and the supply of these waters to meet expanding demand are continuing concerns. Challenges to maintaining the rate of improvement will include the continuing concentration of livestock operations, increased acreage cropped for ethanol and cellulosic sources of biomass, and the risk of increased erosion from more intense storm events. Competition for water will continue to increase, especially in areas with limited or variable water supply. The expansion of cropped acres to produce energy feedstocks also may increase agricultural demand for water. Climate change impacts also affect water quality and quantity. Drought and variable precipitation in many parts of the Nation could result in shortages in areas that have had adequate supplies in the past.

Several provisions of the 2008 Farm Bill offer opportunities for continued efforts to ensure clean and abundant water. Among these are the Chesapeake Bay Watershed and Agricultural Water Enhancement Programs, and the reauthorization of programs for Watershed Rehabilitation, the Great Lakes Basin, and the Wetlands Reserve Program.

If markets support increased production, agricultural producers may continue to plant crops on environmentally sensitive land rather than establishing long-term conservation covers or buffers. CRP enrollment continues to be influenced by high commodity prices. These prices have reduced the attractiveness of retiring cropland from production and enrolling it in CRP.

USDA uses the multi-agency Conservation Effects Assessment Project (CEAP) to quantify the environmental benefits of conservation practices. Private landowners are cooperating with USDA in the CEAP effort. 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, USDA can more effectively utilize its programs. Much of this effort is focused on the impacts of livestock, irrigation and drainage management, and conservation practices with significant watershed level impacts.

### Selected Results in Research, Extension, and Statistics

**“Green Payments” in Agriculture.** A recent USDA report addresses the potential advantages and disadvantages of linking commodity and conservation programs into a single policy tool. The research examined the distribution of income support and environmental gains from various scenarios, combining the income support objective of existing commodity programs and environmental objectives of existing USDA conservation programs. Because commodity and conservation payments tend to go to different producers on different types of land, scenario outcomes varied. Conservation-based payments yielded larger environmental gain and substantial income support, although the distribution of income support across farms differed markedly from that of current commodity programs.

**Surface applications of poultry litter are safe at appropriate agronomic rates.** Poultry litter contains fecal bacteria, sex hormones, and low levels of antibiotics; therefore, it is important to determine whether poultry litter poses a risk to public health. USDA researchers in Athens, Georgia, conducted controlled rainfall simulations on long-term no-till and conventional tillage fields with poultry litter applications at rates recommended for crop production. They found no increase in the loads of fecal bacteria, hormones, or antibiotics in runoff to surface waters and concluded that under current guidelines there is little potential of contaminating surface waters with pathogens or hormones. This is important information for the poultry industry and environmental protection agencies because surface waters contaminated with pathogens or hormones from poultry litter are likely an indication of mismanagement of litter applications.

**Improved water quality.** Loss of nutrients from heavily fertilized fields can lead to water quality degradation in waterways. Nutrient contamination is a major water quality concern and its remediation a national priority. A novel approach to drainage water management in areas where diffuse flow is concentrated is to filter the runoff through low cost materials such as industrial byproducts. USDA scientists in Columbus, Ohio, have screened 55 industrial byproducts and have found five that hold promise for removing nitrate, phosphate, and atrazine from drainage waters.

**OBJECTIVE 6.2: ENHANCE SOIL QUALITY TO MAINTAIN PRODUCTIVE CROPLAND BASE**

<p><b>Measure</b></p> <p><b>6.2.1 Cropland with conservation applied to improve soil quality (millions of acres)</b></p> <ul style="list-style-type: none"> <li>• <b>Conservation Technical Assistance Program</b></li> <li>• <b>Environmental Quality Incentives Program</b></li> </ul>
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**Overview**

<p><b>Key Outcome</b></p>
<p><b>Enhanced Soil Quality</b></p>

High-quality soils support the efficient production of crops for food, fiber, and energy. Proper soil management maximizes agricultural production and improves the environment. In 2009, USDA conservation experts assisted people in writing or updating conservation plans on private

land covering more than 11.7 million acres of working cropland. The Department helps producers install conservation practices and systems that meet established technical standards and specifications. USDA worked with producers to implement conservation practices on 14.4 million acres of cropland. The Department also provides financial assistance to encourage producers to adopt land treatment practices proven to provide significant public benefits. Financial assistance through EQIP is available to producers to install structural measures or adopt management practices to reduce erosion and protect cropland. The new Conservation Stewardship Program (CSP) provides opportunities for producers to implement higher levels of management and conservation activities to improve soil quality. Through 2009, CRP protected 33.7 million acres of fragile soil. The conservation cover provided by CRP resulted in the equivalent of 56.5 million metric tons of carbon dioxide from reduced energy and fertilizer usage, and carbon sequestered in soils and the conserving vegetation.

USDA completed initial or updated mapping of soils on 37.5 million acres, including Federal lands, for the national soil survey. Soil surveys provide information on the capabilities and conservation-treatment needs of soils. The Department provides the scientific expertise to enable a uniform system of mapping and assessing soil across the Nation. Historically, USDA has produced soil surveys along geo-political boundaries. Current efforts are directed toward developing seamless national soil survey coverage. Data on carbon stocks stored in the nation’s soils and dynamic soil properties are being collected. This information will be used to address climate change and evaluate changes in soil quality under varying management conditions, so policy makers, planners and land users can use this information to make better land management decisions.

**Analysis of Results**

USDA met its target for helping producers apply conservation practices on cropland for CTA. It did not meet the target for EQIP. While the Department assisted producers with implementing conservation practices to improve or enhance soil quality on 4.8 million acres, the acreage served was 0.3 million acres (6 percent) of the acceptable range of the projected performance for this metric.

Several factors contributed to the shortfall this year. Flooding, coupled with cool, wet spring weather conditions hampered conservation practice implementation during the 2009 crop season. To broaden EQIP participation among a greater population of farmers, ranchers, and nonindustrial private forest landowners, payment caps were instituted in EQIP. These caps limit the amount of financial assistance available for management practices, e.g., residue and tillage management. The aforementioned practices have been widely adopted throughout the agricultural community. The decrease in EQIP performance for this measure has been partially offset by



agricultural producers implementing these widely accepted management practices without financial incentives, as evidenced in CTA's soil quality performance trends in the past three years.

Changes to USDA software delayed the approval of new EQIP contracts, associated payments, and some prior year contract payments. The Department created a temporary solution with protocols for determining participant eligibility so that payments could be processed. The synchronization of the AGI Web services is scheduled to be completed and available early in FY 2010.

**Exhibit 30: Enhanced Soil Quality**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
6.2.1 Cropland with conservation applied to improve soil quality (millions of acres)							
• Conservation Technical Assistance	6.0	6.4	7.3	8.3	7.5	7.6	Met
• Environmental Quality Incentives	2.2	3.4	5.3	5.6	5.7	4.8	Unmet
<p><b>Rationale for Met Range:</b> These measures are designed to provide a better indicator of soil quality. They include all cropland and hay land on which USDA-assisted producers apply conservation measures. These measures are designed to maintain or enhance soil quality and enable the sustained production of a safe, healthy, and abundant food supply.</p> <ul style="list-style-type: none"> <li>• <b>Conservation Technical Assistance:</b> Data assessment metrics to meet the target allow for an actual number in the range 6.8–8.3.</li> <li>• <b>Environmental Quality Incentives:</b> Data assessment metrics to meet the target allow for an actual number in the range 5.1–6.3.</li> </ul>							
<b>Data Assessment of Performance Measures 6.2.1</b>							
Please refer to Goal 6, Objective 6.4.1.							

**Challenges for the Future**

USDA continues to evaluate the effects of short-term and long-term conservation practices on soil quality, including impacts on organic matter and carbon sequestration. Erosion control and increasing soil organic matter are necessary to enhancing soil quality. Many of the conservation practices that reduce erosion also increase the organic matter in the soil, resulting in increased soil carbon. There is an immediate need to collect additional field data to improve the assessment of national carbon stocks, validate soil carbon models, and document benefits of applied conservation practices. USDA will invest in developing data and analytical tools to support soil quality protection and will encourage market-based approaches that reduce atmospheric carbon.

The Department will face challenges associated with soil data collection and dissemination. Economic constraints in partnering with other agencies and universities could reduce the number of acres mapped and the total number of soil surveys updated. USDA will seek to strengthen partnerships and form new ones with entities having common interests. It will also use technology to improve data-collection efficiency.

Reduced CRP acreage may cause the carbon now stored in fragile soils to escape into the atmosphere. If these soils return to crop production without the benefit of good conservation practices, increased soil erosion could also occur.

**Selected Results in Research, Extension, and Statistics**

Modern wheat and oat varieties are less responsive than older varieties to elevated atmospheric carbon dioxide. Plants need light, soil, water, nutrients, temperature, and carbon dioxide (CO<sub>2</sub>) for growth. One aspect of adapting agriculture to global change is identification of crop lines that can better take advantage of the rising concentration of atmospheric CO<sub>2</sub>. Research by USDA's Crop Systems and Global Change Laboratory in Beltsville, Maryland, has shown that the yields of wheat and oat varieties released 100 years ago are more enhanced by projected future increases of CO<sub>2</sub> than are the yields of modern lines. This work identifies resources for developing higher-yielding crops that can take advantage of atmospheric composition changes affecting climate.

**New soil test procedures reduce fertilizer applications.** Current fertilizer rate recommendations for the heavy clay soils of central Texas often do not result in meaningful crop yield improvements. USDA researchers from the Grassland Soil and Water Research Laboratory in Temple, Texas, developed new soil testing procedures for fertilizer recommendations. Fertilizer recommendations based on the new soil test methods were evaluated on local producer owned farms and resulted in savings in fertilizer cost ranging from \$2,000 to \$40,000, depending on farm size, without a loss in crop yield. Wide use of the new soil testing procedures will reduce fertilizer use, thus resulting in greater profits for farmers and decreased impacts from excess fertilizer losses to the environment.

**OBJECTIVE 6.3: PROTECT FORESTS AND GRAZING LANDS**

**Measure**

- 6.3.1 Total acres of hazardous fuel reduction treatments**
- 6.3.2 Acres of Wildland Urban Interface (WUI) high-priority fuels treated to reduce the risk of catastrophic Wildland fire**
- 6.3.3 Acres of hazardous fuels treated outside the WUI to reduce the risk of catastrophic Wildland fire**
- 6.3.4 Percentage of acres treated in the WUI that have been identified in community wildfire protection plans or equivalent plans**
- 6.3.5 Percentage of total National Forest System land base for which fire risk is reduced through movement to a better condition class.**
- 6.3.5 Grazing and forest land with conservation applied to protect and improve the resource base**
  - **Conservation Technical Assistance**
  - **Environmental Quality Incentives**

**Overview**

**Key Outcome**

**Sustainable Forest and Grassland Ecosystems**

Climate change, severe fires, diseases, and pests have all led to declining forest health. Privately owned working forest lands are also being lost to development and fragmentation at an alarming pace. All of these changes have enormous impacts on drinking water, greenhouse gas emissions, the climate, local economies, and wildlife and recreational opportunities. USDA is taking an “all-lands approach” to addressing these challenges. Many national forests are adjacent to State and private land. More than 80 percent of the forest area in the United States is outside of the national forest system. Managing the Nation’s forests requires cooperation among a large number of stakeholders, with a focus on the whole landscape. The Department’s forest





protection performance measures focus on reducing the risks of severe wildland fire and restoring forest ecosystems. USDA looks to increase the extent of land under conservation management that will protect ecosystem health and reduce susceptibility to damage caused by drought, invasive species, and wildfire.

USDA promotes project planning and implementation to reduce fire risk and restore forests and grasslands. It focuses on mechanical fuels treatment and the significant use of fire – both controlled burns and wildland fire. These efforts are critical to ecosystem health. Restoring forest ecosystems, particularly in fire-adapted forests, will make forests more resilient to climate-induced stresses and ensure that they are able to continue to provide ample, abundant, clean water.

Removing excess vegetation helps decrease fire hazards. This process protects firefighters and the public. Since the inception of the National Fire Plan in 2001, USDA has treated more than 20 million acres to remove excess vegetation through a combination of hazardous fuels reduction funds and other vegetation management program efforts. Unplanned ignitions are also used as a tool to manage hazardous fuels where there are opportunities to do so safely, effectively, and with full consideration of potential risks. In 2009, management objectives were achieved on more than 309,750 acres using naturally ignited fires.

USDA's efforts to reduce the risks of wildfire are conducted in collaboration with Federal, State, Tribal, and local Governments, and non-Governmental organizations. The Department works with communities in fire-prone environments to help them take measures to successfully adapt to the presence of wildland fire. A key aspect of that work is collaborating with communities to develop and implement Community Wildfire Protection Plans (CWPPs). CWPPs identify wildland fire hazards in areas within and surrounding communities. They also identify high-priority hazardous fuels for treatment. Additionally, CWPPs help private citizens understand the role fire plays in ecosystem health, promote positive interactions with federal land managers, and create local business opportunities.

Hazardous fuel reduction accomplishments in FY 2009 include:

- Investing more than 60 percent of the dollars available for hazardous fuel treatments in the wildland urban interface near communities;
- Completing LANDFIRE for all 50 States. LANDFIRE is an interagency, landscape-scale fire, ecosystem, and vegetation-mapping project. It helps land managers make informed project decisions to reduce high-priority wildland fire risks across landscapes;
- Continuing to develop a science-based methodology to evaluate unplanned acres burned as acres moved toward desired conditions, when outcomes are consistent with management objectives; and
- Continuing to implement a process to document and display fuel-treatment effectiveness where on-the-ground treatments have been tested by wildfire.

Several key USDA programs contribute to management efforts that reduce fire risks, prepare communities, and restore forests and grasslands to sustainable conditions. The hazardous fuel reduction program is a crucial component of this effort. Other tools include programs to improve timber and range productivity, wildlife and fish habitat, forest health, and watershed quality.

In 2009, USDA conservation experts assisted people in writing or updating conservation plans on private land covering 24.4 million acres of grazing and forest lands. USDA also assisted producers in applying conservation practices on 31.9 million acres of non-Federal grazing lands and forest.

## Analysis of Results

USDA met or exceeded all but one of its performance goals for protecting the health of the Nation's forests and grasslands against the risk of fire. USDA exceeded its 2009 CTA and EQIP targets for conservation applied to protect and enhance non-Federal grazing land and forest land.

The Department did not meet its target for measure 6.3.5. While the Department moves numerous acres to a better condition class each year, its ability to do so is impacted by weather, resource availability, and the number of treatments required. Additionally, multiple treatments often are needed to move an area toward its desired condition. Federal wildland fire management agencies also changed the application of fire policy to wildland fire incidents. This shift in policy implementation was not fully represented in the 2009 data. Future adjustments in the way condition class change data are collected will be needed.

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

To increase the effectiveness of its ongoing efforts to help people protect and enhance plant and animal communities, USDA is working to improve the technology for measuring conditions. The Department is also projecting the results of management options on grazing lands.

**Challenges for the Future**

The cost of managing wildfires and reducing hazardous fuels continues to be a challenge. The Department is working with Congress to ensure that it has the necessary funds to fight fires and manage forests. While using excess vegetation for biomass and bio-based products may lower the cost of fuel reduction and restoration treatments, the limited market for this material and rising transportation costs from the source to scarce processing facilities creates barriers to its use. Forest processing infrastructure has also been lost in recent years. Thus, the capacity to perform the important kinds of restoration work that must be done has significantly decreased.

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

**Exhibit 31: Trends in Treatment of Hazardous Fuel, Private Forests and Grasslands**

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
6.3.1 Total acres of hazardous fuel reduction treatments	2,722,000	2,547,000	3,027,000	3,038,277	2,485,000	3,194,036	Exceeded
6.3.2 Acres of WUI high-priority fuels treated to reduce the risk of catastrophic wildland fire*	1,658,000	1,590,000	1,654,000	1,940,978	1,739,500	1,837,686	Exceeded
6.3.3 Acres of hazardous fuels treated outside the WUI to reduce the risk of catastrophic wildland fire*	1,064,000	957,000	1,373,000	1,097,299	745,500	1,356,350	Exceeded
6.3.4 Percentage of acres treated in the WUI that have been identified in community wildfire protection plans or equivalent plans	Performance measure not in existence.	17% (baseline year)	24.70%	36%	28%	40%	Exceeded
6.3.5 Percentage of total National Forest System land base for which fire risk is reduced through movement to a better condition class	Performance measure not in existence.	1.1% (baseline year)	1.90%	2.10%	3.00%	2.37%	Unmet
6.3.6 Grazing and forest land with conservation applied to protect and improve the resource base, millions of acres							
• Conservation Technical Assistance	7.5	11.8	14.2	16.0	13.0	16.0	Exceeded



Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
<ul style="list-style-type: none"> <li>Environmental Quality Incentives Program</li> </ul>	8.0	12.2	16.5	16.9	15.0	17.2	Exceeded

\*For 2005, 2006, 2007 these data were taken from the "Healthy Forests Report," found at [http://www.forestsandrangelands.gov/reports/documents/healthyforests/2007/fy2007\\_final\\_healthy\\_forests\\_report\\_12112007.pdf](http://www.forestsandrangelands.gov/reports/documents/healthyforests/2007/fy2007_final_healthy_forests_report_12112007.pdf).

**Rationale for Met Range:**

- **6.3.1:** Data assessment metrics to meet the target allow for an actual number in the range of 2,360,750 to 2,609,250. As such, USDA exceeds the target for this measure. This is partially due to accomplishments achieved with American Recovery and Reinvestment Act of 2009 (ARRA) funds not included in the original target. Additionally, this year's fire season was less severe than in recent years. Thus, more staff were available to work on hazardous fuels projects because they were not fighting fires.
- **6.3.2**—Data assessment metrics to meet the target allow for an actual number in the range 1,652,525 to 1,826,475. As such, USDA exceeds the target for this measure. This is partially due to accomplishments achieved with ARRA funds not included in the original target. Almost 17,000 acres have been treated in the Wildland Urban Interface (WUI) using ARRA funds to-date. At least 35,000 acres are likely to be treated in the WUI using ARRA funds by the end of the fiscal year. Additionally, this year's fire season was less severe than in recent years. Thus, more staff were available to work on hazardous fuels projects because they were not fighting fires.
- **6.3.3**—Data assessment metrics to meet the target allow for an actual number in the range 708,225 to 782,775. As such, USDA projects that it will exceed the target for this measure. This is partially due to accomplishments achieved with ARRA funds not included in the original target. More than 9,500 acres have been treated outside WUI using ARRA funds to-date. More than 19,000 acres are likely to be treated outside the WUI using ARRA funds by the end of the fiscal year. Additionally, this year's fire season was less severe than in recent years. Thus, more staff were available to work on hazardous fuels projects because they were not fighting fires.
- **6.3.4**—Data assessment metrics to meet the target allow for an actual number in the range 26.6 percent to 29.4 percent. As such, USDA projects that it will exceed the target for this measure. This is likely at least partially due to accomplishments achieved with ARRA funds not included in the original target. Additionally, USDA continues to stress the importance of working with partners in helping communities plan and prepare for wildland fires. These alliances have likely led to increased emphasis on these types of treatments.
- **6.3.5**—Data assessment metrics to meet the target allow for an actual number in the range 2.85 percent to 3.15 percent. USDA projects that it will meet the target for this measure. Acres affected by wildland fire that move the landscape towards a desired condition may now be accounted for due to a change in the implementation guide for federal wildland fire policy. With these additional acres, in concert with those treated by prescribed fire and mechanical means, USDA predicts that it will move sufficient acres to Condition Class 1 to achieve this target. Condition Class 1 refers to acres in a condition where fire regimes are within a historical range and the risk of losing key ecosystem components is low.
- **6.3.6**—This measure was re-defined and expanded in FY 2007 to include all private grazing or forest land on which the Department assisted producers to apply conservation measures to maintain or improve long-term vegetative condition and protect the resource base. Lands on which conservation measures may be applied include grazed range, grazed forest, native and naturalized pasture, and forest. Performance data for FY 2005 and FY 2006 have been provided to indicate prior year performance had this measure been employed at that time.

**Data Assessment of Performance Measures 6.3.1, 6.3.2, 6.3.3, 6.3.4, 6.3.5**

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 final FY 2009 data.
- **Reliability of Data**—All data for hazardous fuels were reported through the National Fire Plan Operations System. USDA and the U.S. Department of Interior (DOI) 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.

For 6.3.6 Data Assessment, see Goal 6, Objective 6.4.1.

**Selected Results in Research, Extension, and Statistics**

**Protecting the Upper Mid-West Forests.** The Emerald Ash Borer (EAB) is an exotic invasive insect known to kill ash trees of all species. In states surrounding Minnesota, the emerald ash borer has already killed millions of trees. To delay EAB introduction and spread to ash trees in Minnesota, a First Detector Program was created by USDA-funded specialists. A public information campaign resulted in the collection of seeds from 254 ash trees. These seeds were placed in a long-term storage facility, making it possible to preserve the ash gene pool for potential reintroduction of the species when more effective mechanisms have been introduced to manage the EAB.

**U.S. Agriculture and Forestry Greenhouse Gas Inventory Report.** Periodic assessments of greenhouse gas emissions from the agricultural and forestry sectors are conducted and reported by USDA and the Environmental Protection Agency (EPA). USDA scientists at the Soil, Plant, and Nutrient Research Laboratory in Ft. Collins, Colorado, collaborated with Colorado State University to develop the USDA "U.S. Agriculture and Forestry Greenhouse Gas Inventory Report." Results were reviewed and published in the most recent EPA greenhouse gas inventory and will be used by land managers, planners, and others with an interest in greenhouse gas dynamics and their relationships to land use to develop policy and strategies to manage greenhouse gas emissions from agricultural sources.

**Grazing exclusion can increase the fire risk to sagebrush communities.** Considerable controversy exists over the role of livestock grazing and prescribed fire to manage sagebrush steppe range land to stop the spread of cheatgrass (an invasive annual grass) and reduce the severity of wildfires in the Great Basin. USDA scientists in Burns, Oregon, evaluated the impacts of fire on sagebrush range land that had either been grazed up until the year of burning (1993) or had been excluded from grazing since 1937. Vegetation characteristics were measured in the 12th through 14th years after burning. Burning caused a huge increase in cheatgrass in the ungrazed areas, but not in the grazed areas. This long-term research provides ranchers and land managers with science-based information in selecting fire and grazing management practices for controlling cheatgrass.

**OBJECTIVE 6.4: PROTECT AND ENHANCE WILDLIFE HABITAT TO BENEFIT DESIRED, AT-RISK AND DECLINING SPECIES**

**Measure: 6.4.1 Wetlands Created, Restored or Enhanced**

- **Conservation Technical Assistance Program**
- **Wetlands Reserve Program**
- **Conservation Reserve Program**

**Overview**

<b>Key Outcome</b>
<b>Improved Wildlife Habitat Quality While Supporting Desired Species and Species of Concern (At-Risk and Declining Species)</b>

USDA addresses the needs of wildlife in managing national forests and grasslands. USDA also provides technical and financial assistance to landowners and managers to improve habitat on private lands. On non-Federal land, USDA conservationists provide on-site assistance to assess the quality of wildlife habitat. They also develop management plans that consider wildlife needs for shelter, nesting areas,

and access to water and food during critical periods. These plans are designed to sustain and enhance wildlife habitat.

The Department helped individuals and groups apply conservation management to maintain or improve habitat on 11.6 million acres of non-Federal land. The land treated included 11.1 million acres of upland wildlife habitat and more than 440,000 acres of wetland wildlife habitat. Several USDA programs encourage participants to enter into contracts to improve and restore grassland, rangeland, forest ecosystems, wetlands, and adjacent upland buffers. As of September 30, 2009, there were 33.7 million acres enrolled in CRP, which helps maintain and improved wildlife



habitat. Easement acquisitions and agreements help ensure the long term viability of these habitat areas. These actions are designed to create productive, diverse, and resilient habitat.

## Analysis of Results

USDA set targets for the creation, restoration or enhancement of wetlands under three USDA programs: CTA, the Wetlands Reserve Program (WRP) and CRP. The performance measure for wetlands includes land on which USDA provided technical and/or financial assistance in FY 2009. USDA exceeded its targets for CTA and met its targets for both WRP and CRP.

CTA provides technical assistance supported by science-based technology and tools to help people conserve, maintain and improve their natural resources. On wetlands where USDA provided technical assistance through CTA, no financial assistance was provided by Department programs. In some cases, financial assistance may have been provided through non-USDA sources.

WRP is a voluntary conservation program that offers landowners the means and opportunity to protect, restore and enhance wetlands on their property. WRP participants sign an easement or agreement with USDA. The 2008 Farm Bill reauthorized WRP through 2012 and increased the overall program acreage cap to 3,041,200 acres, an increase of 766,200 acres.

The CRP annual performance target of 50,000 acres enrolled in CRP was exceeded in 2009 by 31,443 acres, a 63-percent increase over the projected number of acres. The major increase is due to the announcement of increased incentives for certain wetland practices. The increase is also attributed to underestimating the number of general signup acres reenrolled into wetland practices. Contributing to the total enrollment was the adoption of several initiatives, including the 100,000-acre Duck Nesting Habitat Initiative, the 500,000-acre Bottomland Hardwood Timber Initiative, and the 250,000-acre non-floodplain Wetland Restoration Initiative. These restored wetlands and buffers have increased prime wildlife habitat and water storage capacity. They have also led to a net increase in wetland acres on agriculture land.

The Duck Nesting Habitat Initiative was designed to increase duck populations by an estimated 60,000 birds annually and to restore 100,000 wetland acres. The Bottomland Hardwood Timber Initiative was designed to improve flood plains through the restoration of primarily bottomland hardwood trees. The Wetland Restoration Initiative was designed to restore up to 250,000 acres of wetlands and playa lakes that are located outside of the 100-year floodplain.

USDA uses the acreage of wetlands created, restored, or enhanced as an indicator of progress toward improved habitat for many species. The Department is participating in cooperative efforts to quantify the results of its conservation practices for wildlife habitat. The results will be used to manage agricultural landscapes for environmental quality.

Numerous species have benefitted from USDA's projects. A recent study by the Fish and Wildlife Service (FWS) examined the effect of CRP in North Dakota, South Dakota and northeastern Montana. FWS estimated that the duck population grew by an average of 2 million annually between 1994 and 2004, a 30-percent increase compared to the same area without CRP. The program is also credited with enhancing the population of several bird species considered endangered. The Washington Department of Natural Resources found that a severe decline in an eastern Washington sage grouse population has been reversed in an area with substantial CRP enrollment. A *Journal of Wildlife Management* study credits CRP with contributing to the sharp rebound in Henslow's Sparrow populations.

Several assessments of WRP benefits are being conducted as part of the CEAP Wildlife Component. These studies are designed to evaluate ecological functions and ecosystem services of restored wetlands at a landscape level to help gauge the effectiveness of programs such as WRP. Missouri and California, participants in a nine-state pilot of WRP in the 1990s, were the focus of two studies this year. In Missouri, researchers from the University of Missouri



Department of Fisheries and Wildlife Sciences noted that post restoration Habitat Suitability Indices (HSI) were markedly higher for most habitat types. HSI provides habitat information for evaluating impacts on fish and wildlife habitat resulting from water or land use changes. The HSI increase was greatest for species associated with emergent herbaceous wetlands. While these wetlands develop faster than forested wetlands, they are often a precursor of forested wetlands. California’s Central Valley has lost more than 94 percent of its wetlands. The California Cooperative Fish and Wildlife Research Unit at Humboldt State University is conducting a study to quantify the ecosystem services provided by emergent wetlands restored or enhanced under WRP. Ecological services such as native pollinators, biodiversity, erosion, sediment retention, floodwater storage, nitrogen and phosphorus retention, and carbon accumulation are being measured.

**Selected Results in Research, Extension, and Statistics**

**Protecting Birds Species in Forests.** The removal of forest products, namely timber, has an impact on bird species. USDA funded ornithologists are providing science-based management recommendations on the size, shape, and spatial distribution of timber harvests that will promote the continued viability of bird communities. In particular the scientists have shown that successional bird communities may be sensitive to patch and landscape attributes related to the size and distribution of early-successional habitats, and mature-forest bird communities heavily use successional habitats during the post-breeding and post-fledging periods. This research shows that use of shrubby areas by juvenile mature-forest birds (e.g., ovenbird and worm-eating warbler) increases survival rates.

Exhibit 32: Improved Wildlife Habitat

Annual Performance Goals, Indicators, and Trends	2005	2006	2007	2008	Fiscal Year 2009		
					Target	Actual	Result
6.4.1 Wetlands created, restored or enhanced (acres)							
• Conservation Technical Assistance	53,498	65,345	62,093	72,806	51,300	67,233	Exceeded
• Wetlands Reserve Program	180,358	181,979	149,326	128,860	100,000	106,379	Met
• Conservation Reserve Program	50,934	61,279	68,834	80,103	50,000	81,443	Exceeded
<b>Rationale for Met Range:</b> <ul style="list-style-type: none"> <li>• <b>Conservation Technical Assistance:</b> Data assessment metrics to meet the target allow for an actual number in the range 46,170 – 56,430.</li> <li>• <b>Wetland Reserve Program:</b> Data assessment metrics to meet the target allow for an actual number in the range 90,000 – 110,000.</li> <li>• <b>Conservation Reserve Program:</b> Data assessment metrics to meet the target allow for an actual number in the range 47,500 - 52,500 acres annually.</li> </ul>							
<b>Data Assessment of Performance Measures 6.4.1</b>							
The chief sources of data for this performance measure are the National Conservation Planning Database (NCP), the Program Contracts Database (ProTracts), and the Performance Results System (PRS). The CRP data source for this measure is the FSA National CRP Contract and Offer Data Files.							
<ul style="list-style-type: none"> <li>• <b>Completeness of Data</b>—The performance reported for these measures is based on actual data reported for FY 2009. Numerous data quality mechanisms within PRS ensure the completeness of each performance record entered in the system. There are no known data limitations.</li> <li>• <b>Reliability of Data</b>— For FY 2009, 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 developed in consultation with the customer and included in conservation plans stored in the NCP. Periodic reviews are conducted to assess the accuracy of reported data.</li> <li>• <b>Quality of Data</b>— 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 is occurring. Error checking enhancements and reports within the PRS application maintain data quality by 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. Where more than one program is used to apply practices on the same land unit, each program is credited under the performance measure.</li> </ul>							

**Challenges for the Future**

Commodity prices, economic conditions, weather, and developmental pressures can impact the ability and willingness of agricultural producers to restore, improve, and protect habitat areas. Producers may be less willing to



make long-term commitments regarding the use of their land. This could impact wetland restoration of prior converted cropland. Due to expiring CRP contracts and favorable commodity prices, USDA projects a slight decrease in the program's cumulative enrolled acreage. Some of that land could return to crop production, which would reduce habitat for grassland bird species. Grassland birds are declining faster than any other type of North American birds.

USDA works with other agencies and private organizations to provide producers with information and other resources to adopt conservation measures and management practices. Many wildlife projects are supported by a combination of Federal, State, local, and private funds. State and local budget constraints could impact project implementation.

### Program Evaluations of Performance Information

Program	Title	Findings and Recommendations/Actions	Availability
Guaranteed Farm Loan Programs	Office of Inspector General (OIG) Report No. 03601-17-Ch issued September 29, 2008. Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance.	<b>Findings:</b> OIG evaluated USDA's Farm Service Agency's (FSA) controls over the guaranteed farm loan interest rates charged by lenders and interest assistance provided to borrowers. The report found that 1) FSA did not verify that lenders complied with interest rate requirements; and 2) FSA needs to enhance its oversight to include a review of interest rates. <b>Actions:</b> FSA is enhancing its Guaranteed Loan System to allow the agency to monitor interest rates charged by lenders participating in the Guaranteed Loan program. FSA also is revising the program regulations to clarify and simplify lender interest rate requirements.	<a href="http://www.usda.gov/oig/webdocs/03601-17-Ch.pdf">http://www.usda.gov/oig/webdocs/03601-17-Ch.pdf</a>
Farm Loan Programs	OIG Report No. 03601-49-Te issued June 8, 2009. Farm Service Agency Socially Disadvantaged Borrower Foreclosures – Farm Program Loans.	<b>Findings:</b> OIG determined that FSA's foreclosure and restructure processes were generally consistent and in conformity with applicable laws and regulations. It added that socially disadvantaged and non-socially disadvantaged borrowers were treated consistently when their loans were restructured or foreclosed. <b>Actions:</b> N/A	<a href="http://www.usda.gov/oig/webdocs/03601-49-TE.pdf">http://www.usda.gov/oig/webdocs/03601-49-TE.pdf</a>
Disaster Programs	OIG Report No. 03601-0023-KC – Report Issued 2/2/09 2005 Hurricane Relief Initiatives: 2005 Hurricane Livestock Indemnity Program and Feed Indemnity Program	<b>Finding:</b> For future programs, FSA should 1) provide procedures with detailed guidance describing the required documentation for applicants and third-party certifiers to clearly substantiate claimed livestock losses; 2) specific instructions for local FSA office personnel to follow when applicants do not have verifiable evidence for establishing beginning inventory; 3) determine the adequacy of documentation supporting beginning and ending inventories for six cases in Vermillion Parish; 4) review the State Committee's determination to approve the changes made to 2005 farm program records in Plaquemines Parish; 5) seek recovery of any unsupported payments; and 6) review the facts and circumstances regarding the establishment of loss claim periods to ensure they correlate eligible loss periods more closely with local conditions related to the disaster. <b>Actions:</b> FSA will provide procedures for substantiating claimed livestock losses. It also will provide instructions for applicants without verifiable evidence for establishing beginning inventories. Reviews will be conducted to determine the adequacy of documentation supporting beginning and ending inventories for six	<a href="http://www.usda.gov/oig/webdocs/03601-23-KC-Redacted.pdf">http://www.usda.gov/oig/webdocs/03601-23-KC-Redacted.pdf</a>

		cases in Vermillion Parish, and the State Committee's determination to approve the changes made to 2005 farm program records in Plaquemines Parish. Additionally, FSA will recover any monies determined to be overpaid and determine if loss claim	
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Program	Title	Findings and Recommendations/Actions	Availability
		periods correlate more closely with local conditions related to the disaster.	
Tobacco Transition Payment Program	OIG Report No. 03601-0016-AT – Report Issued 8/3/09 Tobacco Transition Payment Program –Payments to Producers - Closed 8/13/09	Nothing came to OIG’s attention to indicate that the FSA national, selected State and county offices were not operating in accordance with prescribed laws, regulations, and policies and procedures.	<a href="http://www.usda.gov/oig/webdocs/03601-16-AT.pdf">http://www.usda.gov/oig/webdocs/03601-16-AT.pdf</a>
Perform. Measure	Title	Findings and Recommendations/Actions	Availability
4.1.1 4.1.2 4.1.3 4.1.4	Review of the Use of Process Control Indicators in the USDA Public Health Risk-Based Inspection System. Letter Report by the National Academy of Sciences (NAS)	<b>Findings:</b> NAS applauded USDA for its work to develop a risk-based approach to inspection. The Academy recommended that USDA clarify the terminology in its report. NAS also suggested that USDA continue to refine its approach as it moves forward. It advised the Department to conduct additional predictive analyses to look at the relationship between USDA’s proposed decision criteria and future establishment behavior. <b>Actions:</b> USDA has revised its technical report for the public health decision criteria. It will make that report public in mid-October 2009. USDA also began to use its Public Health Decision Criteria, outlined in the report reviewed by NAS, to schedule food safety assessments in July 2009.	Reports are available at : <a href="http://www.iom.edu/CMS/3788/59186/64582.aspx">http://www.iom.edu/CMS/3788/59186/64582.aspx</a>
4.1.1 4.1.2 4.1.3 4.1.4	Letter Report on the Review of the Food Safety and Inspection Service Risk-Based Approach to Public Health Attribution by the National Academy of Sciences	<b>Findings:</b> NAS supported USDA’s development of an attribution methodology for all of its product categories. The Academy suggested that USDA develop uncertainty estimates for its attribution estimates. In addition, NAS suggested that USDA explore the use of additional data from the Centers for Disease Control (CDC) and that it continue to develop a method for the incorporation of serotype information in attribution estimates. <b>Actions:</b> USDA is currently calculating uncertainty estimates for its attribution estimates. The Agency met with CDC about additional data sources and determined that no additional information was currently available. USDA is continuing to develop methods for including serotype information in its attribution work.	Reports are available at : <a href="http://dels.nas.edu/dels/viewreport.cgi?id=5698">http://dels.nas.edu/dels/viewreport.cgi?id=5698</a>
5.1	Supplemental Nutrition Assistance Program Participation Rates: 2000 to 2007	<b>Findings:</b> Reports national rates of participation among eligible people. In 2007, 66 percent of individuals eligible for SNAP benefits chose to participate. The program provided 81 percent of the benefits that all eligible individuals could receive. The number suggests that SNAP is reaching the neediest eligible individuals. These figures represent a small decline from the previous year – although the number of program participants increased. This change can be attributed to a larger increase in the number of households that became eligible compared to the number of new participants. <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Participation/Trends2000-2007.pdf">http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Participation/Trends2000-2007.pdf</a>
5.1	WIC Eligibles and Coverage - 1994 to 2007: Estimates of the Population of Women, Infants, and Children Eligible for WIC Benefits - September 2009	<b>Findings:</b> This report offers updated estimates of the population eligible for WIC benefits from 1994 through 2007. The new series builds on the methodology recommended by the Committee on National Statistics of the National Research Council. It also more accurately captures changes in the breastfeeding practice of new mothers during their period of WIC eligibility <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/WIC/FILES/WICEligibles1994-2007.pdf">http://www.fns.usda.gov/ora/MENU/Published/WIC/FILES/WICEligibles1994-2007.pdf</a>
5.1	Direct Certification in the National School Lunch	<b>Findings:</b> This report is the first in a series of annual reports. It presents information on the outcomes of direct certification for SY	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Participation/Trends2000-2007.pdf">http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Participation/Trends2000-2007.pdf</a>



Program	Title	Findings and Recommendations/Actions	Availability
	Program: State Implementation Progress (Report to Congress) - December 2008	2007-2008. The estimated the number of school-age SNAP participants was compared with the number of children directly certified for free school meals in each State. The ratio of these figures is a measure of the success of State and local systems to directly certify SNAP participant children. <b>Actions:</b> No recommendations for action.	<a href="#">U/Published/CNP/FILES/DirectCert08.pdf</a>
5.2	Diet Quality of American School-Age Children by School Lunch Participation Status: Data from the National Health and Nutrition Examination Survey, 1999-2004	<b>Findings:</b> Uses data from the National Health and Nutrition Examination Survey. It assesses the nutrient intakes, diet quality, and food choices of program participants, income-eligible nonparticipants, and higher-income non-participants, broken out by age and gender. <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/oane/menu/Published/CNP/FILES/NHANES-NSLP.pdf">http://www.fns.usda.gov/oane/menu/Published/CNP/FILES/NHANES-NSLP.pdf</a>
5.2	Diet Quality of American Young Children by WIC Participation Status: Data from the National Health and Nutrition Examination Survey, 1999-2004	<b>Findings:</b> Uses data from the National Health and Nutrition Examination Survey. It assesses the nutrient intakes, diet quality, and food choices of program participants, income-eligible nonparticipants, and higher-income non-participants, broken out by age and gender. <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/oane/menu/Published/WIC/FILES/NHANES-WIC.pdf">http://www.fns.usda.gov/oane/menu/Published/WIC/FILES/NHANES-WIC.pdf</a>
5.3	Diet Quality of Americans by Food Stamp (SNAP) Participation Status: Data from the National Health and Nutrition Examination Survey, 1999-2004	<b>Findings:</b> Uses data from the National Health and Nutrition Examination Survey. It assesses the nutrient intakes, diet quality, and food choices of program participants, income-eligible nonparticipants, and higher-income non-participants, broken out by age and gender. <b>Actions:</b> No recommendations for action	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/oane/menu/Published/SNAP/FILES/Participation/NHANES-FSP.pdf">http://www.fns.usda.gov/oane/menu/Published/SNAP/FILES/Participation/NHANES-FSP.pdf</a>
5.3	Feasibility of Assessing Causes of State Variation in Food Stamp (SNAP) Program Administrative Costs: Final Report	<b>Findings:</b> Identifies the factors that contribute to large variation in State administrative costs. It also assesses the feasibility of estimating their relative contributions. <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Other/sae.pdf">http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Other/sae.pdf</a>
5.3	Child and Adult Care Food Program (CACFP) – Assessment of Sponsor Tiering Determinations – 2007	<b>Findings:</b> Estimates the accuracy level of CACFP meal reimbursement levels (“tiering”), and related improper payments in 2007. The level of improper payments was comparable to the estimates from 2005 and 2006 at about three percent of total CACFP meal reimbursements. <b>Actions:</b> No recommendations for action.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFP_Tiering07.pdf">http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFP_Tiering07.pdf</a>
5.3	Results of the Feasibility Study of Estimating the Risk of Meal Claiming Error in the Child and Adult Care Food Program (CACFP)	<b>Findings:</b> The purpose of the pilot test was to determine the feasibility and accuracy of comparing the number of meals claimed with the number of children observed at the time of the sponsor’s monitoring visit. At issue is the risk of overpayments in the Family Day Care Home (FDCH) component of CACFP. The feasibility study indicates that the central assumption underlying this approach to measuring the risk of Improper Payments Information Act errors is invalid. <b>Actions:</b> The report contains no recommendations.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFP_MealClaiming.pdf">http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFP_MealClaiming.pdf</a>
5.3	Child and Adult Care Food Program (CACFP): Improper Payments Data Collection Pilot Project	<b>Findings:</b> The purpose of this pilot was to test possible methods that could lead to valid estimations of the number of meals served by FDCHs. Parent recall surveys had the highest likelihood of yielding accurate national estimates of meals served to children. These surveys can produce separate estimates of over- and under-payments. <b>Actions:</b> Based on the experiences in the pilot study, the Parent Recall Method was recommended for use in estimating erroneous payments in a national study.	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFPImpPaymentsDataCol.pdf">http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/CACFPImpPaymentsDataCol.pdf</a>

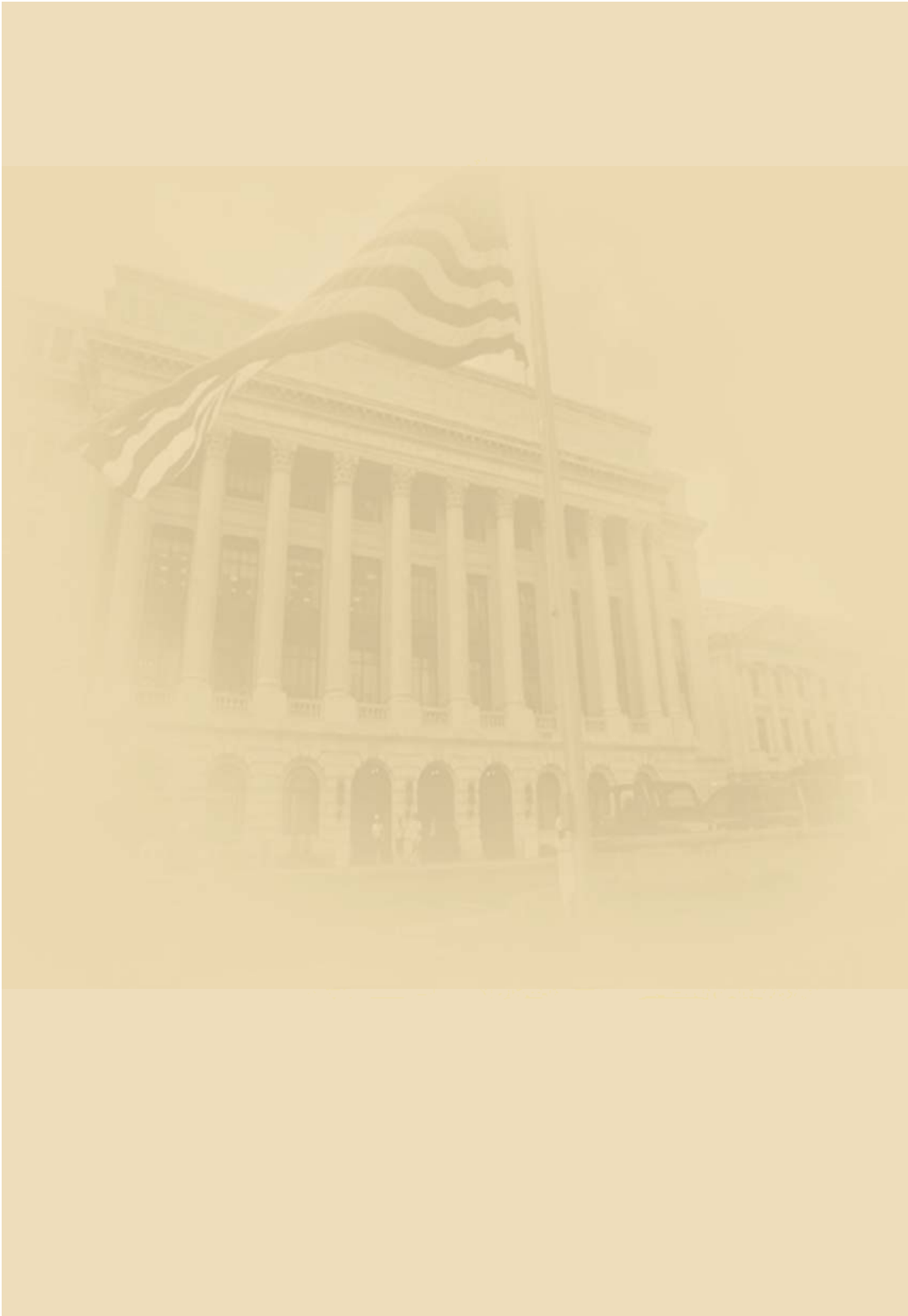
Program	Title	Findings and Recommendations/Actions	Availability
5.3	Accuracy of LEA Processing of School Lunch Applications - Regional Office Review of Applications (RORA) 2007	<p><b>Findings:</b> This report is the third in a series of annual reports. It assesses administrative error associated with the local educational agency's (LEA) approval of applications for free and reduced-price school meals. The percent of all students with administrative errors in the processing of their applications for meal benefits has remained relatively stable during the three-year period. Administrative errors ranged between three and four percent.</p> <p><b>Actions:</b> No recommendations for action.</p>	Available on the FNS Web site at: <a href="http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/rora2007.pdf">http://www.fns.usda.gov/ora/MENU/Published/CNP/FILES/rora2007.pdf</a>
5.3	Food and Nutrition Service Financial Statements for Fiscal Years 2008 and 2007	<p><b>Findings:</b> OIG reviewed The Food and Nutrition Service's (FNS) financial statements for Fiscal Years 2007 and 2008. FNS' statements received an unqualified opinion. The agency's core financial management system was found to be in substantial compliance with the Federal Financial Management Improvement Act of 1996.</p> <p><b>Actions:</b> The report contains no recommendations.</p>	Report is available at: <a href="http://www.usda.gov/oig/webdocs/27401-33-HY.pdf">http://www.usda.gov/oig/webdocs/27401-33-HY.pdf</a>
5.3	Feasibility of Assessing Causes of State Variation in Food Stamp (SNAP) Program Administrative Costs: Final Report	<p><b>Findings:</b> Identifies the factors that contribute to large variation in State administrative costs. It also assesses the feasibility of estimating their relative contributions.</p> <p><b>Actions:</b> No recommendations for action.</p>	Report is available at: <a href="http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Other/sae.pdf">http://www.fns.usda.gov/ora/MENU/Published/SNAP/FILES/Other/sae.pdf</a>
6.3.1 6.3.2 6.3.3 6.3.4 6.3.5	Government Accountability Office (GAO)-09-68 issued November 2008. Wildland Fire Management: Interagency Budget Tool Needs Further Development to Fully Meet Key Objectives	<p><b>Findings:</b> GAO found that the approach the agencies – Forest Service (FS) and the U.S. Department of the Interior (DOI) – have taken hampers Fire Program Analysis (FPA) from meeting some of its key objectives. Specifically, GAO found that FPA has limited ability to project the effects of different levels of vegetation-reduction treatments and firefighting strategies over time. Thus, agency officials lack information that could help them analyze the long-term impact of changes in their approach to wildland fire management. GAO recommends that Forest Service (FS) and DOI develop a strategic plan for the continued development of FPA. Among other things, the plan should address ways to improve FPA's ability to model the effects over time of different investments in fuel-reduction treatments and firefighting strategies on the cost of suppressing wildland fires.</p> <p><b>Actions:</b> FS has established a strategy that is now being implemented. Plans now exist for a staged deployment that allows for adaptive use and modification. As the system is used and outputs are reviewed and analyzed, system strengths and weaknesses are identified through established business processes. Additionally, an external peer review is planned to identify needed system improvements. A more comprehensive analysis of the fuel treatments and vegetative management aspects of FPA is also likely.</p>	Report is available at: <a href="http://www.gao.gov/new.items/d0968.pdf">http://www.gao.gov/new.items/d0968.pdf</a>



Perform. Measure	Title	Findings and Recommendations/Actions	Availability
6.4.1	OIG-10099-4-SF- Wetlands Reserve Program Restoration Compliance. Report issued August 2008	<p><b>Findings:</b></p> <ul style="list-style-type: none"> <li>• <b>Finding 1</b>—NRCS incurred new obligations during the 2002 Farm Bill period with expired funds from the 1996 Farm Bill period.</li> <li>• <b>Finding 2</b>—NRCS did not annually monitor most sampled easements.</li> <li>• <b>Finding 3</b>—Two NRCS State offices overpaid NRCS' share of restoration costs for two 30-year easements.</li> </ul> <p><b>Actions:</b> Recommendations 1-4 and 6-8 were closed in March, 2009. Recommendation 5 was submitted in August, 2009 for closure. NRCS is awaiting decision. The agency has made numerous business process changes since the audit. The changes include: 1) implementing policy regarding allowability of hunting structures on easements; 2) reviewing funds used to obligate contracts; 3) correcting deficiencies found during the review; 4) implementing remote sensing capabilities to assist in easement monitoring; and 5) implementing new easement valuation policy per the 2008 Farm Bill.</p>	Report is available at <a href="http://www.usda.gov/oig/webdocs/10099-4-SF.pdf">http://www.usda.gov/oig/webdocs/10099-4-SF.pdf</a>
6.1.1	OIG-OIG10601-1-AT- Flood Control Dam Rehabilitation. Report issued July 2009	<p><b>Findings:</b></p> <ul style="list-style-type: none"> <li>• <b>Finding 1</b>—NRCS needs to assess and rehabilitate high hazard dams.</li> <li>• <b>Finding 2</b>—NRCS needs to update its dam inventory for accuracy.</li> <li>• <b>Finding 3</b>—NRCS did not prioritize the assessment of high hazard dams.</li> <li>• <b>Finding 4</b>—NRCS did not establish reasonable performance goals for the Dam Rehabilitation Program.</li> </ul> <p><b>Actions:</b> NRCS agreed to develop cooperative relationships with State agencies that regulate dams. These Federal-State partnerships would ensure the rehabilitation of dams that threaten public safety. They also would report to Congress on any high-hazard dams needing rehabilitation that are not fixed because of program limitations.</p>	Report is available at <a href="http://www.usda.gov/oig/webdocs/10601-1-AT-Redacted.pdf">http://www.usda.gov/oig/webdocs/10601-1-AT-Redacted.pdf</a>
6.1.1, 6.2.1 6.3.4 6.4.1	OIG-10601-4-KC- Conservation Security Program. Report issued June 2009	<p><b>Findings:</b> NRCS lacked management controls to effectively administer the Conservation Security Program (CSP).</p> <ul style="list-style-type: none"> <li>• <b>Finding 1</b>—NRCS needs to strengthen overall CSP management control.</li> <li>• <b>Finding 2</b>—Improper delineation of agricultural operations went undetected.</li> <li>• <b>Finding 3</b>—One applicant's actions and misstatements led to the improper approval of two additional CSP contracts and jeopardized his own contract.</li> <li>• <b>Finding 4</b>—Tenant participation denied.</li> <li>• <b>Finding 5</b>—Grazing information changed by NRCS made applicants eligible.</li> <li>• <b>Finding 6</b>—Farm visits needed to confirm stewardship practices.</li> <li>• <b>Finding 7</b>— NRCS lacked compensating management.</li> <li>• <b>Finding 8</b>—ProTracts does not limit participants to one CSP contract.</li> </ul> <p><b>Actions:</b> NRCS reached management decision on Recommendations 1-5, 7, 10-15, 20 and 22. Recommendations 6, 8, 9, 16-19, 21 and 23 will be re-submitted to OIG. All existing CSP contracts received a comprehensive review. NRCS provided</p>	Report is available at <a href="http://www.usda.gov/oig/webdocs/10601-4-KC-Redacted.pdf">http://www.usda.gov/oig/webdocs/10601-4-KC-Redacted.pdf</a>



Perform. Measure	Title	Findings and Recommendations/Actions	Availability
		<p>national CSP training to inform for key agency State personnel of new policies and reiterate existing policy. Internal controls of field spot checking prior to obligation have been incorporated into agency business processes. Corrective actions will be taken on findings from the 2009 CSP review prior to making 2010 payments. NRCS will release a revised conservation programs manual and train all office staff.</p>	
<p>6.1.1 6.2.1 6.3.4 6.4.1</p>	<p>OIG-10099-6-SF-Farm and Ranch Lands Protection Program- Review of Non-Governmental Organizations. Report issued July 2009</p>	<p><b>Findings:</b></p> <ul style="list-style-type: none"> <li>• <b>Finding 1</b>—NRCS Needs to improve management oversight of the Farm and Ranch Lands Protection Program (FRPP) and monitoring of non-Governmental organization's (NGOs) compliance with program regulations.</li> <li>• <b>Finding 2</b>—NRCS needs to verify that NGOs do not use landowner funds to pay for their share of easements' purchase price.</li> <li>• <b>Finding 3</b>—NRCS should establish standards over NGOs' obtaining funds from landowners for easement-related costs.</li> </ul> <p><b>Actions:</b> Management decision has been reached on all items except Recommendation 3. The Office of General Counsel has initiated court proceedings against an NGO. OIG will not accept management decision until court case legal issues are resolved. NRCS will issue a final rule and a new FRPP manual. The new policy will require NRCS State office staff to visit every FRPP parcel before a cooperative agreement is signed. The visit is designed to interview every landowner, inform them of FRPP regulations, confirm the estimated easement value, Federal contribution, entity contribution, landowner donation, and recommended contribution to stewardship funds before a cooperative agreement is signed.</p>	<p>Report is available at <a href="http://www.usda.gov/oig/webdocs/10099-6-SF.pdf">http://www.usda.gov/oig/webdocs/10099-6-SF.pdf</a></p>





### 3. Financial Statements, Notes, Supplemental and Other Accompanying Information

#### Message from the Chief Financial Officer

The U.S. Department of Agriculture’s (USDA) Office of the Chief Financial Officer leads the way to fiscally sound, cost effective program delivery, supported by reliable financial management information and infrastructure.

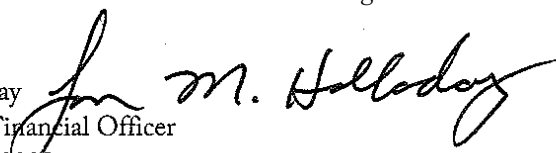
Highlights of USDA’s significant progress in financial management during fiscal year (FY) 2009 include:

- Began implementation of a core financial system to replace USDA’s nine general ledger systems;
- Completed testing for all in-scope cycles as required by OMB Circular A-123 Appendix A, “Internal Control over Financial Reporting.” As a result of FY 2009 testing, USDA identified 105 control deficiencies and corrected 16 control deficiencies from prior year’s assessments; 1359 Plans of Actions and Milestones were closed;
- Reduced USDA’s inventory of open audits by 18 percent in FY 2009;
- Reduced Improper Payments from 6.13 percent to 5.92 percent;
- Exceeded the Departmental recovery target of \$53.7 million with total improper payment recoveries of \$352.8 million reported for FY 2009;
- Implemented a Department-wide end-point management software tool ensure complete and timely weakness remediation, improve client management, and ensure compliance with security standards, and implemented whole disk encryption on portable computers;
- Revised guidance to require quarterly reviews and certifications for unliquidated obligations (ULO), established ULO data mart and aging report to manage and monitor ULOs, and completed statistical sample of aged ULOs to identify root causes of invalid obligations and formulate corrective actions; and
- Reinstated the Credit Reform Working Group to coordinate consistent application of new credit reform guidance, and worked with Commodity Credit Corporation to resolve the prior year auditor-identified weakness in controls for the credit reform assurance process.

While we continue to make progress in financial management, we cannot yet give unqualified assurance of compliance with the Federal Managers’ Financial Integrity Act or the financial systems requirements of the Federal Financial Management Improvement Act. We will continue to focus on these efforts in the coming year.

We are proud of our accomplishments for FY 2009 and of the hard working employees at USDA. USDA is committed to providing sound management of the resources under our stewardship and to communicating the effectiveness of our efforts to all Americans through this Performance and Accountability Report.

Jon M. Holladay  
 Acting Chief Financial Officer  
 November 16, 2009





U.S. Department of Agriculture  
Office of Inspector General  
Washington, D.C. 20250

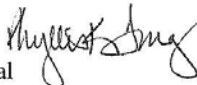


DATE: November 16, 2009

REPLY TO  
ATTN OF: 50401-67-FM

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

ATTN: Kathy Donaldson  
Audit Liaison Officer  
Office of the Chief Financial Officer

FROM: Phyllis K. Fong   
Inspector General

SUBJECT: U.S. Department of Agriculture's Consolidated Financial Statements for  
Fiscal Years 2009 and 2008

This report represents the results of our audits of the U.S. Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2009 and 2008. 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 as exhibit D.

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

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



U.S. Department of Agriculture

Office of Inspector General



## Audit Report

# U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2009 and 2008

Audit Report 50401-67-FM  
November 2009



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Recommendation 1

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Recommendation 2

Section 2: Noncompliance with Laws and Regulations

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Finding 4: Transactions Were Not Always Obligated In Accordance With Appropriations Law

Exhibit A: Audit Reports Related to the Fiscal Year 2009 Financial Statements

Exhibit B: Summary of Prior Year Recommendations

Exhibit C: Status of Prior Year Noncompliance Findings

Exhibit D: Agency Response





## ***U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2009 and 2008 (Audit Report 50401-67-FM)***

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### **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 costs, changes in net position, and budgetary resources; (2) the internal control objectives over financial reporting were met; (3) the Department complied with laws and regulations for those transactions and events that could have a direct and material effect on the consolidated financial statements; and (4) the information in the Performance and Accountability Report was materially consistent with the information in the consolidated financial statements.

We conducted our audits at the financial offices of various U.S. Department of Agriculture (USDA) agencies and the Office of the Chief Financial Officer 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 present fairly, in all material respects, the financial position of USDA as of September 30, 2009 and 2008, 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 internal controls over financial reporting identified two significant deficiencies. Specifically, we identified weaknesses in USDA's:

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

We believe that these two significant deficiencies are material weaknesses.

Our consideration of compliance with laws and regulations discusses two instances of noncompliance relating to the Federal Financial Management Improvement Act of 1996 and certain aspects of appropriation law.

#### **Key Recommendations**

As discussed in its Federal Managers' Financial Integrity Act of 1982 report, the Department has plans to address the majority of the weaknesses discussed in the report. The key recommendations in this report were limited to additional improvements needed in financial management with respect to obligations as well as required system documentation for selected critical financial systems.



### **Agency Response**

The Department concurs with the two material weaknesses and findings related to compliance with laws and regulations in the report. It generally agrees with the recommendations in the report and will develop corrective action plans with milestones to address the findings by December 30, 2009.

### **OIG Position**

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



## Independent Auditors' Report

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

We have audited the accompanying consolidated balance sheets of the U.S. Department of Agriculture (USDA) as of September 30, 2009 and 2008, 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 2009 audit, we also considered USDA's internal controls 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 controls 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, 2009. Exhibit A of this report presents the audit reports related to the fiscal year 2009 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 present fairly, in all material respects, the financial position of USDA as of September 30, 2009 and 2008, and its net costs, changes in net position, and budgetary resources for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

As discussed in Notes 1 and 21 to the consolidated financial statements, USDA made certain reclassifications to prior year amounts to conform to the current year presentation. Specifically, obligations for grant funds for one reporting component of USDA were reclassified from "Obligations Incurred: Direct" to "Obligations Incurred: Reimbursable," for fiscal year 2008. Furthermore, as discussed in Notes 1 and 10, in fiscal year 2009 the Department completed the implementation of Statement of Federal Financial Accounting Standards (SFFAS) 29, *Heritage Assets and Stewardship Land*, by reclassifying appropriate heritage assets and stewardship land information. Lastly, as discussed in Notes 1 and 29, in fiscal year 2009 the Department implemented SFFAS 31, *Accounting for Fiduciary Activity*, and no longer recognizes fiduciary assets on the balance sheet.



The information in USDA's Management's Discussion and Analysis (MD&A), and required supplementary information (including stewardship information) contain 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 Office of Management and Budget (OMB) Circular A-136. We have applied certain limited procedures, consisting principally of inquiries of management regarding the methods of measurement and presentation of this information. However, we did not audit this information, and, accordingly, we express no opinion on it. As a result of such limited procedures, we believe that the controls over required supplementary information related to deferred maintenance are not sufficient to ensure the accuracy and completeness of the reported information.

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 matters in the internal control over financial reporting that might be significant deficiencies.

Significant deficiencies are deficiencies in internal control, or a combination of deficiencies, that adversely affect USDA's ability to initiate, authorize, record, process, or report financial data reliably and in accordance with accounting principles generally accepted in the United States of America such that there is more than a remote likelihood that a misstatement of the financial statements being audited that is more than inconsequential will not be prevented or detected by USDA's internal control. Material weaknesses are significant deficiencies, or combinations of significant deficiencies, that result in more than a remote likelihood that material misstatements in relation to the consolidated financial statements being audited will not be prevented or detected. Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected.

In our fiscal year 2009 audit, we noted certain matters described in this report's findings and recommendations, 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
- IT security and controls.

We believe that these two deficiencies are also material weaknesses and are discussed in our 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.



## **Compliance and Other Matters**

The results of our tests of compliance as described in the Responsibilities Section of this report, disclosed two instances of noncompliance with laws and regulations that are required to be reported under *Government Auditing Standards* and OMB Bulletin 07-04, as amended. Specifically, we reported noncompliance with certain aspects of appropriations law, as described in Finding 4 in the Findings and Recommendations, Section 2, Noncompliance with Laws and Regulations. Additionally, the results of our tests of the Federal Managers' Financial Integrity Act of 1982 (FFMIA) disclosed instances, described in more detail in Finding 3 of the previously mentioned Section 2, 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.

## **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.

### **Auditors' Responsibilities**

Our responsibility is to express an opinion on the fiscal years 2009 and 2008 consolidated financial statements of the 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 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our 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 the 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 the 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 the 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 (GAO) and the U.S. Congress, and is not intended to be, and should not be, used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Phyllis K. Fong". The signature is fluid and cursive, with a large loop at the end.

Phyllis K. Fong  
Inspector General

November 16, 2009





## **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 2009, USDA continued to make improvements in its financial management. For example, exhibit B describes actions taken by the Department relating to obligations and reporting for loans. However, we noted areas where further improvements are needed.

- We noted that obligations<sup>1</sup> were not always valid because agencies did not effectively monitor, review, and certify unliquidated obligations (ULO). We selected a nonstatistical sample of 60 obligations from 11 agencies for which no activity had occurred for over 2 years.<sup>2</sup> We determined that 40 (67 percent) ULOs were invalid because no future expenditures were expected. We also found that 12 (20 percent) ULO balances were valid obligations but should have been paid off in prior fiscal years if properly monitored. These obligations inappropriately remained open, in part because USDA agencies were not submitting final payments to other USDA agencies and/or were not deobligating residual amounts after final payments were made. Additionally, we noted that when agencies did research and requested information necessary to close obligations, the obligee (other USDA agencies) did not always respond nor offer any explanation.

We performed a review of the June 30, 2009 obligation certifications required by the Department. We determined that 3 of the 5 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 Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2009-04, *Yearend Closing*, dated June 17, 2009) requires an annual review of ULOs. Departmental Regulation (DR) 2230-1, *Reviews of Unliquidated Obligations*, dated April 21, 2009, further requires quarterly reviews and certifications as to the validity of 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 in the Foundation Financial Information System. Invalid obligations improperly restrict the availability of funding authority. This also increases the risk of misstating obligations as of yearend.

In its FMFIA report for 2009, USDA continued to report a material weakness relating to the lack of consistent review and follow-up on ULOs. As noted in its FMFIA report, the Department has already taken several corrective actions, such as revising Departmental guidance and establishing

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<sup>1</sup> 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.

<sup>2</sup> Nonstatistical sample selected from activity as of March 31, 2009 and June 30, 2009.



a work group. The Department has several additional corrective actions planned, such as conducting training on new processes for managing ULOs, implementing automated controls to deobligate invalid ULOs, and modifying systems and procedures to improve ULO management. The Department estimates that all corrective actions will be completed in fiscal year 2010. However, our review disclosed additional oversight is needed to improve agency reviews and timely communication regarding requests for closing obligations.

- In fiscal year 2009 we identified that improvements were needed in Rural Development's controls over assumptions made to predict future cash flows for loans and loan guarantees (commonly referred to as "curve assumptions"). Specifically, we identified incorrect formulas and calculations, as well as inaccurate data used in the curve assumptions for various programs. These errors occurred because (1) a control requiring management's validation, review, and approval of the development of the assumption curves was absent and (2) a designed control did not operate effectively. Direct loans obligated and loan guarantees committed after fiscal year 1991 are reported in the financial statements based on the present value of the net cash flows estimated over the life of the loan or loan guarantee. Thus, any errors in the assumptions used in these calculations could cause material misstatements to the financial statements. Management corrected all identified errors prior to finalizing the financial statements.

In its fiscal year 2009 FMFIA report, the Department noted that controls were lacking in the credit reform quality assurance process to ensure that cash flow models, data inputs, estimates, and reestimates are subject to appropriate management oversight. Rural Development indicated corrective actions would be completed by July 31, 2010.

- We continued to identify abnormal balances<sup>3</sup> in the USDA fiscal yearend trial balance. For fiscal year 2009, we noted 15 abnormal account balances totaling about \$289 million (absolute) at yearend. In fiscal year 2008, we reported a total abnormal balance of \$1.2 billion in USDA's fiscal yearend trial balance. The Department has made considerable efforts to identify and correct abnormal balances; however, further efforts are necessary to fully research and eliminate abnormal balances prior to fiscal yearend. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error. Abnormal balances also increase the risk that balances may be misstated on the financial statements.

- In fiscal year 2009, we again attempted to perform an audit of the Natural Resources Conservation Service's (NRCS) financial statements (Audit 10401-3-FM, *NRCS' Financial Statements for Fiscal Year 2009*). NRCS was once more unable to provide sufficient evidential matter in support of transactions and account balances, as presented in the NRCS consolidated financial statements as of and for the year ended September 30, 2009, particularly with respect to obligations, obligations incurred including accrued expenses and undelivered orders, leases, internal use software, unfilled customer orders, and stewardship property, plant and equipment. NRCS was unable to complete corrective actions and make adjustments as necessary to these and other financial statement amounts, prior to the completion of its audit.

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<sup>3</sup> A balance that deviates from the standard balance as defined by the Department of Treasury's SGL.



### **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 DR 2230-001, and (3) understand the importance of responding to requests for bills or additional information in a timely manner.

## **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 general control structure of the Office of the Chief Information Officer/National Information Technology Center (OCIO/NITC) and the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC) located in Kansas City, Missouri, and New Orleans, Louisiana, respectively.<sup>4</sup> Additionally, we reviewed required system documentation for a selected number of critical financial system applications.

In fiscal year 2009, both OCIO/NITC and OCFO/NFC sustained unqualified opinions on their general control environments. Additionally, in fiscal year 2009, the Department fully implemented the Cyber Security Assessment and Management (CSAM) system. The CSAM is a comprehensive monitoring system which can facilitate achieving FISMA compliance.

However, although improvements have been made in the Department's IT security in the last decade, our FISMA report notes that many long-standing weaknesses remain. Since 2001, the Office of Inspector General (OIG) has reported material weaknesses in the design and effectiveness of the Department's overall IT security program. USDA is a large and complex organization, which includes 29 separate agencies and staff offices, each with its own IT infrastructure. In order to mitigate the continuing material weaknesses, the Department needs to coordinate with each of its component agencies and offices to identify and prioritize the most significant security risks and then develop and implement a prioritized plan to systematically mitigate the risks using realistic goals and milestones. Once the plan is developed, the Department should continuously communicate with agencies to maintain their commitment to and progress towards implementing the needed corrective actions. Until this occurs, critical USDA data are exposed to an increased risk of inappropriate disclosure, modification, or deletion.

The following summarizes the key matters identified during our evaluation of the Department's IT security program and practices, as required by FISMA:

- The Department should more effectively use CSAM when performing its oversight responsibilities to ensure agencies are compliant with Federal and Departmental guidance. Our review of the Department's FISMA reportable systems documented in CSAM disclosed: (1) 53

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<sup>4</sup> See exhibit A for information regarding the cited reports.



systems did not have current certification and accreditations<sup>5</sup> (C&A); (2) 250 systems were not reviewed and tested; (3) 73 systems did not have tested contingency plans; (4) 162 system interconnections were inaccurately reported; and (5) 12 systems were not accurately recorded as contractor systems (systems hosted or operated by a contractor).

- Our review of the plan of action and milestones (POA&M)<sup>6</sup> process found that the Department did not have effective policies and procedures in place for reporting IT security deficiencies in CSAM. For example, we identified at least 35 instances for one agency where POA&Ms should have been created but were not. This occurred in part because oversight of the POA&M process had not been a priority within the Department.
- We continued to find that agencies are not following the National Institute of Standards and Technology (NIST) and Departmental guidance when preparing C&A documentation. Agencies are required to submit C&A packages to the Department for an in-depth review (referred to as a concurrency review). We evaluated seven C&A concurrency reviews where the Department agreed with the agencies' recommendations to accredit the system although the agencies' documentation did not support accreditation. Additionally, when reviewing CSAM, OIG identified 34 systems with an expired authority to operate or interim authority to operate.
- Our audit disclosed two agencies were not performing continuous monitoring of security controls in accordance with NIST guidance. Without a formal continuous monitoring plan, agencies cannot be certain that they are accomplishing the objectives of their security programs.
- The Department needed to take additional actions to minimize the risk of unauthorized release of privacy data as required by OMB guidance. Due to the complexity and age of the legacy systems within USDA, the Department had not fully implemented its plan to reduce the use of social security numbers as identifiers. Also, because of technical issues associated with getting encryption data to run on USDA workstations, full disk encryption had only been implemented on 53 percent of the Department's laptops.
- Agencies were not using the security configuration checklist as required by NIST and the Department when deploying software covered by the NIST requirements.
- As of September 30, 2009, USDA agencies reported that they had deployed about 90 percent of the required standard security settings which applied to them in accordance with Federal Desktop Core Configuration (FDCC) requirements. OMB required agencies with certain operating systems to be FDCC compliant by February 1, 2008.
- We noted that due to the large volume of security incidents throughout the year, the Department did not always follow its own security review procedures. We found that only 18 of 49 (37 per cent) of the incidents reviewed were handled in accordance with Departmental procedures.

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<sup>5</sup> The C&A is a process mandated by OMB Circular A-130, Appendix III, "Security of Federal Automated Information Resource," dated November 28, 2000, that requires IT system controls to be documented, tested, and given formal authority to operate.

<sup>6</sup> POA&M is a tool that identifies tasks needing to be accomplished to assist agencies in identifying, assessing, prioritizing, and monitoring the progress of corrective efforts for security weaknesses found in programs and systems.



- We were unable to determine if users with significant IT responsibilities received specialized training as required by Federal law, NIST, and the Department. We further noted that there was not a consistent method for tracking mandatory security awareness training for contractors.
- We scanned the networks of two agencies (using industry standard, commercially available software) to better understand the security posture of the Department. Our scans disclosed over 20,000 vulnerabilities that were not mitigated in a timely manner. We also identified 299 critical settings on network devices that did not conform to NIST standards and 322 instances where code implemented on a website was not secure. Furthermore, our review disclosed that 1,705 required software patches had not been installed on servers and 36,184 required patches had not been installed on workstations.

Because of recommendations made in the FISMA report and planned actions by the Department, no recommendations are included herein to address the weaknesses discussed above.

Additionally, for four key financial systems, we reviewed required documentation which supports system security as well as the ability to continue operations after a disaster. We found that System Security Plans (SSP) and Contingency and Disaster Recovery Plans did not fully comply with OCIO and NIST requirements. The areas of noncompliance had been identified in 2007, however, corrections had not been made and POA&Ms had not been created for remediation. We also noted Interface listings were inconsistent and/or inaccurately documented in the SSPs and CSAM. Interconnection Security Agreements were outdated by at least 2 years as well.

- Our review disclosed that information in the SSPs related to architectural processing diagrams, environmental factors, privacy, and detailed management controls was incomplete. Additionally, SSP documentation for one system included inaccurate location information and for one other system inconsistent system categorizations. We also noted that the CSAM overall system rating in one case was lower than indicated in the SSP.
- Our review of Contingency and Disaster Recovery Plans disclosed that the plans did not contain all required information. Required information was lacking for specific notification and recovery procedures, full testing of restored systems, and the decision process and authority for deactivation of the plan.
- We also compared SSPs to CSAM for system interconnections and noted discrepancies.
- We obtained Interconnection Security Agreements (ISA) and found all the agreements were invalid because the agreements had not been updated with current signatures. Without valid signatures, neither USDA nor its external partner are obligated to adhere to agreed-upon technical and security requirements.

The Department considers the SSP to be the foundation of the overall security process because it defines the system security features and controls. It further supports Capital Planning and Investment Control, FISMA reporting, system life cycle efforts, risk management activities, as well as the C&A of the system. Contingency and Disaster Recovery planning is also vitally important to ensure the Department will continue operating effectively and efficiently in the event of a major incident or disaster. An accurate accounting of all interconnected systems and



agreed upon responsibilities for those connections supports these processes through consideration of additional security risks and requirements. Without all of these elements in place, the effectiveness of the overall security process is lessened.

As previously discussed, the Department is in the process of addressing the weaknesses identified in our FISMA report. Therefore, recommendations made in this report are limited to those relevant to the review of documentation of selected financial system applications.

### **Recommendation 2**

Create a POA&M to correct deficiencies noted in both SSPs and Contingency and Disaster Recovery Plans, (2) revise CSAM and/or system documentation to reflect consistent and accurate information, and (3) institute policy and procedures to ensure review and signature of all parties bound by ISAs.





## **Section 2: Noncompliance with Laws and Regulations**

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### **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) the 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 2009, 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 its effort to achieve compliance with 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, configuration management, physical access, and environmental protection and disaster recovery.

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 is not integrated with its financial management system. Thus, CCC is not able to comply with FFMSR. CCC is working towards integration and is modernizing its financial systems. Corrective action is scheduled for completion by October 31, 2012.
2. The Forest Service (FS) does not comply with FFMSR and the SGL ledger at the transaction level. Corrective actions are scheduled for completion by October 1, 2010, for the SGL noncompliance.
3. NRCS did not comply with FFMSR, Federal accounting standards, and the SGL at the transaction level. Corrective actions are scheduled for completion by December 31, 2009.

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

### **Finding 4: Transactions Were Not Always Obligated In Accordance With Appropriations Law**

We noted that NRCS did not always obligate transactions in accordance with appropriations law. NRCS did not obligate leases, training, and various other transactions prior to payment.



The GAO Publication GAO/OGC-92-13, *Appropriations Law*, defines an obligation in very general terms as, “an action that creates a liability or definite commitment on the part of the Government to make a disbursement at some later time. The obligation takes place when the definite commitment is made, even though the actual payment may not take place until the following fiscal year.”

A recommendation was included in the NRCS’s financial statement audit report. Therefore, we are making no additional recommendations in this report. (We also note that this noncompliance, reported for the FS in our fiscal year 2008 report, no longer exists.)



## ***Exhibit A: Audit Reports Related to the Fiscal Year 2009 Financial Statements***

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The following is a list of reports which are related to OIG's audit of USDA's fiscal year 2009 financial statements.

AUDIT NUMBER	AUDIT TITLE	RELEASE DATE
05401-18-FM	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2009 and 2008	November 2009
06401-24-FM	Commodity Credit Corporation's Financial Statements for Fiscal Years 2009 and 2008	November 2009
08401-10-FM	Forest Service's Financial Statements for Fiscal Years 2009 and 2008	November 2009
10401-3-FM	Natural Resources and Conservations Service's Financial Statements for 2009	November 2009
11401-30-FM	Statement on Auditing Standards No. 70, Report on the National Finance Center General Controls Review – Fiscal Year 2009	September 2009
27401-34-HY	Food and Nutrition Service Financial Statements for Fiscal Years 2009 and 2008	November 2009
50501-15-FM	Fiscal Year 2009 Federal Information Security Management Act Report	November 2009
85401-17-FM	Rural Development's Financial Statements for Fiscal Years 2009 and 2008	November 2009
88501-13-FM	Statement on Auditing Standards No. 70, Report on the National Information Technology Center General Controls Review – Fiscal Year 2009	September 2009



## ***Exhibit B: Summary of Prior Year Recommendations***

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

#### **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**

During fiscal year 2009, the Department issued revised Bulletin 2230-1, "*Reviews of Unliquidated Obligations*" requiring agencies to review and certify aged ULOs quarterly instead of annually as previously required. The Department established a working group to monitor timely reviews of obligations. In addition the Department performed an internal review of aged ULO's as of March 31, 2009.

#### **OIG Results**

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

### **Audit Report 50401-62-FM, U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2007 and 2006, issued November 15, 2007**

#### **Recommendation 1**

Implement an effective quality control review process throughout the Department for credit reform processes that, at a minimum, includes independent quality assurance reviews of model changes, data extracts, and reestimates.

#### **Departmental Status**

During fiscal year 2009, the Department reinstated the Credit Reform Working Group to improve coordination and communication amongst the three lending agencies.

#### **OIG Results**

Material weakness remains for Rural Development, as discussed in Finding 1.



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## ***Exhibit C: Status of Prior Year Noncompliance Findings***

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

### **Reported Condition**

On September 30, 2008, USDA formally reported an Anti-Deficiency Act (ADA) violation of about \$18 million by the FS to the President, Congress, and OMB. In May 2007, the Office of General Counsel issued an opinion concluding that FS had an ADA violation. In February 2008, GAO issued a decision, as the request of FS, which also found that the agency violated ADA.

### **Status**

The Department reported no new ADAs in fiscal year 2009.

Please note this addresses only noncompliance findings that are not discussed in Section 2 of the audit report.



## Exhibit D: Agency Response



United States  
Department of  
Agriculture

Office of the Chief  
Financial Officer

1400 Independence  
Avenue, SW

Washington, DC  
20250

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

FROM: Jon M. Holladay  
Acting Chief Financial Officer

*Jon M. Holladay* NOV 16 2009

SUBJECT: Management's Response – Audit Report on the Department of  
Agriculture's Consolidated Financial Statements for Fiscal Years 2009  
and 2008, Audit Report No. 50401-67-FM

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2009 and 2008.

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 by December 30, 2009.

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.

AN EQUAL OPPORTUNITY EMPLOYER



*Consolidated Balance Sheet*

**As of September 30, 2009 and 2008  
(In Millions)**

	<u>2009</u>	<u>2008</u>
<b>Assets (Note 2):</b>		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	\$ 72,334	\$ 64,595
Investments (Note 5)	165	109
Accounts Receivable, Net (Note 6)	270	249
Other (Note 11)	4	5
<b>Total Intragovernmental</b>	<u>72,773</u>	<u>64,958</u>
Cash and Other Monetary Assets (Note 4)	248	348
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	8,596	10,049
Direct Loan and Loan Guarantees, Net (Note 7)	85,657	81,774
Inventory and Related Property, Net (Note 8)	205	15
General Property, Plant, and Equipment, Net (Note 9)	2,972	2,973
Other (Note 11)	185	253
<b>Total Assets</b>	<u>170,639</u>	<u>160,373</u>
Stewardship PP&E (Note 10)		
<b>Liabilities (Note 12):</b>		
Intragovernmental:		
Accounts Payable	5	7
Debt (Note 13)	84,119	77,577
Other (Note 15)	11,774	13,678
<b>Total Intragovernmental</b>	<u>95,898</u>	<u>91,262</u>
Accounts Payable	734	848
Loan Guarantee Liability (Note 7)	1,844	1,333
Federal Employee and Veteran Benefits	846	832
Environmental and Disposal Liabilities (Note 14)	9	25
Benefits Due and Payable	3,119	2,764
Other (Notes 15 & 16)	23,274	23,908
<b>Total Liabilities</b>	<u>125,724</u>	<u>120,972</u>
Commitments and Contingencies (Note 17)		
<b>Net Position:</b>		
Unexpended Appropriations - Earmarked Funds (Note 18)	1,263	1,428
Unexpended Appropriations - Other Funds	37,039	29,355
Cumulative Results of Operations - Earmarked Funds (Note 18)	(349)	(490)
Cumulative Results of Operations - Other Funds	6,962	9,108
<b>Total Net Position</b>	<u>44,915</u>	<u>39,401</u>
<b>Total Liabilities and Net Position</b>	<u>\$ 170,639</u>	<u>\$ 160,373</u>

The accompanying notes are an integral part of these statements.



**Consolidated Statement of Net Cost**  
**For the Years Ended September 30, 2009 and 2008**  
**(In Millions)**

	<u>2009</u>	<u>2008</u>
Enhance International Competitiveness of American Agriculture:		
Gross Costs	\$ 1,779	\$ 2,484
Less: Earned Revenue	417	455
Net Costs	<u>1,362</u>	<u>2,029</u>
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Costs	27,986	20,995
Less: Earned Revenue	5,870	3,836
Net Costs	<u>22,116</u>	<u>17,159</u>
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	7,029	8,426
Less: Earned Revenue	3,796	4,547
Net Costs	<u>3,233</u>	<u>3,879</u>
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	3,409	3,374
Less: Earned Revenue	797	935
Net Costs	<u>2,612</u>	<u>2,439</u>
Improve the Nation's Nutrition and Health:		
Gross Costs	78,818	60,181
Less: Earned Revenue	61	49
Net Costs	<u>78,757</u>	<u>60,132</u>
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	11,730	12,105
Less: Earned Revenue	742	1,010
Net Costs	<u>10,988</u>	<u>11,095</u>
Total Gross Costs	130,751	107,565
Less: Total Earned Revenue	<u>11,683</u>	<u>10,832</u>
<b>Net Cost of Operations (Note 19)</b>	<u>\$ 119,068</u>	<u>\$ 96,733</u>

The accompanying notes are an integral part of these statements.

**Consolidated Statement of Changes in Net Position**  
**For The Year Ended September 30, 2009**  
(In Millions)

	Earmarked Funds (Note 18)	All Other Funds	Eliminations	Consolidated Total
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$ (490)	\$ 9,108	\$ -	\$ 8,618
Budgetary Financing Sources:				
Appropriations Used	6,986	104,227	-	111,213
Non-exchange Revenue	-	10	-	10
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	1,639	4,592	-	6,231
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	(70)	(492)	-	(562)
Imputed Financing	48	3,785	(2,800)	1,033
Other	48	(911)	-	(863)
Total Financing Sources	<u>8,652</u>	<u>111,211</u>	<u>(2,800)</u>	<u>117,063</u>
Net Cost of Operations	<u>(8,511)</u>	<u>(113,357)</u>	<u>2,800</u>	<u>(119,068)</u>
Net Change	<u>141</u>	<u>(2,146)</u>	<u>-</u>	<u>(2,005)</u>
<b>Cumulative Results of Operations</b>	<u>(349)</u>	<u>6,962</u>	<u>-</u>	<u>6,613</u>
<b>Unexpended Appropriations:</b>				
Beginning Balances	1,428	29,355	-	30,783
Budgetary Financing Sources:				
Appropriations Received	6,778	114,209	-	120,987
Appropriations Transferred In (Out)	(5)	22	-	17
Other Adjustments	48	(2,320)	-	(2,272)
Appropriations Used	(6,986)	(104,227)	-	(111,213)
Total Budgetary Financing Sources	<u>(165)</u>	<u>7,684</u>	<u>-</u>	<u>7,519</u>
<b>Unexpended Appropriations</b>	<u>1,263</u>	<u>37,039</u>	<u>-</u>	<u>38,302</u>
<b>Net Position</b>	<u>\$ 914</u>	<u>\$ 44,001</u>	<u>\$ -</u>	<u>\$ 44,915</u>

The accompanying notes are an integral part of these statements.



**Consolidated Statement of Changes in Net Position**  
**For The Year Ended September 30, 2008**  
**(In Millions)**

	<b>Earmarked Funds (Note 18)</b>	<b>All Other Funds</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$ 789	\$ 7,517	\$ -	\$ 8,306
Budgetary Financing Sources:				
Appropriations Used	3,517	86,379	-	89,896
Non-exchange Revenue	-	19	-	19
Donations and Forfeitures of Cash and Equivalents	1	23	-	24
Transfers In (Out) without Reimbursement	1,247	5,291	-	6,538
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	(32)	(359)	-	(391)
Imputed Financing	46	3,429	(2,568)	907
Other	84	(32)	-	52
Total Financing Sources	<u>4,863</u>	<u>94,750</u>	<u>(2,568)</u>	<u>97,045</u>
Net Cost of Operations	<u>(6,142)</u>	<u>(93,159)</u>	<u>2,568</u>	<u>(96,733)</u>
Net Change	<u>(1,279)</u>	<u>1,591</u>	<u>-</u>	<u>312</u>
<b>Cumulative Results of Operations</b>	<u>(490)</u>	<u>9,108</u>	<u>-</u>	<u>8,618</u>
<b>Unexpended Appropriations:</b>				
Beginning Balances	1,113	29,824	-	30,937
Budgetary Financing Sources:				
Appropriations Received	4,157	86,854	-	91,011
Appropriations Transferred In (Out)	(3)	10	-	7
Other Adjustments	(322)	(954)	-	(1,276)
Appropriations Used	(3,517)	(86,379)	-	(89,896)
Total Budgetary Financing Sources	<u>315</u>	<u>(469)</u>	<u>-</u>	<u>(154)</u>
<b>Unexpended Appropriations</b>	<u>1,428</u>	<u>29,355</u>	<u>-</u>	<u>30,783</u>
<b>Net Position</b>	<u>\$ 938</u>	<u>\$ 38,463</u>	<u>\$ -</u>	<u>\$ 39,401</u>

The accompanying notes are an integral part of these statements.

**Combined Statement of Budgetary Resources**  
**For The Years Ended September 30, 2009 And 2008**  
**(In Millions)**

	2009		2008	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
	Budgetary	Financing Accounts	Budgetary	Financing Accounts
<b>Budgetary Resources:</b>				
Unobligated balance, brought forward, October 1	\$ 28,078	\$ 5,314	\$ 27,756	\$ 5,208
Recoveries of prior year unpaid obligations	3,934	754	4,103	1,226
Budget Authority -				
Appropriation	132,335	-	102,655	-
Borrowing Authority	28,870	14,905	30,267	14,911
Earned -				
Collected	22,678	9,496	23,370	8,855
Change in receivables from Federal Sources	(60)	-	(45)	(177)
Change in unfilled customer orders -				
Advances received	140	-	(6)	-
Without advance from Federal Sources	(47)	220	12	241
Expenditure transfers from trust funds	1,130	-	963	-
Nonexpenditure transfers, net, anticipated and actual	(431)	-	(743)	-
Temporarily not available pursuant to Public Law	(12)	-	(11)	-
Permanently not available	(32,938)	(5,605)	(38,925)	(6,911)
Total Budgetary Resources	183,677	25,084	149,396	23,353
<b>Status of Budgetary Resources:</b>				
Obligations Incurred -				
Direct	122,471	20,395	96,475	18,039
Reimbursable	27,642	-	24,843	-
Unobligated Balance -				
Apportioned	13,786	2,324	7,925	2,784
Exempt from Apportionment	873	4	1,100	5
Unobligated balance not available	18,905	2,361	19,053	2,525
Total Status of Budgetary Resources	183,677	25,084	149,396	23,353
<b>Change in Obligated Balances:</b>				
Obligated balance, net, brought forward October 1	25,277	20,694	25,472	18,107
Obligations incurred	150,113	20,395	121,318	18,039
Gross outlays	(141,959)	(16,818)	(117,444)	(14,162)
Recoveries of prior year unpaid obligations, actual	(3,934)	(754)	(4,103)	(1,226)
Change in uncollected payments from Federal Sources	107	(220)	33	(64)
Obligated balance, net, end of period -				
Unpaid obligations	30,836	24,414	26,616	21,590
Uncollected customer payments from Federal Sources	(1,232)	(1,116)	(1,339)	(896)
Obligated Balance, net, end of period	29,604	23,298	25,277	20,694
<b>Net Outlays:</b>				
Gross outlays	141,959	16,818	117,444	14,162
Offsetting collections	(23,948)	(9,496)	(24,327)	(8,855)
Distributed offsetting receipts	(3,100)	(474)	(1,889)	(353)
Net Outlays	\$ 114,911	\$ 6,848	\$ 91,228	\$ 4,954

The accompanying notes are an integral part of these statements.



## Notes to the Consolidated Financial Statements

As of September 30, 2009 and 2008  
(In Millions)

### NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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#### Organization

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

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

#### Farm and Foreign Agricultural Services (FFAS)

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

#### Food, Nutrition, and Consumer Services (FNCS)

- Food and Nutrition Service (FNS)

#### Food Safety

- Food Safety and Inspection Service (FSIS)

#### Marketing and Regulatory Programs (MRP)

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

#### Natural Resources and Environment (NRE)

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

#### Research, Education, and Economics (REE)

- Agricultural Research Service (ARS)
- Cooperative State Research, Education, and Extension Service (CSREES)
- Economic Research Service (ERS)
- National Agricultural Statistics Service (NASS)

#### Rural Development

- Rural Development (RD)
  - Rural Telephone Bank (RTB) – a corporation
  - Alternative Agricultural Research and Commercialization Corporation (AARC)

With the passage of the 2006 Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriation Act, Public Law No. 109-97, the legal restriction on redeeming Government-owned Class



A stock was removed for RTB. As a result of this change, the process of liquidation and dissolution of the RTB began. During FY 2008, RTB was dissolved in its entirety and will no longer be a reportable entity.

### **Consolidation**

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

### **Reclassifications**

Certain reclassifications have been made to prior year amounts to conform to the current year presentation. Note 21, Apportionment Categories of Obligations Incurred was reclassified to conform to the FY 2008 OMB apportionment schedule. CCC reclassified FY 2008 obligations incurred for the P.L. 480 Title II Grant Fund from reimbursable to direct on the Statement of Budgetary Resources.

### **Use of Estimates**

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

### **Revenue and Other Financing Sources**

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

### **Investments**

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

### **Accounts Receivable**

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

### **Direct Loans and Loan Guarantees**

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



Direct loans obligated and loan guarantees committed before fiscal 1992 are valued using the present-value method. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees.

### **Inventories and Related Property**

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

### **Property, Plant and Equipment**

Property, plant and equipment (PP&E) are stated at cost less accumulated depreciation. Depreciation is determined using the straight-line method over the estimated useful lives of the assets. Useful lives for PP&E are disclosed in Note 9. Capitalization thresholds for personal property and real property are \$25,000 and \$100,000 for internal use software. There are no restrictions on the use or convertibility of PP&E.

### **Pension and Other Retirement Benefits**

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

### **Other Post-employment Benefits**

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

### **Earmarked Funds**

In accordance with SFFAS 27, Identifying and Reporting Earmarked Funds, which became effective in FY 2006, the Department has reported the earmarked funds for which it has program management responsibility when the following three criteria are met: (1) a statute committing the Federal Government to use specifically identified revenues and other financing sources only for designated activities, benefits or purposes; (2) explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

### **Stewardship PP&E**

SFFAS 29, Heritage Assets and Stewardship Land, reclassified all heritage assets and stewardship land information as basic except for condition information, which is classified as RSI. The reclassification as basic information was phased in per SFFAS 29. Heritage assets and stewardship land information that was previously reported in RSSI temporarily shifted to RSI until it moved to a note on the balance sheet as basic information. The phase-in of disclosure requirements being reported as basic information provided that SFFAS 29 was fully implemented for reporting periods beginning after September 30, 2008. See Note 10, Stewardship PP&E.

### **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 Cost Implementation

Beginning in FY 2009, SFFAS 30, Inter-Entity Cost Implementation became effective. This standard requires full implementation of the inter-entity cost provision in SFFAS 4, Managerial Cost Accounting Standards and Concepts. 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

Beginning in FY 2009, SFFAS 31, Accounting for Fiduciary Activities became effective. 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. Prior period amounts presented in the basic financial statements and notes were not restated. See Note 29, Fiduciary Activities.



## 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. In FY 2008, non-entity assets included property taxes and insurance for single family housing borrowers.

	FY 2009	FY 2008
Intragovernmental:		
Fund balance with Treasury	\$ 152	\$ 62
Accounts Receivable	24	23
Subtotal Intragovernmental	<u>176</u>	<u>85</u>
With the Public:		
Cash and other monetary assets	-	125
Accounts receivable	97	127
Subtotal With the Public	<u>97</u>	<u>252</u>
Total non-entity assets	273	337
Total entity assets	170,366	160,036
Total Assets	<u>\$ 170,639</u>	<u>\$ 160,373</u>

## 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 2009 because the proper Treasury Account Symbol was unknown which reduced Fund Balance with Treasury by \$35 million.

	FY 2009	FY 2008
Fund Balances:		
Trust Funds	\$ 519	\$ 633
Special Funds	16,977	17,239
Revolving Funds	8,003	8,338
General Funds	46,761	38,326
Other Fund Types	74	59
Total	<u>72,334</u>	<u>64,595</u>
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	16,987	11,814
Unavailable	21,266	21,577
Obligated Balance not yet Disbursed	52,748	45,841
Borrowing Authority not yet Converted to Fund Balance	(32,803)	(29,681)
Non-Budgetary Fund Balance with Treasury	14,136	15,044
Total	<u>\$ 72,334</u>	<u>\$ 64,595</u>

**NOTE 4. CASH AND OTHER MONETARY ASSETS**

In FY 2009 and FY 2008, cash includes Federal crop insurance escrow amounts of \$154 million and \$130 million and price support transfers in transit of \$93 million and \$92 million, respectively. In FY 2008, funds held in escrow for single family housing borrowers and certificates of deposit were \$125 million and \$1 million, respectively.

	<u>FY 2009</u>	<u>FY 2008</u>
Cash	<u>\$ 248</u>	<u>\$ 348</u>

**NOTE 5. INVESTMENTS**

FY 2009	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		\$ -	\$ -	\$ -	\$ -	\$ -
Market-based	Straight Line	165	(1)	1	165	165
Total		<u>\$ 165</u>	<u>\$ (1)</u>	<u>\$ 1</u>	<u>\$ 165</u>	<u>\$ 165</u>
With the Public:						
AARC						
		<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
Total		<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
FY 2008						
	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		\$ -	\$ -	\$ -	\$ -	\$ -
Market-based	Straight Line	107	1	1	109	109
Total		<u>\$ 107</u>	<u>\$ 1</u>	<u>\$ 1</u>	<u>\$ 109</u>	<u>\$ 109</u>
With the Public:						
AARC						
		<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>
Total		<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>



## NOTE 6. ACCOUNTS RECEIVABLE, NET

FY 2009	Accounts	Allowance for	Accounts
	Receivable, Gross	Uncollectible Accounts	Receivable, Net
Intragovernmental	\$ 270	\$ -	\$ 270
With the Public	8,621	(25)	8,596
<b>Total</b>	<b>\$ 8,891</b>	<b>\$ (25)</b>	<b>\$ 8,866</b>

FY 2008	Accounts	Allowance for	Accounts
	Receivable, Gross	Uncollectible Accounts	Receivable, Net
Intragovernmental	\$ 249	\$ -	\$ 249
With the Public	10,079	(30)	10,049
<b>Total</b>	<b>\$ 10,328</b>	<b>\$ (30)</b>	<b>\$ 10,298</b>

## 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 2009 was \$85,657 million compared to \$81,774 million at the end of FY 2008. Loans exempt from the Federal Credit Reform Act of 1990 represent \$414 million of the total compared to \$643 million in FY 2008. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2009 and FY 2008.

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 \$4,661 million to \$5,284 million during FY 2009, an increase of \$623 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2008 to FY 2009.

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 2009 was \$977 million compared to \$462 million in FY 2008. Table 3 illustrates the breakdown of total subsidy expense for FY 2009 and FY 2008 by program.



Direct loan volume increased from \$8,758 million in FY 2008 to \$9,715 million in FY 2009. 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 2009 were \$57,367 million in outstanding principal and \$51,527 million in outstanding principal guaranteed, compared to \$40,787 and \$36,492 million, respectively at the end of FY 2008. Table 5 shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from \$1,333 million to \$1,844 million during FY 2009, an increase of \$511 million. The post-1991 liability moved from \$1,332 million to \$1,843 million, an increase of \$511 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 2009 was \$409 million compared to \$82 million in FY 2008. Table 8 illustrates the breakdown of total subsidy expense for FY 2009 and FY 2008 by program.

Guaranteed loan volume increased from \$11,374 million in FY 2008 to \$23,126 million in FY 2009. Volume distribution between mission area and program is shown in Table 9.

### Credit Program Discussion and Descriptions

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

#### The Farm and Foreign Agricultural Services Mission Area

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

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

FSA's mission is to provide supervised credit. FSA works with each borrower to identify specific strengths and weaknesses in farm production and management, and provides alternatives to address weaknesses. FSA is able to provide certain loan servicing options to assist borrowers whose accounts are distressed or delinquent. These



options include reamortization, restructuring, loan deferral, lowering interest rate, acceptance of easements, and debt write-downs. The eventual goal of FSA's farm credit programs is to graduate its borrowers to commercial credit.

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

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

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	
Direct Emergency Loans	Facility Program Guarantee
Direct Indian Land Acquisition	P.L. 480 Title 1 Program
Direct Boll Weevil Eradication	Direct Farm Storage Facility
Direct Seed Loans to Producers	Direct Sugar Storage Facilities
Guaranteed Farm Operating Subsidized/Unsubsidized	
Agricultural Resource Demonstration Fund	
Bureau of Reclamation Loan Fund	
Guaranteed Farm Ownership Unsubsidized	
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
Home Ownership Direct Loans	Business and Industry Direct Loans	Water and Environmental Direct Loans
Home Ownership Guaranteed Loans	Business and Industry Guaranteed Loans	Water and Environmental Guaranteed Loans
Home Improvement and Repair Direct Loans	Intermediary Relending Program Direct Loans	Electric Direct Loans
Home Ownership and Home Improvement and Repair Nonprogram Loans	Rural Economic Development Direct Loans	Electric Guaranteed Loans
Rural Housing Site Direct Loans		Telecommunications Direct Loans
Farm Labor Housing Direct Loans		Federal Financing Bank-Telecommunications Guaranteed
Rural Rental and Rural Cooperative Housing Loans		Distance Learning and Telemedicine Direct
Rental Housing Guaranteed Loans		Broadband Telecommunications Services
Multi-family Housing–Nonprogram–Credit Sales		
Community Facilities Direct Loans		
Community Facilities Guaranteed Loans		

**Discussion of Administrative Expenses, Subsidy Costs and Subsidy Rates**

**Administrative Expenses**

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2009 and FY 2008 are shown in Table 10.

**Reestimates, Default Analysis, and Subsidy Rates**

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

RD’s cash flow models are tailored for specific programs based on unique program characteristics. The models utilized are housing, guaranteed, Electric Underwriters, FFB modifications and a direct model that covers the remaining portfolio with similar characteristics.

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2009 reestimate process resulted in an \$565 million



increase in the post 1991 estimated cost of the direct loan portfolio and a \$72 million increase in the post 1991 estimated cost of the guaranteed loan portfolio.

Table 3 discloses the direct loan subsidy expense including the \$564 million increase due to reestimates. The increase was a result of a \$352 million increase in RD's programs and a \$212 million increase in the FFAS programs.

Table 8 discloses the loan guarantee subsidy expenses including the \$72 million increase due to reestimate. The increase was a result of a \$113 million increase in RD's programs and a \$41 million reduction in the FFAS programs.

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.

Subsidy rates are used to compute each year's subsidy expenses as disclosed above. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2009 and FY 2008 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.

### **Downward Reestimate of Subsidy**

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.

### **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, 2009 and 2008, foreclosed property consisted of 1,082 and 800 rural single-family housing dwellings, with an average holding period of 15 and 17 months, respectively. As of September 30, 2009 and 2008, FSA-Farm Loan Program properties consist primarily of 64 and 58 farms, respectively. The average holding period for these properties in inventory for FY 2009 and FY 2008 was 58 and 64 months, respectively. Certain properties can be leased to eligible individuals.

### **Non-performing Loans**

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling.

When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

### Loan Modifications

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

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2009. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

In FY 2009, loan extension modifications were granted for three borrowers in the FFB electric program. The maturity dates were extended up to 20 years on selected advances. Interest rates on the advances did not change. At the time of the modification, the liquidating fund was paid off and the advances were moved to the financing fund. The post-modification cash flows were discounted at the first quarter net present value discount factor from the FY 2009 President's Budget relative to the effective date of the loan extension modifications.

The Debt Reduction Fund is used to account for CCC's "modified debt." Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. 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.

### Interest Credit

Approximately \$18,100 million and \$17,700 million of Rural Housing Service (RHS) unpaid loan principal as of September 30, 2009, and 2008 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 \$967 million and \$947 million higher for FY 2009 and FY 2008, respectively.

### Restructured Loans

At the end of FY 2009 and FY 2008, the RD portfolio contained approximately 71,400 and 73,300 restructured loans with an outstanding unpaid principal balance of \$2,400 million. At the end of FY 2009 and FY 2008, the farm loan portfolio contained approximately 20,500 and 20,000 restructured loans with an outstanding unpaid principal balance of \$1,126 million and \$1,100 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2009 and 2008, were \$2,887 million and \$3,100 million, respectively.



**Table 1. Direct Loan and Loan Guarantees, Net**

FY 2009 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
<b>Obligated Pre-1992</b>					
Farm	\$ 1,219	\$ 83	\$ 14	\$ (43)	\$ 1,273
Export	-	-	-	-	-
Food Aid	4,470	48	-	(1,408)	3,110
Housing	9,984	83	33	(4,667)	5,433
Electric	6,877	1	-	(1,675)	5,203
Telecommunications	706	2	-	(44)	664
Water and Environmental Business and Industry	1,224	12	-	(142)	1,094
Economic Development	-	-	-	-	-
	34	-	-	(16)	18
<b>Pre-1992 Total</b>	<b>24,514</b>	<b>229</b>	<b>47</b>	<b>(7,995)</b>	<b>16,795</b>
<b>Obligated Post-1991</b>					
Farm	6,057	169	5	(500)	5,731
Export	-	-	-	-	-
Food Aid	1,615	20	-	(518)	1,117
Housing	18,301	103	46	(2,410)	16,040
Electric	33,119	32	-	(652)	32,499
Telecommunications	3,409	2	-	43	3,454
Water and Environmental Business and Industry	9,218	94	-	(728)	8,584
Economic Development	30	(1)	-	(10)	19
	543	2	-	(174)	371
<b>Post-1991 Total</b>	<b>72,292</b>	<b>421</b>	<b>51</b>	<b>(4,949)</b>	<b>67,815</b>
<b>Total Direct Loan Program Receivables</b>	<b>96,806</b>	<b>650</b>	<b>98</b>	<b>(12,944)</b>	<b>84,610</b>
<b>Defaulted Guarantee Loans</b>					
<b>Pre-1992</b>					
Farm	1	-	-	-	1
Export	135	1	-	(82)	54
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental Business and Industry	-	-	-	-	-
Economic Development	4	-	-	-	4
<b>Pre-1992 Total</b>	<b>140</b>	<b>1</b>	<b>-</b>	<b>(82)</b>	<b>59</b>
<b>Post-1991</b>					
Farm	54	-	-	(52)	2
Export	619	7	-	(203)	423
Food Aid	-	-	-	-	-
Housing	98	-	-	(65)	33
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental Business and Industry	-	-	-	-	-
Economic Development	127	3	-	(14)	116
<b>Post-1991 Total</b>	<b>898</b>	<b>10</b>	<b>-</b>	<b>(334)</b>	<b>574</b>
<b>Total Defaulted Guarantee Loans</b>	<b>1,038</b>	<b>11</b>	<b>-</b>	<b>(416)</b>	<b>633</b>
<b>Loans Exempt from Credit Reform Act:</b>					
Commodity Loans	414	3	-	(3)	414
Other Foreign Receivables	-	-	-	-	-
<b>Total Loans Exempt</b>	<b>414</b>	<b>3</b>	<b>-</b>	<b>(3)</b>	<b>414</b>
<b>Total Direct Loan and Loan Guarantees, Net</b>					<b>\$ 85,657</b>



**Table 1. Direct Loan and Loan Guarantees, Net (cont'd)**

FY 2008 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
<b>Obligated Pre-1992</b>					
Farm	\$ 1,406	\$ 96	\$ 12	\$ (59)	\$ 1,455
Export	-	-	-	-	-
Food Aid	4,813	121	-	(1,949)	2,985
Housing	10,462	111	33	(4,880)	5,726
Electric	8,273	5	-	(1,689)	6,589
Telecommunications	896	2	-	(54)	844
Water and Environmental Business and Industry	1,328	14	-	(159)	1,183
Economic Development	38	-	-	(17)	21
<b>Pre-1992 Total</b>	<b>27,216</b>	<b>349</b>	<b>45</b>	<b>(8,807)</b>	<b>18,803</b>
<b>Obligated Post-1991</b>					
Farm	5,203	159	3	224	5,589
Export	-	-	-	-	-
Food Aid	1,837	79	-	(1,035)	881
Housing	17,044	98	34	(2,387)	14,789
Electric	29,216	28	-	(336)	28,908
Telecommunications	3,151	2	-	187	3,340
Water and Environmental Business and Industry	8,583	87	-	(829)	7,841
Economic Development	35	-	-	(25)	10
	530	2	-	(175)	357
<b>Post-1991 Total</b>	<b>65,599</b>	<b>455</b>	<b>37</b>	<b>(4,376)</b>	<b>61,715</b>
<b>Total Direct Loan Program Receivables</b>	<b>92,815</b>	<b>804</b>	<b>82</b>	<b>(13,183)</b>	<b>80,518</b>
<b>Defaulted Guarantee Loans</b>					
<b>Pre-1992</b>					
Farm	1	-	-	(1)	-
Export	136	1	-	(90)	47
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental Business and Industry	3	-	-	-	3
Economic Development	-	-	-	-	-
<b>Pre-1992 Total</b>	<b>140</b>	<b>1</b>	<b>-</b>	<b>(91)</b>	<b>50</b>
<b>Post-1991</b>					
Farm	58	-	-	(56)	2
Export	615	7	-	(185)	437
Food Aid	-	-	-	-	-
Housing	61	-	-	(33)	28
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental Business and Industry	103	3	-	(10)	96
Economic Development	-	-	-	-	-
<b>Post-1991 Total</b>	<b>837</b>	<b>10</b>	<b>-</b>	<b>(284)</b>	<b>563</b>
<b>Total Defaulted Guarantee Loans</b>	<b>977</b>	<b>11</b>	<b>-</b>	<b>(375)</b>	<b>613</b>
<b>Loans Exempt from Credit Reform Act:</b>					
Commodity Loans	630	13	-	-	643
Other Foreign Receivables	-	-	-	-	-
<b>Total Loans Exempt</b>	<b>630</b>	<b>13</b>	<b>-</b>	<b>-</b>	<b>643</b>
<b>Total Direct Loan and Loan Guarantees, Net</b>					<b>\$ 81,774</b>



**Table 2. Schedule for Reconciling Subsidy Cost Allowance Balances (Post-1991) Direct Loans**

	FY 2009	FY 2008
Beginning balance of the subsidy cost allowance	\$ 4,661	\$ 4,346
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	73	(60)
Default costs (net of recoveries)	253	211
Fees and other collections	(1)	(2)
Other subsidy costs	79	226
Total subsidy expense prior to adjustments and reestimates	<u>404</u>	<u>375</u>
Adjustments		
Loan modifications	9	4
Fees received	39	36
Loans written off	(335)	(242)
Subsidy allowance amortization	(264)	(309)
Other	206	368
Total subsidy cost allowance before reestimates	<u>4,720</u>	<u>4,578</u>
Add or subtract subsidy reestimates by component		
Interest rate reestimate	383	637
Technical/default reestimate	181	(554)
Total reestimates	<u>564</u>	<u>83</u>
Ending balance of the subsidy cost allowance	<u>\$ 5,284</u>	<u>\$ 4,661</u>



**Table 3. Subsidy Expense for Direct Loans by Program and Component**

FY 2009

	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Subtotal Subsidy</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>	<u>Total Subsidy Expense</u>
Direct Loan Programs										
Farm	\$ 2	\$ 160	\$ -	\$ 1	\$ 163	\$ -	\$ 204	\$ 424	\$ 628	\$ 791
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	-	-	-	-	-	19	(244)	(172)	(416)	(397)
Housing	24	75	(1)	85	183	6	(41)	129	88	277
Electric	(45)	13	-	(4)	(36)	(16)	600	(324)	276	224
Telecommunications	(1)	4	-	-	3	-	29	120	149	152
Water and Environmental	75	1	-	(3)	73	-	(164)	19	(145)	(72)
Business and Industry	-	-	-	-	-	-	(6)	(5)	(11)	(11)
Economic Development	18	-	-	-	18	-	5	(10)	(5)	13
Total Direct Loan Subsidy Expense	<u>\$ 73</u>	<u>\$ 253</u>	<u>\$ (1)</u>	<u>\$ 79</u>	<u>\$ 404</u>	<u>\$ 9</u>	<u>\$ 383</u>	<u>\$ 181</u>	<u>\$ 564</u>	<u>\$ 977</u>

FY 2008

	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Subtotal Subsidy</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>	<u>Total Subsidy Expense</u>
Direct Loan Programs										
Farm	\$ (18)	\$ 130	\$ -	\$ (9)	\$ 103	\$ -	\$ -	\$ (550)	\$ (550)	\$ (447)
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	9	2	-	-	11	-	(180)	(163)	(343)	(332)
Housing	(123)	66	(1)	245	187	4	184	(51)	133	324
Electric	(32)	11	-	(6)	(27)	-	335	155	490	463
Telecommunications	(1)	1	-	-	-	-	211	(19)	192	192
Water and Environmental	86	1	-	(4)	83	-	94	63	157	240
Business and Industry	-	-	-	-	-	-	-	-	-	-
Economic Development	19	-	-	(1)	18	-	(7)	11	4	22
Total Direct Loan Subsidy Expense	<u>\$ (60)</u>	<u>\$ 211</u>	<u>\$ (1)</u>	<u>\$ 225</u>	<u>\$ 375</u>	<u>\$ 4</u>	<u>\$ 637</u>	<u>\$ (554)</u>	<u>\$ 83</u>	<u>\$ 462</u>

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

	<u>FY 2009</u>	<u>FY 2008</u>
Direct Loan Programs		
Farm	\$ 1,823	\$ 1,317
Export	-	-
Food Aid	-	20
Housing	1,971	1,750
Electric	4,462	4,047
Telecommunications	565	551
Water and Environmental	842	1,017
Business and Industry	-	-
Economic Development	52	56
Total Direct Loans Disbursed	<u>\$ 9,715</u>	<u>\$ 8,758</u>

**Table 5. Guaranteed Loans Outstanding**

	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
<b>FY 2009</b>						
Loan Guarantee Programs						
Farm	\$ 32	\$ 10,675	\$ 10,707	\$ 29	\$ 9,598	\$ 9,627
Export	-	7,039	7,039	-	6,898	6,898
Food Aid	-	-	-	-	-	-
Housing	4	34,781	34,785	3	31,293	31,296
Electric	161	210	371	161	210	371
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	69	69	-	60	60
Business and Industry	13	4,383	4,396	8	3,267	3,275
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	<u>\$ 210</u>	<u>\$ 57,157</u>	<u>\$ 57,367</u>	<u>\$ 201</u>	<u>\$ 51,326</u>	<u>\$ 51,527</u>
<b>FY 2008</b>						
Loan Guarantee Programs						
Farm	\$ 43	\$ 10,081	\$ 10,124	\$ 38	\$ 9,061	\$ 9,099
Export	-	3,918	3,918	-	3,829	3,829
Food Aid	-	-	-	-	-	-
Housing	5	22,514	22,519	4	20,270	20,274
Electric	174	214	388	174	214	388
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	68	68	-	59	59
Business and Industry	14	3,756	3,770	10	2,833	2,843
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	<u>\$ 236</u>	<u>\$ 40,551</u>	<u>\$ 40,787</u>	<u>\$ 226</u>	<u>\$ 36,266</u>	<u>\$ 36,492</u>



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

FY 2009	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	\$ -	\$ 170	\$ 170
Export	-	221	221
Food Aid	-	-	-
Housing	-	1,102	1,102
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	(1)	(1)
Business and Industry	1	351	352
Economic Development	-	-	-
Total Liability for Loan Guarantees	<u>\$ 1</u>	<u>\$ 1,843</u>	<u>\$ 1,844</u>
FY 2008	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	\$ -	\$ 114	\$ 114
Export	-	162	162
Food Aid	-	-	-
Housing	-	766	766
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	1	290	291
Economic Development	-	-	-
Total Liability for Loan Guarantees	<u>\$ 1</u>	<u>\$ 1,332</u>	<u>\$ 1,333</u>



**Table 7. Schedule for Reconciling Loan Guarantee Liability**

	FY 2009	FY 2008
Beginning balance of the loan guarantee liability	\$ 1,332	\$ 1,255
Add: Subsidy expense for guaranteed loans disbursed during the year by component		
Interest supplement costs	25	29
Default costs (net of recoveries)	661	418
Fees and other collections	(349)	(209)
Other subsidy costs	-	-
Total of the above subsidy expense components	<u>337</u>	<u>238</u>
Adjustments		
Loan guarantee modifications	-	(90)
Fees received	344	169
Interest supplements paid	5	15
Claim payments to lenders	(144)	(90)
Interest accumulation on the liability balance	48	99
Other	(152)	(109)
Ending balance of the subsidy cost allowance before reestimates	<u>1,770</u>	<u>1,487</u>
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	(45)	34
Technical/default reestimate	117	(189)
Total of the above reestimate components	<u>72</u>	<u>(155)</u>
Ending balance of the loan guarantee liability	<u>\$ 1,842</u>	<u>\$ 1,332</u>

**Table 8. Subsidy Expense for Loan Guarantees by Program and Component**

FY 2009

Loan Guarantee Programs	Interest		Fees and Other		Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
	Supplement	Defaults	Collections	Other						
Farm	\$ 17	\$ 63	\$ (25)	\$ -	\$ 55	\$ -	\$ 5	\$ (10)	\$ (5)	\$ 50
Export	-	76	(22)	-	54	-	(45)	9	(36)	18
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	8	445	(267)	-	186	-	(15)	72	57	243
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	(1)	1	-	-
Business and Industry	-	77	(35)	-	42	-	11	45	56	98
Economic Development	-	-	-	-	-	-	-	-	-	-
<b>Total Loan Guarantee Subsidy Expense</b>	<b>\$ 25</b>	<b>\$ 661</b>	<b>\$ (349)</b>	<b>\$ -</b>	<b>\$ 337</b>	<b>\$ -</b>	<b>\$ (45)</b>	<b>\$ 117</b>	<b>\$ 72</b>	<b>\$ 409</b>

FY 2008

Loan Guarantee Programs	Interest		Fees and Other		Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
	Supplement	Defaults	Collections	Other						
Farm	\$ 15	\$ 49	\$ (18)	\$ -	\$ 46	\$ -	\$ 3	\$ (52)	\$ (49)	\$ (3)
Export	-	58	(10)	-	48	-	(5)	(38)	(43)	5
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	14	228	(146)	-	96	-	(1)	(10)	(11)	85
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	83	(35)	-	48	-	37	(90)	(53)	(5)
Economic Development	-	-	-	-	-	-	-	-	-	-
<b>Total Loan Guarantee Subsidy Expense</b>	<b>\$ 29</b>	<b>\$ 418</b>	<b>\$ (209)</b>	<b>\$ -</b>	<b>\$ 238</b>	<b>\$ -</b>	<b>\$ 34</b>	<b>\$ (190)</b>	<b>\$ (156)</b>	<b>\$ 82</b>



**Table 9. Guaranteed Loans Disbursed**

	FY 2009		FY 2008	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	\$ 2,594	\$ 2,332	\$ 2,163	\$ 1,944
Export	5,250	5,145	1,907	1,909
Food Aid	-	-	-	-
Housing	14,165	12,745	6,484	5,832
Electric	-	-	-	-
Telecommunications	-	-	-	-
Water and Environmental	5	4	40	33
Business and Industry	1,112	865	780	609
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	<u>\$ 23,126</u>	<u>\$ 21,091</u>	<u>\$ 11,374</u>	<u>\$ 10,327</u>

**Table 10. Administrative Expenses**

	FY 2009	FY 2008
Direct Loan Programs	\$ 594	\$ 537
Guaranteed Loan Programs	375	293
Total Administrative Expenses	<u>\$ 969</u>	<u>\$ 830</u>

**Table 11. Subsidy Rates for Direct Loans (percentage)**

FY 2009	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Ownership	4.37	1.70	-	0.28	6.35
Farm Operating	(1.26)	13.05	-	(0.01)	11.78
Indian Tribe Land Acquisition	0.06	6.23	-	-	6.29
Emergency Disaster	4.09	10.64	-	(0.51)	14.22
Boll Weevil Eradication	(1.65)	0.17	-	0.92	(0.56)
Farm Storage Facility Loan Program	(0.82)	7.20	(0.14)	-	6.24
Sugar Storage Facility Loan Program	(1.72)	0.64	-	-	(1.08)
Water and Waste Disposal Loans	13.41	1.64	-	(0.43)	14.62
Distance Learning and Telemedicine Loans	-	2.48	-	(0.02)	2.46
Broadband Treasury Loans	-	3.65	-	0.25	3.90
Electric Hardship Loans	(2.55)	0.99	-	(0.81)	(2.37)
FFB Electric Loans	(2.97)	0.70	-	-	(2.27)
Telecommunication Hardship Loans	(2.86)	1.02	-	0.07	(1.77)
FFB Telecommunications Loans	(1.47)	0.80	-	(0.27)	(0.94)
Treasury Telecommunication Loans	0.04	0.23	-	(0.06)	0.21
Community Facility Loans	1.27	4.77	-	(0.32)	5.72
Single-Family Housing Credit Sales	(10.36)	7.77	-	-	(2.59)
Multi-Family Housing Credit Sales	27.43	8.74	-	(0.05)	36.12
Section 502 Single-Family Housing	1.64	5.07	-	-	6.71
Section 504 Housing Repair	27.69	0.98	-	(1.80)	26.87
Section 515 Multi-Family Housing	39.73	1.58	-	(0.14)	41.17
Section 523 Self-Help Housing	1.65	-	-	-	1.65
Section 524 Site Development	(2.77)	0.93	-	-	(1.84)
Section 514 Farm Labor Housing	40.98	9.50	-	(8.35)	42.13
Multi-Family Housing Relending Program	44.98	-	-	-	44.98
Multi-Family Housing Revitalization Seconds	72.78	12.72	-	-	85.50
Multi-Family Housing Revitalization Zero	59.59	1.00	-	-	60.59
Intermediary Relending Program	42.09	0.40	-	(0.64)	41.85
Rural Economic Development Loans	21.49	0.21	-	(0.81)	20.89
Rural Microenterprise Loans	32.95	1.80	-	(0.72)	34.03



FY 2008	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Ownership	(6.72)	11.00	-	0.17	4.45
Farm Operating	(1.11)	13.94	-	(0.14)	12.69
Indian Tribe Land Acquisition	2.83	0.31	-	-	3.14
Emergency Disaster	6.72	5.24	-	(0.82)	11.14
Boll Weevil Eradication	(2.00)	1.45	-	0.28	(0.27)
Farm Storage Facility Loan Program	0.02	1.10	(0.11)	-	1.01
Sugar Storage Facility Loan Program	0.36	0.62	-	-	0.98
Water and Waste Disposal Loans	7.03	0.09	-	(0.31)	6.81
Distance Learning and Telemedicine Loans	-	2.15	-	(0.01)	2.14
Broadband Treasury Loans	-	2.17	-	(0.02)	2.15
Electric Hardship Loans	(0.03)	0.96	-	(0.81)	0.12
FFB Electric Loans	(1.37)	0.67	-	-	(0.70)
Telecommunication Hardship Loans	(0.96)	1.00	-	0.04	0.08
FFB Telecommunications Loans	(0.01)	0.85	-	(0.22)	0.62
Treasury Telecommunication Loans	-	0.64	-	0.03	0.67
Community Facility Loans	5.40	0.73	-	(0.58)	5.55
Single-Family Housing Credit Sales	(15.38)	7.85	-	6.38	(1.15)
Multi-Family Housing Credit Sales	(17.41)	5.41	-	49.15	37.15
Section 502 Single-Family Housing	(13.44)	5.73	-	17.09	9.38
Section 504 Housing Repair	29.14	0.94	-	(1.81)	28.27
Section 515 Multi-Family Housing	(17.92)	1.13	-	59.39	42.60
Section 523 Self-Help Housing	2.84	-	-	-	2.84
Section 524 Site Development	(1.71)	0.92	-	-	(0.79)
Section 514 Farm Labor Housing	44.45	8.93	-	(10.11)	43.27
Multi-Family Housing Relending Program	46.39	-	-	-	46.39
Intermediary Relending Program	43.53	-	-	(0.64)	42.89
Rural Economic Development Loans	23.15	0.21	-	(0.77)	22.59

**Table 12. Subsidy Rates for Loan Guarantees (percentage)**

FY 2009	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Guaranteed Loan Programs					
CCC Export Loan Guarantees Program	-	5.97	(1.06)	-	4.91
Farm Operating—Unsubsidized	-	3.49	(1.00)	-	2.49
Farm Operating—Subsidized	11.22	2.57	-	-	13.79
Farm Ownership—Unsubsidized	-	1.33	(1.00)	-	0.33
Water and Waste Disposal Loans	-	-	(0.82)	-	(0.82)
Community Facility Loans	-	3.95	(0.87)	-	3.08
Section 502 Single-Family Housing Purchase	-	3.27	(2.00)	-	1.27
Section 502 Single-Family Housing Refinance	-	1.48	(0.50)	-	0.98
Guaranteed 538 Multi-Family Housing	22.33	0.57	(7.22)	-	15.68
Business and Industry Loans	-	7.80	(3.44)	-	4.36
North American Development Bank Loans	-	13.51	(3.15)	-	10.36
Renewable Energy Loans	-	11.25	(1.55)	-	9.70
Section 9003 Loans	-	36.78	(5.85)	2.46	33.39



FY 2008	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
CCC Export Loan Guarantee Program	-	7.08	(4.74)	-	2.34
Farm Operating—Unsubsidized	-	3.32	(0.90)	-	2.42
Farm Operating—Subsidized	11.05	2.29	-	-	13.34
Farm Ownership—Unsubsidized	-	1.28	(0.88)	-	0.40
Water and Waste Disposal Loans	-	-	(0.82)	-	(0.82)
Community Facility Loans	-	4.54	(0.86)	-	3.68
Section 502 Single-Family Housing Purchase	-	3.20	(2.00)	-	1.20
Section 502 Single-Family Housing Refinance	-	1.31	(0.50)	-	0.81
538 Multi-Family Housing-Subsidized	16.91	0.42	(7.94)	-	9.39
Business and Industry Loans	-	7.33	(3.01)	-	4.32
NAD Bank Loans	-	10.84	(3.14)	-	7.70
Renewable Energy	-	11.97	(2.28)	-	9.69

### NOTE 8. INVENTORY AND RELATED PROPERTY, NET

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries and providing price support and stabilization. Commodity loan forfeitures during the fiscal years ended September 30, 2009 and 2008 were \$47 million and \$8 million, respectively.



	FY 2009		FY 2008	
		\$ -		\$ -
Inventories				
Commodities:	Volume (in millions)	Amount	Volume (in millions)	Amount
Corn (In Bushels):				
On hand at the beginning of the year	-	-	1	2
Acquired during the year	2	11	3	25
Disposed of during the year				
Sales	-	(2)	-	-
Donations	(2)	(9)	(3)	(25)
Other	-	-	(1)	(2)
On hand at the end of the year	-	-	-	-
Wheat (In Bushels):				
On hand at the beginning of the year	-	-	39	144
Acquired during the year	32	217	29	295
Disposed of during the year				
Sales	(25)	(176)	(56)	(124)
Donations	(7)	(44)	(6)	(295)
Other	-	3	(6)	(20)
On hand at the end of the year	-	-	-	-
Nonfat Dry Milk (In Pounds):				
On hand at the beginning of the year	-	-	14	13
Acquired during the year	270	220	-	-
Disposed of during the year				
Sales	(1)	(1)	(1)	(1)
Donations	(23)	(27)	(11)	(11)
Other	(22)	(8)	(2)	(1)
On hand at the end of the year	224	184	-	-
Other:				
On hand at the beginning of the year		15		25
Acquired during the year		3,653		879
Disposed of during the year				
Sales		(2,625)		(1)
Donations		(1,031)		(888)
Other		10		-
On hand at the end of the year		22		15
Allowance for losses		(1)		-
Total Commodities		205		15
Total Inventory and Related Property, Net		\$ 205		\$ 15

**NOTE 9. GENERAL PROPERTY, PLANT, AND EQUIPMENT, NET**

FY 2009		Useful		Accumulated	Net
Category	Life	Cost	Depreciation	Book	Value
	(Years)				
Land and Land Rights		\$ 76	\$ -	\$ 76	
Improvements to Land	10 - 50	707	(611)	96	
Construction-in-Progress		983	-	983	
Buildings, Improvements and Renovations	15 - 30	1,991	(1,269)	722	
Other Structures and Facilities	15 - 50	1,776	(1,346)	430	
Equipment	5 - 20	1,661	(1,330)	331	
Assets Under Capital Lease	3 - 20	76	(42)	34	
Leasehold Improvements	10	66	(44)	22	
Internal-Use Software	5 - 8	579	(441)	138	
Internal-Use Software in Development		137	(1)	136	
Other General Property, Plant and Equipment	5 - 15	4	-	4	
Total		<u>\$ 8,056</u>	<u>\$ (5,084)</u>	<u>\$ 2,972</u>	
FY 2008					
Category	Useful	Cost	Accumulated	Net	Book
	Life		Depreciation	Value	Value
	(Years)				
Land and Land Rights		\$ 76	\$ -	\$ 76	
Improvements to Land	10 - 50	697	(588)	109	
Construction-in-Progress		982	-	982	
Buildings, Improvements and Renovations	15 - 30	1,936	(1,214)	722	
Other Structures and Facilities	15 - 50	1,728	(1,296)	432	
Equipment	5 - 20	1,650	(1,325)	325	
Assets Under Capital Lease	3 - 20	143	(78)	65	
Leasehold Improvements	10	66	(42)	24	
Internal-Use Software	5 - 8	560	(376)	184	
Internal-Use Software in Development		51	(1)	50	
Other General Property, Plant and Equipment	5 - 15	4	-	4	
Total		<u>\$ 7,893</u>	<u>\$ (4,920)</u>	<u>\$ 2,973</u>	

**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 now considered as 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. This would 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 36 research 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 owns one research center, the Tucson Plant Material Center (TPMC). 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. 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. Although not technically additions—they already existed on NFS lands—they do represent an increased management responsibility commensurate with the spirit of “additions.”

## 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 objective in administering the conservation easement programs are to provide landowners financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animals communities, clean air, an adequate energy supply, and working farm and ranch land. NRCS's objective in managing, monitoring and enforcing the terms and conditions of the easement deed is to ensure that the taxpayers investments are properly used in accordance with the intent of the program, to ensure that the agency is a good steward of the land and to be a good neighbor to adjacent landowners. The uses for the land are identified under each program. Withdrawals from the program are not allowed. Stewardship resources involve a substantial investment by the NRCS for long-term benefits for the American public to help people help the land. The purchase of easements is to restore or enhance wetlands, protect farmland, restore and protect grassland, restore and protect forest ecosystems, and to restore, protect, maintain and enhance the functions of the floodplain.

**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 2009	Additions	Withdrawals	FY 2008
<b>Heritage Assets</b>				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Other Sites	135	113	-	22
Research Centers	37	-	-	37
Library Collections	1	-	-	1
<b>Total</b>	<u>348</u>	<u>113</u>	<u>-</u>	<u>235</u>
<b>Stewardship Land</b>				
National Forests	155	-	-	155
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
Conservation Easements	10,834	403	-	10,431
<b>Total</b>	<u>11,015</u>	<u>403</u>	<u>-</u>	<u>10,612</u>

## NOTE 11. OTHER ASSETS

In FY 2009 and FY 2008, other assets include investments in trust for loan asset sales of \$35 million and \$35 million, respectively.

	FY 2009	FY 2008
<b>Intragovernmental:</b>		
Advances to Others	\$ 4	\$ 5
<b>With the Public:</b>		
Advances to Others	148	216
Prepayments	-	-
Other Assets	37	37
<b>Total Other Assets</b>	<u>\$ 189</u>	<u>\$ 258</u>

## NOTE 12. LIABILITIES NOT COVERED BY BUDGETARY RESOURCES

In FY 2009 and FY 2008, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of \$169 million and \$164 million, contract disputes claims payable to Treasury's Judgment Fund of \$18 million and \$17 million, deposit funds and clearing accounts of \$38 million and \$4 million, and custodial of \$4 million and \$5 million, respectively.

In FY 2009 and FY 2008, other liabilities with the public not covered by budgetary resources include, Tobacco Transition Payment Program of \$4,705 million and \$5,302 million, future funded indemnity costs of \$339 million and \$2,145 million, accruals for rental payments under the Conservation Reserve Program (CRP) of \$1,735 million and \$1,776 million, unfunded leave of \$629 million and \$616 million, Payments to States \$443 million and \$531



million, contingent liabilities of \$20 million and \$29 million, and deposit funds and clearing accounts of \$17 million and \$12 million, respectively.

	FY 2009	FY 2008
Intragovernmental:		
Other	\$ 229	\$ 190
Subtotal Intragovernmental	<u>229</u>	<u>190</u>
With the Public:		
Federal employee and veterans' benefits	846	832
Environmental and disposal liabilities	9	18
Other	7,887	10,410
Subtotal With the Public	<u>8,742</u>	<u>11,260</u>
Total liabilities not covered by budgetary resources	8,971	11,450
Total liabilities covered by budgetary resources	116,753	109,522
Total Liabilities	<u>\$ 125,724</u>	<u>\$ 120,972</u>

### NOTE 13. DEBT

FY 2009	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	\$ 51,201	\$ 4,427	\$ 55,628
Debt to the Federal Financing Bank	26,376	2,115	28,491
Total Intragovernmental	<u>77,577</u>	<u>6,542</u>	<u>84,119</u>
Agency Debt:			
Held by the Public	-	-	-
Total Debt	<u>\$ 77,577</u>	<u>\$ 6,542</u>	<u>\$ 84,119</u>
FY 2008	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	\$ 49,197	\$ 2,004	\$ 51,201
Debt to the Federal Financing Bank	25,904	472	26,376
Total Intragovernmental	<u>75,101</u>	<u>2,476</u>	<u>77,577</u>
Agency Debt:			
Held by the Public	-	-	-
Total Debt	<u>\$ 75,101</u>	<u>\$ 2,476</u>	<u>\$ 77,577</u>



## 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 2009, the FS and CCC estimate the liability for total cleanup costs for sites known to contain hazardous waste to be \$1 million and \$8 million respectively, \$18 million for FS and \$7 million for CCC in FY 2008, 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 2009, other liabilities with the public include estimated losses on crop insurance claims of \$2,865 million, estimated underwriting gains on crop insurance of \$2,194 million, crop insurance premium subsidy deficiency reserve of \$839 million, Payments to States of \$443 million, estimated program delivery cost to reinsurer of \$13 million, loans paid in advance for multi-family housing of \$9 million, undistributed credits for insured loans of \$4 million, credit reform programs of \$7 million, and purchaser road credits of \$1 million.

In FY 2008, other liabilities with the public include estimated losses on crop insurance claims of \$3,881 million, estimated underwriting gains on crop insurance of \$2,491 million, crop insurance premium subsidy deficiency reserve of \$887 million, Payments to States of \$531 million, estimated program delivery cost to reinsurer of \$31 million, loans paid in advance for multi-family housing of \$9 million, undistributed credits for insured loans of \$2 million, credit reform programs of \$10 million, and purchaser road credits of \$1 million.

FY 2009	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	\$ 18	\$ 31	\$ 49
Employer Contributions and Payroll Taxes	-	86	86
Unfunded FECA Liability	-	169	169
Other Unfunded Employment Related Liability	-	17	17
Advances from Others	-	37	37
Liability for Deposit Funds, Clearing Accounts	-	9	9
Liability for Subsidy Related to Undisbursed Loans	-	564	564
Resources Payable to Treasury	-	10,799	10,799
Custodial Liability	-	44	44
Subtotal Intragovernmental	<u>18</u>	<u>11,756</u>	<u>11,774</u>
With the Public:			
Other Accrued Liabilities	-	13,930	13,930
Accrued Funded Payroll and Leave	-	239	239
Unfunded Leave	-	629	629
Advances from Others	-	51	51
Deferred Credits	-	613	613
Liability for Deposit Funds, Clearing Accounts	-	127	127
Contingent Liabilities	16	1,254	1,270
Capital Lease Liability	25	15	40
Custodial Liability	-	(1)	(1)
Other Liabilities	21	6,355	6,376
Subtotal With the Public	<u>62</u>	<u>23,212</u>	<u>23,274</u>
Total Other Liabilities	<u>\$ 80</u>	<u>\$ 34,968</u>	<u>\$ 35,048</u>

FY 2008	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental:			
Other Accrued Liabilities	\$ 17	\$ 126	\$ 143
Employer Contributions and Payroll Taxes	-	75	75
Unfunded FECA Liability	-	164	164
Advances from Others	-	12	12
Liability for Deposit Funds, Clearing Accounts	-	(15)	(15)
Liability for Subsidy Related to Undisbursed Loans	-	525	525
Resources Payable to Treasury	-	12,702	12,702
Custodial Liability	-	72	72
Other Liabilities	-	-	-
Subtotal Intragovernmental	<u>17</u>	<u>13,661</u>	<u>13,678</u>
With the Public:			
Other Accrued Liabilities	-	14,070	14,070
Accrued Funded Payroll and Leave	-	201	201
Unfunded Leave	-	616	616
Advances from Others	-	52	52
Deferred Credits	-	645	645
Liability for Deposit Funds, Clearing Accounts	-	285	285
Contingent Liabilities	14	115	129
Capital Lease Liability	28	37	65
Custodial Liability	-	2	2
Other Liabilities	20	7,823	7,843
Subtotal With the Public	<u>62</u>	<u>23,846</u>	<u>23,908</u>
Total Other Liabilities	<u>\$ 79</u>	<u>\$ 37,507</u>	<u>\$ 37,586</u>



## 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 \$63.4 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 2009

### Capital Leases:

#### Summary of Assets Under Capital Leases

Land and Building	\$	76
Machinery and Equipment		-
Accumulated Amortization		(42)

#### Future Payments Due:

	Land & Buildings
Fiscal Year	
2010	14
2011	13
2012	12
2013	11
2014	11
After 5 Years	44
Total Future Lease Payments	105
Less: Imputed Interest	44
Less: Executory Costs	21
Less: Lease Renewal Options	-
Net Capital Lease Liability	<u>40</u>

Lease liabilities covered by budgetary resources 40

### Operating Leases:

#### Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2010	117	1	-	118
2011	104	1	1	106
2012	93	-	1	94
2013	82	-	1	83
2014	76	-	1	77
After 5 Years	462	-	2	464
Total Future Lease Payments	<u>\$ 934</u>	<u>\$ 2</u>	<u>\$ 6</u>	<u>\$ 942</u>

FY 2008

## Capital Leases:

## Summary of Assets Under Capital Leases

Land and Building	\$	142
Machinery and Equipment		1
Accumulated Amortization		(78)

## Future Payments Due:

	Land & Buildings
Fiscal Year	
2009	22
2010	20
2011	19
2012	16
2013	13
After 5 Years	57
Total Future Lease Payments	147
Less: Imputed Interest	48
Less: Executory Costs	19
Less: Lease Renewal Options	15
Net Capital Lease Liability	65

Lease liabilities covered by budgetary resources	65
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## Operating Leases:

## Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2009	106	1	-	107
2010	94	1	-	95
2011	84	-	-	84
2012	73	-	-	73
2013	63	-	-	63
After 5 Years	426	-	-	426
Total Future Lease Payments	\$ 846	\$ 2	\$ -	\$ 848

## 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, \$1,270 million and \$129 million has been accrued in the financial statements as of September 30, 2009 and 2008, 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 \$47 million to \$241 million as of September 30, 2009, compared to \$50 million to \$260 million as of September 30, 2008.

CRP rental payments are estimated to be \$1,800 million annually through FY 2016. Commitments to extend loan guarantees are estimated to be \$6,066 million and \$3,846 million in FY 2009 and FY 2008, respectively.

## NOTE 18. EARMARKED FUNDS

Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by



statute to be used for designated activities, benefits or purposes and must be accounted for separately from the Government's general revenues.

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

## **Risk Management Agency**

### **Federal Crop Insurance Corporation Fund (FCIC)**

Resources for the FCIC Fund includes funds collected from the public for insurance premiums and other insurance related fees that are used with appropriations from Congress and unobligated balances from previous years to fund the Federal Crop Insurance Program. Funds are available under 7 U.S.C. 1501-1519.

## **Agricultural Marketing Service**

### **Funds for Strengthening Markets, Income, and Supply**

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

### **Expenses and Refunds, Inspection and Grading of Farm Products**

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

## **Animal Plant Health Inspection Service**

### **Agricultural Quarantine Inspection User Fee Account**

This fund is used to record and report expenditures and revenue associated with operating Agricultural Quarantine Inspection (AQI) activities at ports of entry. The Farm Bill of 1990, as amended by the Federal Agriculture Improvement and Reform Act of 1996, gave the Animal and Plant Health Inspection Service (APHIS) the authority to charge user fees for AQI services, and to use the revenue to fund AQI activities. In March of 2003, a portion of the AQI program was transferred to the Department of Homeland Security (DHS); however, APHIS retained the authority to collect AQI revenue. APHIS transfers a portion of the revenue to DHS periodically throughout the year to fund their expenditures. The revenue in the fund is collected from airlines, air passengers, vessels, trucks, and railroad cars that are subject to AQI inspection at ports of entry. These user fees are an inflow of revenue from the public that is used to fund AQI inspections that are required by APHIS and DHS. The authority is codified in 21 U.S.C. 136(a).

## **Forest Service**

### **Cooperative Work**

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the 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. 4601-4-11), 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).

**National Forest Fund Receipts**

The Federal Lands Recreation Enhancement Act (FLREA) (Public Law 108-447) sets forth provisions for collection of recreation fees and retention of special recreation permit fees by the FS. The FS deposits 85 percent of special use permit revenues from these authorizations into the National Forest Fund.



### **Restoration of Forest Lands and Improvements**

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) provides that 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 moneys received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

### **Acquisition of Lands to Complete Land Exchanges**

As authorized by 7 statutes, this program is funded annually by congressional appropriation action, with forest revenues generated by the occupancy of public land or from the sale of natural resources other than minerals. All funds appropriated that remain unobligated at the end of the fiscal year are returned to the receipts of the affected national forests. These funds are used to purchase land and for related expenditures such as title search, escrow, recording, and personnel costs when the purchase is considered necessary to minimize soil erosion and flood damage. This appropriation is available for land acquisition within the exterior boundaries of the national forests.

### **Cooperative State Research Education and Extension Service**

#### **Native American Institutions Endowment Fund**

The Native American Institutions Endowment Fund 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 Relief Trust Fund**

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 fund will be used to make payments to farmers and ranchers under five 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), and (5) Emergency Assistance for Livestock, Honey Bees, and Farm-Raised Fish Program (ELAP). The fund has 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**

Roads and Trails for States, National Forest Fund

Reforestation Trust Fund

Payments to Counties, National Grasslands

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

	RMA	AMS	AMS	APHIS	FS	FS	FS	FS
	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales
<b>Balance Sheet As of September 30, 2009</b>								
Fund Balance with Treasury	\$ 1,218	\$ 427	\$ 61	\$ 79	\$ 388	\$ 23	\$ 150	\$ 55
Investments	-	-	40	-	-	-	-	-
Other Assets	2,981	253	17	127	22	49	3	4
Total Assets	<u>4,199</u>	<u>680</u>	<u>118</u>	<u>206</u>	<u>410</u>	<u>72</u>	<u>153</u>	<u>59</u>
Other Liabilities	6,776	3	64	77	51	1	425	5
Total Liabilities	<u>6,776</u>	<u>3</u>	<u>64</u>	<u>77</u>	<u>51</u>	<u>1</u>	<u>425</u>	<u>5</u>
Unexpended Appropriations	897	302	-	-	-	-	-	-
Cumulative Results of Operations	<u>(3,474)</u>	<u>375</u>	<u>54</u>	<u>129</u>	<u>359</u>	<u>71</u>	<u>(272)</u>	<u>54</u>
Total Liabilities and Net Position	<u>4,199</u>	<u>680</u>	<u>118</u>	<u>206</u>	<u>410</u>	<u>72</u>	<u>153</u>	<u>59</u>
<b>Statement of Net Cost For the Period Ended September 30, 2009</b>								
Gross program costs	10,060	1,017	183	230	126	59	400	36
Less Earned Revenue	2,878	1	148	486	91	-	163	24
Net Cost of Operations	<u>7,182</u>	<u>1,016</u>	<u>35</u>	<u>(256)</u>	<u>35</u>	<u>59</u>	<u>237</u>	<u>12</u>
<b>Statement of Changes in Net Position For the period Ended September 30, 2009</b>								
Net Position Beginning of Period	(2,210)	680	53	220	263	80	(35)	66
Non-Exchange Revenue	6,815	1,013	1	(347)	131	50	-	-
Other Financing Sources	-	-	35	-	-	-	-	-
Net Cost of Operations	<u>(7,182)</u>	<u>(1,016)</u>	<u>(35)</u>	<u>256</u>	<u>(35)</u>	<u>(59)</u>	<u>(237)</u>	<u>(12)</u>
Change in net Position	<u>(367)</u>	<u>(3)</u>	<u>1</u>	<u>(91)</u>	<u>96</u>	<u>(9)</u>	<u>(237)</u>	<u>(12)</u>
Net Position End of Period	<u>\$ (2,577)</u>	<u>\$ 677</u>	<u>\$ 54</u>	<u>\$ 129</u>	<u>\$ 359</u>	<u>\$ 71</u>	<u>\$ (272)</u>	<u>\$ 54</u>

Earmarked Funds

	FS State, Private, and International Forestry, Land and Water Conservation Fund	FS Recreation Fee Demonstration Program	FS Restoration of Forest Lands and Improvements	FS Acquisition of Lands to Complete Land Exchanges	CSREES Native American Institutions Endowment Fund	FSA Agricultural Disaster Relief Trust Fund	Other	Total
<b>Balance Sheet As of September 30, 2009</b>								
Fund Balance with Treasury	\$ 106	\$ 129	\$ 150	\$ 43	\$ 20	\$ 1,533	\$ 314	\$ 4,696
Investments	-	-	-	-	105	-	10	155
Other Assets	6	4	26	33	-	-	32	3,557
Total Assets	<u>112</u>	<u>133</u>	<u>176</u>	<u>76</u>	<u>125</u>	<u>1,533</u>	<u>356</u>	<u>8,408</u>
Other Liabilities	32	5	1	1	-	2	51	7,494
Total Liabilities	<u>32</u>	<u>5</u>	<u>1</u>	<u>1</u>	<u>-</u>	<u>2</u>	<u>51</u>	<u>7,494</u>
Unexpended Appropriations	-	-	-	-	60	-	4	1,263
Cumulative Results of Operations	<u>80</u>	<u>128</u>	<u>175</u>	<u>75</u>	<u>65</u>	<u>1,531</u>	<u>301</u>	<u>(349)</u>
Total Liabilities and Net Position	<u>112</u>	<u>133</u>	<u>176</u>	<u>76</u>	<u>125</u>	<u>1,533</u>	<u>356</u>	<u>8,408</u>

**Statement of Net Cost For the Period  
Ended September 30, 2009**

Gross program costs	76	86	10	8	3	5	219	12,518
Less Earned Revenue	-	67	30	9	4	-	106	4,007
Net Cost of Operations	<u>76</u>	<u>19</u>	<u>(20)</u>	<u>(1)</u>	<u>(1)</u>	<u>5</u>	<u>113</u>	<u>8,511</u>

**Statement of Changes in Net Position  
For the period Ended September 30, 2009**

Net Position Beginning of Period	107	147	154	74	112	833	394	938
Non-Exchange Revenue	49	-	1	-	12	703	33	8,461
Other Financing Sources	-	-	-	-	-	-	(9)	26
Net Cost of Operations	(76)	(19)	20	1	1	(5)	(113)	(8,511)
Change in net Position	<u>(27)</u>	<u>(19)</u>	<u>21</u>	<u>1</u>	<u>13</u>	<u>698</u>	<u>(89)</u>	<u>(24)</u>
Net Position End of Period	<u>\$ 80</u>	<u>\$ 128</u>	<u>\$ 175</u>	<u>\$ 75</u>	<u>\$ 125</u>	<u>\$ 1,531</u>	<u>\$ 305</u>	<u>\$ 914</u>



Earmarked Funds

	RMA	AMS	AMS	APHIS	FS	FS	FS	FS	FS
	Federal Crop Insurance Corporation Fund	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales	State, Private, and International Forestry, Land and Water Conservation Fund
<b>Balance Sheet As of September 30, 2008</b>									
Fund Balance with Treasury	\$ 2,364	\$ 362	\$ 95	\$ 153	\$ 296	\$ 32	\$ 96	\$ 66	\$ 107
Investments	-	-	-	-	-	-	-	-	-
Other Assets	3,744	329	18	148	21	49	3	4	4
Total Assets	<u>6,108</u>	<u>691</u>	<u>113</u>	<u>301</u>	<u>317</u>	<u>81</u>	<u>99</u>	<u>70</u>	<u>111</u>
Other Liabilities	8,318	11	60	81	54	1	134	4	4
Total Liabilities	<u>8,318</u>	<u>11</u>	<u>60</u>	<u>81</u>	<u>54</u>	<u>1</u>	<u>134</u>	<u>4</u>	<u>4</u>
Unexpended Appropriations	944	302	-	130	-	-	-	-	1
Cumulative Results of Operations	<u>(3,154)</u>	<u>378</u>	<u>53</u>	<u>90</u>	<u>263</u>	<u>80</u>	<u>(35)</u>	<u>66</u>	<u>106</u>
Total Liabilities and Net Position	<u>6,108</u>	<u>691</u>	<u>113</u>	<u>301</u>	<u>317</u>	<u>81</u>	<u>99</u>	<u>70</u>	<u>111</u>
<b>Statement of Net Cost For the Period Ended September 30, 2008</b>									
Gross program costs	7,081	717	185	199	139	40	169	43	47
Less Earned Revenue	1,440	1	155	607	105	-	59	36	-
Net Cost of Operations	<u>5,641</u>	<u>716</u>	<u>30</u>	<u>(408)</u>	<u>34</u>	<u>40</u>	<u>110</u>	<u>7</u>	<u>47</u>
<b>Statement of Changes in Net Position For the period Ended September 30, 2008</b>									
Net Position Beginning of Period	(393)	854	25	132	301	66	75	73	100
Non-Exchange Revenue	3,824	542	25	(320)	(4)	54	-	-	54
Other Financing Sources	-	-	33	-	-	-	-	-	-
Net Cost of Operations	(5,641)	(716)	(30)	408	(34)	(40)	(110)	(7)	(47)
Change in net Position	<u>(1,817)</u>	<u>(174)</u>	<u>28</u>	<u>88</u>	<u>(38)</u>	<u>14</u>	<u>(110)</u>	<u>(7)</u>	<u>7</u>
Net Position End of Period	<u>\$ (2,210)</u>	<u>\$ 680</u>	<u>\$ 53</u>	<u>\$ 220</u>	<u>\$ 263</u>	<u>\$ 80</u>	<u>\$ (35)</u>	<u>\$ 66</u>	<u>\$ 107</u>

Earmarked Funds

	FS	FS	FS	FS	CSREES	FSA		
	Recreation Fee Demonstration Program	National Forest Fund Receipts	Restoration of Forest Lands and Improvements	Acquisition of Lands to Complete Land Exchanges	Native American Institutions Endowment Fund	Agricultural Disaster Relief Trust Fund	Other	Total
<b>Balance Sheet As of September 30, 2008</b>								
Fund Balance with Treasury	\$ 147	\$ 74	\$ 113	\$ 51	\$ 11	\$ 833	\$ 315	\$ 5,115
Investments	-	-	-	-	101	-	10	111
Other Assets	4	6	41	23	-	-	33	4,427
Total Assets	<u>151</u>	<u>80</u>	<u>154</u>	<u>74</u>	<u>112</u>	<u>833</u>	<u>358</u>	<u>9,653</u>
Other Liabilities	4	-	-	-	-	-	44	8,715
Total Liabilities	<u>4</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>44</u>	<u>8,715</u>
Unexpended Appropriations	-	-	-	-	48	-	3	1,428
Cumulative Results of Operations	<u>147</u>	<u>80</u>	<u>154</u>	<u>74</u>	<u>64</u>	<u>833</u>	<u>311</u>	<u>(490)</u>
Total Liabilities and Net Position	<u>151</u>	<u>80</u>	<u>154</u>	<u>74</u>	<u>112</u>	<u>833</u>	<u>358</u>	<u>9,653</u>

**Statement of Net Cost For the Period  
Ended September 30, 2008**

Gross program costs	65	-	5	10	2	-	237	8,939
Less Earned Revenue	<u>61</u>	<u>34</u>	<u>108</u>	<u>20</u>	<u>4</u>	<u>-</u>	<u>167</u>	<u>2,797</u>
Net Cost of Operations	<u>4</u>	<u>(34)</u>	<u>(103)</u>	<u>(10)</u>	<u>(2)</u>	<u>-</u>	<u>70</u>	<u>6,142</u>

**Statement of Changes in Net Position  
For the period Ended September 30, 2008**

Net Position Beginning of Period	151	48	51	64	98	-	257	1,902
Non-Exchange Revenue	-	-	-	-	12	833	60	5,080
Other Financing Sources	-	(2)	-	-	-	-	67	98
Net Cost of Operations	<u>(4)</u>	<u>34</u>	<u>103</u>	<u>10</u>	<u>2</u>	<u>-</u>	<u>(70)</u>	<u>(6,142)</u>
Change in net Position	<u>(4)</u>	<u>32</u>	<u>103</u>	<u>10</u>	<u>14</u>	<u>833</u>	<u>57</u>	<u>(964)</u>
Net Position End of Period	<u>\$ 147</u>	<u>\$ 80</u>	<u>\$ 154</u>	<u>\$ 74</u>	<u>\$ 112</u>	<u>\$ 833</u>	<u>\$ 314</u>	<u>\$ 938</u>

**NOTE 19. SUBORGANIZATION PROGRAM COSTS/PROGRAM COSTS BY SEGMENT**

FY 2009	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ 136	\$ 1,612	\$ 104	\$ 287
Less: Earned Revenue	-	-	192	112	130	-
Net Costs	-	-	(56)	1,500	(26)	287
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	1,007	2,200	1,095	11,757	-	-
Less: Earned Revenue	244	249	2	2,361	-	-
Net Costs	763	1,951	1,093	9,396	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	399	1,825	-	-
Less: Earned Revenue	-	-	-	1	-	-
Net Costs	-	-	399	1,824	-	-
<b>Total Gross Costs</b>	<b>1,007</b>	<b>2,200</b>	<b>1,630</b>	<b>15,194</b>	<b>104</b>	<b>287</b>
<b>Less: Total Earned Revenue</b>	<b>244</b>	<b>249</b>	<b>194</b>	<b>2,474</b>	<b>130</b>	<b>-</b>
<b>Net Cost of Operations</b>	<b>\$ 763</b>	<b>\$ 1,951</b>	<b>\$ 1,436</b>	<b>\$ 12,720</b>	<b>\$ (26)</b>	<b>\$ 287</b>

USDA: Managing for Results In Performing Its Many Vital Public Functions

FY 2009	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	67	10,082	-	-	-	-
Less: Earned Revenue	-	2,878	-	-	-	-
Net Costs	67	7,204	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	354	875
Less: Earned Revenue	-	-	-	-	3	140
Net Costs	-	-	-	-	351	735
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	1,097	78,332	-	-
Less: Earned Revenue	-	-	2	40	-	-
Net Costs	-	-	1,095	78,292	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	67	10,082	1,097	78,332	354	875
<b>Less: Total Earned Revenue</b>	-	2,878	2	40	3	140
<b>Net Cost of Operations</b>	<u>\$ 67</u>	<u>\$ 7,204</u>	<u>\$ 1,095</u>	<u>\$ 78,292</u>	<u>\$ 351</u>	<u>\$ 735</u>

FY 2009

	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 20
Less: Earned Revenue	-	-	-	-	-	18
Net Costs	-	-	-	-	13	2
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	140	1,210	-	-	19	44
Less: Earned Revenue	2	190	-	-	-	23
Net Costs	138	1,020	-	-	19	21
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	387	1,021	-	-
Less: Earned Revenue	-	-	31	584	-	-
Net Costs	-	-	356	437	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	140	1,210	387	1,021	32	64
<b>Less: Total Earned Revenue</b>	2	190	31	584	-	41
<b>Net Cost of Operations</b>	<b>\$ 138</b>	<b>\$ 1,020</b>	<b>\$ 356</b>	<b>\$ 437</b>	<b>\$ 32</b>	<b>\$ 23</b>

FY 2009

	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	-	-	-	-	102	404
Less: Earned Revenue	-	-	-	-	32	16
Net Costs	-	-	-	-	70	388
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	100	395
Less: Earned Revenue	-	-	-	-	31	15
Net Costs	-	-	-	-	69	380
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	21	85
Less: Earned Revenue	-	-	-	-	7	3
Net Costs	-	-	-	-	14	82
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	1,251	5,338	549	2,426	57	229
Less: Earned Revenue	128	551	95	10	19	10
Net Costs	1,123	4,787	454	2,416	38	219
<b>Total Gross Costs</b>	1,251	5,338	549	2,426	280	1,113
<b>Less: Total Earned Revenue</b>	128	551	95	10	89	44
<b>Net Cost of Operations</b>	<b>\$ 1,123</b>	<b>\$ 4,787</b>	<b>\$ 454</b>	<b>\$ 2,416</b>	<b>\$ 191</b>	<b>\$ 1,069</b>



FY 2009

	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ 6	\$ 7	\$ 10	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	6	7	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	14	416	15	21	41	99
Less: Earned Revenue	17	-	-	-	15	2
Net Costs	(3)	416	15	21	26	97
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	6	198	3	4	13	31
Less: Earned Revenue	8	-	-	-	5	1
Net Costs	(2)	198	3	4	8	30
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	7	220	2	2	1	2
Less: Earned Revenue	9	-	-	-	-	-
Net Costs	(2)	220	2	2	1	2
Improve the Nation's Nutrition and Health:						
Gross Costs	5	148	10	14	-	-
Less: Earned Revenue	6	-	-	-	-	-
Net Costs	(1)	148	10	14	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	6	194	4	5	1	3
Less: Earned Revenue	8	-	-	-	-	-
Net Costs	(2)	194	4	5	1	3
<b>Total Gross Costs</b>	38	1,182	41	56	56	135
<b>Less: Total Earned Revenue</b>	48	-	-	-	20	3
<b>Net Cost of Operations</b>	<b>\$ (10)</b>	<b>\$ 1,182</b>	<b>\$ 41</b>	<b>\$ 56</b>	<b>\$ 36</b>	<b>\$ 132</b>

USDA: Managing for Results In Performing Its Many Vital Public Functions

FY 2009

	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ 14	\$ 22	\$ 274	\$ 1,957
Less: Earned Revenue	-	-	21	-	343	130
Net Costs	-	-	(7)	22	(69)	1,827
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	-	-	125	209	2,625	26,442
Less: Earned Revenue	-	-	196	2	508	5,721
Net Costs	-	-	(71)	207	2,117	20,721
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	4,069	2,707	63	107	4,154	3,047
Less: Earned Revenue	471	3,320	100	1	584	3,322
Net Costs	3,598	(613)	(37)	106	3,570	(275)
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	107	178	958	2,693
Less: Earned Revenue	-	-	167	2	241	741
Net Costs	-	-	(60)	176	717	1,952
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	59	99	1,192	78,678
Less: Earned Revenue	-	-	93	1	108	44
Net Costs	-	-	(34)	98	1,084	78,634
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	114	189	2,381	10,209
Less: Earned Revenue	-	-	177	2	427	574
Net Costs	-	-	(63)	187	1,954	9,635
<b>Total Gross Costs</b>	4,069	2,707	482	804	11,584	123,026
<b>Less: Total Earned Revenue</b>	471	3,320	754	8	2,211	10,532
<b>Net Cost of Operations</b>	<b>\$ 3,598</b>	<b>\$ (613)</b>	<b>\$ (272)</b>	<b>\$ 796</b>	<b>\$ 9,373</b>	<b>\$ 112,494</b>

FY 2009	<u>Intradepartmental Eliminations</u>	<u>GRAND TOTAL</u>
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Costs	\$ (452)	\$ 1,779
Less: Earned Revenue	(56)	417
Net Costs	<u>(396)</u>	<u>1,362</u>
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Costs	(1,081)	27,986
Less: Earned Revenue	(359)	5,870
Net Costs	<u>(722)</u>	<u>22,116</u>
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	(172)	7,029
Less: Earned Revenue	(110)	3,796
Net Costs	<u>(62)</u>	<u>3,233</u>
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	(242)	3,409
Less: Earned Revenue	(185)	797
Net Costs	<u>(57)</u>	<u>2,612</u>
Improve the Nation's Nutrition and Health:		
Gross Costs	(1,052)	78,818
Less: Earned Revenue	(91)	61
Net Costs	<u>(961)</u>	<u>78,757</u>
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	(860)	11,730
Less: Earned Revenue	(259)	742
Net Costs	<u>(601)</u>	<u>10,988</u>
<b>Total Gross Costs</b>	(3,859)	130,751
<b>Less: Total Earned Revenue</b>	(1,060)	11,683
<b>Net Cost of Operations</b>	<u>\$ (2,799)</u>	<u>\$ 119,068</u>

FY 2008

	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ 176	\$ 1,892	\$ 95	\$ 328
Less: Earned Revenue	-	-	71	347	99	-
Net Costs	-	-	105	1,545	(4)	328
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	953	3,434	1,339	7,254	-	-
Less: Earned Revenue	213	578	16	1,394	-	-
Net Costs	740	2,856	1,323	5,860	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	236	1,889	-	-
Less: Earned Revenue	-	-	-	2	-	-
Net Costs	-	-	236	1,887	-	-
<b>Total Gross Costs</b>	953	3,434	1,751	11,035	95	328
<b>Less: Total Earned Revenue</b>	213	578	87	1,743	99	-
<b>Net Cost of Operations</b>	<b>\$ 740</b>	<b>\$ 2,856</b>	<b>\$ 1,664</b>	<b>\$ 9,292</b>	<b>\$ (4)</b>	<b>\$ 328</b>

FY 2008

	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	53	7,124	-	-	-	-
Less: Earned Revenue	-	1,440	-	-	-	-
Net Costs	53	5,684	-	-	-	-
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	340	864
Less: Earned Revenue	-	-	-	-	4	162
Net Costs	-	-	-	-	336	702
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	815	59,735	-	-
Less: Earned Revenue	-	-	1	27	-	-
Net Costs	-	-	814	59,708	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	53	7,124	815	59,735	340	864
<b>Less: Total Earned Revenue</b>	-	1,440	1	27	4	162
<b>Net Cost of Operations</b>	<b>\$ 53</b>	<b>\$ 5,684</b>	<b>\$ 814</b>	<b>\$ 59,708</b>	<b>\$ 336</b>	<b>\$ 702</b>

FY 2008

	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ 13	\$ 19
Less: Earned Revenue	-	-	-	-	-	20
Net Costs	-	-	-	-	13	(1)
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	122	934	-	-	18	43
Less: Earned Revenue	7	212	-	-	-	26
Net Costs	115	722	-	-	18	17
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	361	1,094	-	-
Less: Earned Revenue	-	-	28	703	-	-
Net Costs	-	-	333	391	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	122	934	361	1,094	31	62
<b>Less: Total Earned Revenue</b>	7	212	28	703	-	46
<b>Net Cost of Operations</b>	<u>\$ 115</u>	<u>\$ 722</u>	<u>\$ 333</u>	<u>\$ 391</u>	<u>\$ 31</u>	<u>\$ 16</u>

FY 2008

	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	-	-	-	-	102	398
Less: Earned Revenue	-	-	-	-	27	13
Net Costs	-	-	-	-	75	385
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	-	-	100	390
Less: Earned Revenue	-	-	-	-	26	11
Net Costs	-	-	-	-	74	379
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	-	-	22	84
Less: Earned Revenue	-	-	-	-	6	2
Net Costs	-	-	-	-	16	82
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	1,223	5,487	562	2,615	58	227
Less: Earned Revenue	250	616	74	73	15	7
Net Costs	973	4,871	488	2,542	43	220
<b>Total Gross Costs</b>	1,223	5,487	562	2,615	282	1,099
<b>Less: Total Earned Revenue</b>	250	616	74	73	74	33
<b>Net Cost of Operations</b>	<u>\$ 973</u>	<u>\$ 4,871</u>	<u>\$ 488</u>	<u>\$ 2,542</u>	<u>\$ 208</u>	<u>\$ 1,066</u>



FY 2008

	CSREES		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ 5	\$ 8	\$ 10	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	5	8	10	-	-
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	13	306	16	20	46	91
Less: Earned Revenue	16	-	1	-	9	2
Net Costs	(3)	306	15	20	37	89
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	6	142	3	4	22	44
Less: Earned Revenue	7	-	-	-	5	1
Net Costs	(1)	142	3	4	17	43
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	7	163	2	2	-	-
Less: Earned Revenue	9	-	-	-	-	-
Net Costs	(2)	163	2	2	-	-
Improve the Nation's Nutrition and Health:						
Gross Costs	5	108	9	12	-	-
Less: Earned Revenue	6	-	-	-	-	-
Net Costs	(1)	108	9	12	-	-
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	6	140	4	6	-	1
Less: Earned Revenue	7	-	-	-	-	-
Net Costs	(1)	140	4	6	-	1
<b>Total Gross Costs</b>	37	864	42	54	68	136
<b>Less: Total Earned Revenue</b>	45	-	1	-	14	3
<b>Net Cost of Operations</b>	<b>\$ (8)</b>	<b>\$ 864</b>	<b>\$ 41</b>	<b>\$ 54</b>	<b>\$ 54</b>	<b>\$ 133</b>

USDA: Managing for Results In Performing Its Many Vital Public Functions

FY 2008

	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:						
Gross Costs	\$ -	\$ -	\$ 12	\$ 20	\$ 304	\$ 2,274
Less: Earned Revenue	-	-	18	-	188	367
Net Costs	-	-	(6)	20	116	1,907
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:						
Gross Costs	-	-	125	210	2,787	19,814
Less: Earned Revenue	-	-	187	2	476	3,667
Net Costs	-	-	(62)	208	2,311	16,147
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:						
Gross Costs	3,858	4,358	67	111	3,956	4,659
Less: Earned Revenue	360	4,183	99	1	471	4,185
Net Costs	3,498	175	(32)	110	3,485	474
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:						
Gross Costs	-	-	107	179	917	2,692
Less: Earned Revenue	-	-	160	2	227	878
Net Costs	-	-	(53)	177	690	1,814
Improve the Nation's Nutrition and Health:						
Gross Costs	-	-	61	103	912	60,042
Less: Earned Revenue	-	-	92	1	105	30
Net Costs	-	-	(31)	102	807	60,012
Protect and Enhance the Nation's Natural Resource Base and Environment:						
Gross Costs	-	-	111	184	2,200	10,549
Less: Earned Revenue	-	-	165	2	511	700
Net Costs	-	-	(54)	182	1,689	9,849
<b>Total Gross Costs</b>	3,858	4,358	483	807	11,076	100,030
<b>Less: Total Earned Revenue</b>	360	4,183	721	8	1,978	9,827
<b>Net Cost of Operations</b>	<u>\$ 3,498</u>	<u>\$ 175</u>	<u>\$ (238)</u>	<u>\$ 799</u>	<u>\$ 9,098</u>	<u>\$ 90,203</u>

FY 2008	<u>Intradepartmental Eliminations</u>	<u>GRAND TOTAL</u>
Enhance International Competitiveness and the Sustainability of Rural and Farm Economies:		
Gross Costs	\$ (94)	\$ 2,484
Less: Earned Revenue	(100)	455
Net Costs	<u>6</u>	<u>2,029</u>
Enhance the Competitiveness and Sustainability of Rural and Farm Economies:		
Gross Costs	(1,606)	20,995
Less: Earned Revenue	(307)	3,836
Net Costs	<u>(1,299)</u>	<u>17,159</u>
Support Increased Economic Opportunities and Improved Quality of Life in Rural America:		
Gross Costs	(189)	8,426
Less: Earned Revenue	(109)	4,547
Net Costs	<u>(80)</u>	<u>3,879</u>
Enhance Protection and Safety of the Nation's Agriculture and Food Supply:		
Gross Costs	(235)	3,374
Less: Earned Revenue	(170)	935
Net Costs	<u>(65)</u>	<u>2,439</u>
Improve the Nation's Nutrition and Health:		
Gross Costs	(773)	60,181
Less: Earned Revenue	(86)	49
Net Costs	<u>(687)</u>	<u>60,132</u>
Protect and Enhance the Nation's Natural Resource Base and Environment:		
Gross Costs	(644)	12,105
Less: Earned Revenue	(201)	1,010
Net Costs	<u>(443)</u>	<u>11,095</u>
<b>Total Gross Costs</b>	(3,541)	107,565
<b>Less: Total Earned Revenue</b>	(973)	10,832
<b>Net Cost of Operations</b>	<u>\$ (2,568)</u>	<u>\$ 96,733</u>

**NOTE 20. COST OF STEWARDSHIP PP&E**

The acquisition cost of stewardship land in FY 2009 and FY 2008 was \$168 million and \$228 million, respectively.

**NOTE 21. APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED**

	Direct	Reimbursable	Total
FY 2009			
Apportionment by Fiscal Quarter	\$ 38,698	\$ 2,310	\$ 41,008
Apportionment for Special Activities	103,216	25,331	128,547
Exempt from Apportionment	952	1	953
Total Obligations Incurred	<u>\$ 142,866</u>	<u>\$ 27,642</u>	<u>\$ 170,508</u>
FY 2008			
Apportionment by Fiscal Quarter	\$ 34,940	\$ 2,482	\$ 37,422
Apportionment for Special Activities	78,820	22,360	101,180
Exempt from Apportionment	754	1	755
Total Obligations Incurred	<u>\$ 114,514</u>	<u>\$ 24,843</u>	<u>\$ 139,357</u>

**NOTE 22. AVAILABLE BORROWING AUTHORITY, END OF PERIOD**

Available borrowing authority at September 30, 2009 and 2008 was \$32,508 million and \$29,439 million, respectively.

**NOTE 23. TERMS OF BORROWING AUTHORITY USED**

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

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

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



FFB's CBO's are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

Prepayments can be made on Treasury borrowings without a penalty; however, they cannot be made on FFB CBO's, without a penalty.

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

#### **NOTE 24. PERMANENT INDEFINITE APPROPRIATIONS**

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

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

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

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

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

#### **NOTE 25. LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES**

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

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

**NOTE 26. DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT**

The differences between the FY 2008 Statement of Budgetary Resources and the FY 2008 actual numbers presented in the FY 2010 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations. Adjustments were made subsequent to the Budget submission as follows:

CCC zeroed out the balance in its Export Guarantee Program, Negative Subsidies account for FACTS II reporting.

The Budget includes the Milk Market Orders Assessment Fund since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available for use by the Department.

Other items are mainly due to rounding.

A comparison between the FY 2009 Statement of Budgetary Resources and the FY 2009 actual numbers presented in the FY 2011 Budget cannot be performed as the FY 2011 Budget is not yet available. The FY 2011 Budget is expected to be published in February 2010 and will be available from the Government Printing Office.

FY 2008	Budgetary Resources	Obligations incurred	Distributed offsetting receipts	Net Outlays
Combined Statement of Budgetary Resources	\$ 172,749	\$ 139,357	\$ 2,242	\$ 98,424
Reconciling items:				
Expired accounts	(14,146)	(1,625)	-	-
CCC export guarantee program negative subsidies	(91)	(91)	-	91
Milk Market Orders Fund	51	51	-	-
Other	(23)	2	(2)	5
Budget of the United States Government	<u>\$ 158,540</u>	<u>\$ 137,694</u>	<u>\$ 2,240</u>	<u>\$ 98,520</u>

**NOTE 27. UNDELIVERED ORDERS AT THE END OF THE PERIOD**

Budgetary resources obligated for undelivered orders as of September 30, 2009 and 2008 was \$44,332 million and \$37,794 million, respectively.



## NOTE 28. INCIDENTAL CUSTODIAL COLLECTIONS

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

Revenue Activity:	FY 2009	FY 2008
Sources of Collections:		
Miscellaneous	\$ 86	\$ 83
Total Cash Collections	86	83
Accrual Adjustments	(4)	-
Total Custodial Revenue	82	83
Disposition of Collections:		
Transferred to Others:		
Treasury	(85)	(15)
( Increase )/Decrease in Amounts Yet to be Transferred	3	(68)
Net Custodial Activity	\$ -	\$ -



## NOTE 29. FIDUCIARY ACTIVITIES

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

Schedule of Fiduciary Activity  
For the year ended September 30, 2009

	Rural Housing Insurance Fund
Fiduciary net assets, beginning of year	\$ 95
Fiduciary revenues	-
Contributions	433
Investment earnings	-
Gain (Loss) on disposition of investments, net	-
Administrative and other expenses	-
Disbursements to and on behalf of beneficiaries	(431)
Increases/(Decrease) in fiduciary net assets	2
Fiduciary net assets, end of year	<u>\$ 97</u>

Fiduciary Net Assets  
As of September 30, 2009

	Rural Housing Insurance Fund
Fiduciary Assets	
Cash and cash equivalents	\$ 8
Investments	89
Other assets	-
Fiduciary Liabilities	
Less: Liabilities	-
Total Fiduciary Net Assets	<u>\$ 97</u>

## NOTE 30. 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.

	<u>2009</u>	<u>2008</u>
<b>Resources Used to Finance Activities:</b>		
Budgetary Resources Obligated -		
Obligations Incurred	\$ 170,508	\$ 139,357
Less: Spending authority from offsetting collections and recoveries	<u>38,245</u>	<u>38,542</u>
Obligations net of offsetting collections and recoveries	132,263	100,815
Less: Distributed Offsetting receipts	<u>3,574</u>	<u>2,242</u>
Net Obligations	<u>128,689</u>	<u>98,573</u>
Other Resources -		
Transfers in(out) without reimbursement	(562)	(391)
Imputed financing from costs absorbed by others	1,033	907
Other	<u>(863)</u>	<u>52</u>
Net other resources used to finance activities	<u>(392)</u>	<u>568</u>
<b>Total resources used to finance activities</b>	<b>128,297</b>	<b>99,141</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>		
Change in undelivered orders	(6,538)	(1,926)
Resources that fund expenses recognized in prior periods	(4,692)	(144)
Budgetary offsetting collections and receipts that do not affect net cost of operations -		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	13,145	13,357
Change in Unfilled Customer Orders	286	77
Decrease in exchange revenue receivable from public	6,697	7,625
Other	2,111	1,024
Resources that finance the acquisition of assets	(26,597)	(24,997)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>359</u>	<u>(194)</u>
Total resources used to finance items not part of the net cost of operations	<u>(15,229)</u>	<u>(5,178)</u>
<b>Total resources used to finance the net cost of operations</b>	<b>113,068</b>	<b>93,963</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>		
Components Requiring or Generating Resources in Future Periods -		
Increase in annual leave liability	12	25
Increase in environmental and disposal liability	-	-
Upward/Downward reestimates of credit subsidy expense	1,928	608
Increase in exchange revenue receivable from the public	-	-
Other	<u>997</u>	<u>1,633</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>2,937</u>	<u>2,266</u>
Components not Requiring or Generating Resources -		
Depreciation and amortization	223	408
Revaluation of assets or liabilities	27	(134)
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(1,226)	(753)
Cost of Goods Sold	2,803	1,047
Other	<u>1,236</u>	<u>(64)</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>3,063</u>	<u>504</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<b>6,000</b>	<b>2,770</b>
<b>Net Cost of Operations</b>	<b><u>\$ 119,068</u></b>	<b><u>\$ 96,733</u></b>

## Required Supplementary Stewardship Information

### STEWARDSHIP INVESTMENTS (UNAUDITED)

	FY 2009 Expense	FY 2008 Expense	FY 2007 Expense	FY 2006 Expense	FY 2005 Expense
<b>Non-Federal Physical Property:</b>					
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	\$ 55	\$ 32	\$ 20	\$ 21	\$ 22
Special Supplemental Nutrition Program	15	10	15	12	17
Cooperative State Research, Education, and Extension Service					
Extension 1890 Facilities Program	17	17	17	17	17
Total Non-Federal Property	<u>\$ 87</u>	<u>\$ 59</u>	<u>\$ 52</u>	<u>\$ 50</u>	<u>\$ 56</u>
<b>Human Capital:</b>					
Cooperative State Research, Education, and Extension Service					
Higher Education and Extension Programs	\$ 547	\$ 521	\$ 524	\$ 525	\$ 507
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	19	36	51	66	49
Agricultural Research Service					
National Agricultural Library	23	22	22	22	21
Risk Management Agency					
Risk Management Education	6	10	11	10	10
Natural Resources Conservation Service					
Technical Service Providers	47	37	42	53	48
Agricultural Conservation Enrollees/Seniors	1	4	3	4	-
Total Human Capital	<u>\$ 643</u>	<u>\$ 630</u>	<u>\$ 653</u>	<u>\$ 680</u>	<u>\$ 635</u>
<b>Research and Development:</b>					
Agricultural Research Service					
Human Nutrition	85	85	86	85	84
Collaborative Research Program	3	4	3	7	6
Product Quality/Value Added	108	105	106	107	105
Livestock Production	86	85	85	85	84
Crop Production	204	201	202	201	197
Food Safety	106	104	105	105	103
Livestock Protection	83	82	83	90	78
Crop Protection	201	196	198	199	193
Environmental Stewardship	225	223	224	223	219
Cooperative State Research, Education, and Extension Service					
Land-grant University System	691	663	661	661	645
Forest Service	323	304	261	318	295
Economic Research Service					
Economic and Social Science	79	77	75	75	74
National Agricultural Statistics Service					
Statistical	8	8	6	5	5
Total Research and Development	<u>\$ 2,202</u>	<u>\$ 2,137</u>	<u>\$ 2,095</u>	<u>\$ 2,161</u>	<u>\$ 2,088</u>

### 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.

#### Cooperative State Research, Education and Extension Service

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities that permit faculty, students, and communities to benefit fully from the partnership between USDA and the historically African-American land-grant universities.



## **Human Capital**

### **Cooperative State Research, Education and Extension Service**

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, a resident instruction grant program for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. CSREES also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs. CSREES supported the Outreach and Assistance for Disadvantaged Farmers Program for the first time in fiscal 2003. The purpose is to enhance the ability of minority and small farmers and ranchers to operate farming or ranching enterprises independently to assure adequate income and maintain reasonable lifestyles.

### **Food and Nutrition Service**

FNS' human capital consists of employment and training (E&T) for the 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 955,329 work registrants subject to the 3 - month SNAP participant limit and 1,706,182 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

### **Agricultural Research Service**

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of over 3.5 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

### **Risk Management Agency**

In response to the Secretary's 1996 Risk Management Education (RME) initiative, and as mandated by the Federal Agricultural Improvement and Reform Act of 1996, the FCIC has formed new partnerships with the CSREES, the Commodity Futures Trading Commission, the USDA National Office of Outreach, Economic Research Service, and private industry to leverage the federal government's funding of its RME program by using both public and private organizations to help educate their members in agricultural risk management. The RME effort was launched in 1997 with a Risk Management Education Summit that raised awareness of the tools and resources needed by farmers and ranchers to manage their risks. RMA has built on this foundation since 2003 by expanding State and Regional education partnerships; encouraging the development of information and technology decision aids; supporting the National Future Farmers of America (FFA) foundation with an annual essay contest; facilitating local training workshops; and supporting Cooperative Agreements with Educational and outreach organizations.

During fiscal years 2009 and 2008, 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 20,000 and 49,000 in fiscal years 2009 and 2008, 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 \$6 million for fiscal year 2009 and \$10 million for fiscal year 2008. The following table summarizes the RME initiatives since fiscal year 2005:

(dollars in millions)	2009	2008	2007	2006	2005
RME Obligations	\$ 6	10	11	10	9.4
Number of producers attending RME sessions	20,000	49,000	49,000	48,000	47,000

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.

**Natural Resources Conservation Service**

The Agency’s investment in human capital is expensed each year and is primarily for education and training programs intended to (1) increase or maintain national economic productive capacity and (2) produce outputs and outcomes that provide evidence of maintaining or increasing national productive capacity.

As the Nation’s conservation agenda continues to become more complex, the need for technical information and advice will increasingly exceed the capacity of the Federal workforce to respond timely. NRCS is expanding the capacity of its workforce through three strategies:

1. Relying on the non-Federal entities to provide technical assistance to participants in NRCS conservation programs. Under authority of the 2002 Farm Bill, NRCS established processes to certify individual Technical Service Providers (TSP’s) and to enter into agreements with governmental and non-governmental entities to provide services. In FY 2009 NRCS signed agreements or renewed the certification of 423 individual TSP’s and 21 businesses. There are now more than 1,100 individual TSP’s and 88 businesses certified and available to help program participants apply conservation. Since passage of the 2002 Farm Bill, NRCS has obligated over \$300 million to acquire TSP technical service. Web-based orientations and proficiency statements have been developed to help ensure that TSP’s have the necessary technical competencies to carry out NRCS’ programs.
2. Acquiring the services of experienced workers on a temporary basis. NRCS is acquiring the expertise of older workers through the Agricultural Conservation Enrollees/Seniors (ACES) project conducted in partnership with the National Older Worker Career Center. This project evolved from and complements the TSP initiative to leverage conservation technical assistance capacity and help landowners meet conservation goals. NRCS has filled 300 ACES positions across the country, including 260 at the field level.
3. Using the time, talent, and energy of volunteers. Since the organization of local conservation districts in the 1930’s, people have volunteered their time and talent to help get conservation on the land. In 1981, using new authority enacted by Congress, NRCS established the National Volunteer Program. In 1985, that program became the Earth Team.



## 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 new priorities as follows:

#### Department Priority 1: Rural Communities Create Wealth So They Are Self-Sustaining, Repopulating, and Thriving Economically

**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 products represent a small fraction of the market for industrial products and their performance is often uncertain. Biofuels and some biobased products are not yet economically competitive with petroleum-based products.

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.

**National Agricultural Library**—The Library, the world's largest library serving agriculture, delivered more than 93 million direct customer service transactions in FY 2009, a 5 per cent increase over FY 2008. NAL, with partners in the Land-Grant University and agricultural information service communities, has initiated development of a national digital library for agriculture. Specific efforts are directed toward achieving two goals: 1) continuing to meet the needs of NAL customers, and 2) implementing a national digital library for agriculture.

**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.

#### Department Priority 2: National Forest and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change and Are Managed to Enhance 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.

### **Department Priority 3: America Leads the World in Sustainable Crop Production and Biotech Crop Exports**

**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.

**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.

#### **Department Priority 4: America's Children and the World'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.

**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.

#### **Cooperative State Research, Education, and Extension Service Program**

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

**Forest Service**

Forest Service 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**

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**

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**

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**

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**

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**

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**

The 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 2009 accomplishments include the following:

- 57 new interagency agreements and contracts
- 12 interagency agreements and contracts continued
- 2,294 articles published in journals
- 886 articles published in all other publications
- 3 patents granted

### **Economic Research Service**

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

### **National Agricultural Statistics Service**

Statistical research and service is conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. In addition, 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)

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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 2009	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	\$ 156	\$ 29	\$ 127
Buildings	1,023	144	879
Dam	29	10	19
Minor Constructed Features	107	-	107
Fence	298	298	-
Handling Facility	22	22	-
Heritage	25	9	16
Road	3,178	318	2,860
Trail Bridge	11	4	7
Wastewater	40	24	16
Water	118	67	51
Wildlife, Fish, TES	6	4	2
Trails	294	5	289
General Forest Area	-	-	-
<b>Total Forest Service</b>	<b>\$ 5,307</b>	<b>\$ 934</b>	<b>\$ 4,373</b>
FY 2008	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	\$ 133	\$ 28	\$ 105
Buildings	712	117	595
Dam	24	9	15
Minor Constructed Features	102	-	102
Fence	301	301	-
Handling Facility	23	23	-
Heritage	16	5	11
Road	3,400	782	2,618
Trail Bridge	10	3	7
Wastewater	35	20	15
Water	103	60	43
Wildlife, Fish, TES	7	5	2
Trails	279	7	272
General Forest Area	-	-	-
<b>Total Forest Service</b>	<b>\$ 5,145</b>	<b>\$ 1,360</b>	<b>\$ 3,785</b>

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 began reporting deferred maintenance in 2000. Estimates of deferred maintenance for all major classes of PP&E, heritage assets, and stewardship assets are based on condition surveys. The agency has completed two rounds of condition surveys providing a comprehensive national assessment of Forest Service property.

For roads, deferred maintenance is determined from surveys of an annual random sample of a sufficient number of roads to achieve estimates of 95-percent accuracy and 95-percent confidence. Validation of this process is ongoing.

Deferred maintenance needs for all other asset groups are determined from surveys of all individual assets on a revolving schedule where the interval between visits does not exceed 5 years.

No deferred maintenance exists for fleet vehicles as they are managed through the agency's working capital fund (WCF). Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

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:

1. Federal Highway Administration regulations for the Federal Highway Safety Act;
2. Best management practices for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;
3. Road management objectives developed through the National Forest Management Act forest planning process; and
4. 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 37 percent needing major repairs or renovations; approximately 14 percent in fair condition; and 49 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**

The Statement of Federal Financial Accounting Standard No. 29, Heritage Assets and Stewardship Lands, reclassified information on heritage and stewardship land assets from “supplementary” to “basic.” This change moves the acquisitions and withdrawals of these assets to the financial notes, accompanying the financial statements. The condition information for these assets remains supplementary.

#### **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 projected accomplishments on NFS lands include treatment of 42,337 acres for invasives and 57,058 for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available at [www.fs.fed.us](http://www.fs.fed.us) in February 2010.



**Agricultural Research Service**

Asset Class	<u>FY 2009</u>	<u>FY 2008</u>
Buildings	\$ 258	\$ 241
Structures	19	36
Heritage	89	80
Total Agricultural Research Service	<u>\$ 366</u>	<u>\$ 357</u>

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 ratio 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 representative buildings from 29 ARS sites (roughly 48 percent of the total inventory) and used parametric models to estimate DM and PRV. These results were generalized to the entire population of ARS facilities. Assuming a PRV of \$3.6 billion, the CI ratio ( $1 - \$DM/PRV$ ) is 92 percent, an outcome commonly classified as "adequate."

**STATEMENT OF BUDGETARY RESOURCES (UNAUDITED)**

FY 2009	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
<b>Budgetary Resources:</b>										
Unobligated balance, brought forward, October 1:	\$ 2,215	\$ 869	\$ 2,098	\$ 2,516	\$ 382	\$ 2,057	\$ 14,258	\$ 29	\$ 433	\$ 368
Recoveries of prior year unpaid obligations	55	72	181	10	170	4	507	1,441	15	168
Budget Authority:										
Appropriation	2,733	-	15,444	-	331	6,843	75,647	982	8,227	1,394
Borrowing Authority	-	2,937	28,870	340	-	-	-	-	-	-
Earned -										
Collected	728	1,628	11,722	553	102	4,211	84	146	58	105
Change in receivables from Federal Sources	(3)	-	(89)	-	42	-	-	(15)	-	8
Change in unfilled customer orders -										
Advances received	-	-	154	-	-	-	-	-	-	-
Without advance from Federal Sources	1	23	-	(18)	(13)	-	-	3	-	-
Expenditure transfers from trust funds	-	-	1,130	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	51	-	(2,241)	-	102	1	6,590	-	(6,616)	(300)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not available	(321)	(524)	(27,444)	(1,583)	(75)	(2)	(2,119)	(9)	(295)	(9)
<b>Total Budgetary Resources</b>	<b>5,459</b>	<b>5,005</b>	<b>29,825</b>	<b>1,818</b>	<b>1,041</b>	<b>13,114</b>	<b>94,967</b>	<b>2,577</b>	<b>1,822</b>	<b>1,734</b>
<b>Status of Budgetary Resources:</b>										
Obligations Incurred:										
Direct	2,317	3,279	3,573	847	529	12,113	79,454	2,419	1,274	1,099
Reimbursable	450	-	24,232	-	144	-	42	126	51	336
Unobligated Balance:										
Apportioned	2,523	628	329	363	89	996	1,520	12	33	267
Exempt from Apportionment	-	-	841	4	-	-	-	-	32	-
Unobligated balance not available	169	1,098	850	604	279	5	13,951	20	432	32
<b>Total Status of Budgetary Resources</b>	<b>5,459</b>	<b>5,005</b>	<b>29,825</b>	<b>1,818</b>	<b>1,041</b>	<b>13,114</b>	<b>94,967</b>	<b>2,577</b>	<b>1,822</b>	<b>1,734</b>
<b>Change in Obligated Balances:</b>										
Obligated balance, net, brought forward October 1	497	330	7,646	6	20	456	4,288	162	122	391
Obligations incurred	2,767	3,279	27,805	847	673	12,113	79,496	2,545	1,325	1,435
Gross outlays	(2,618)	(3,036)	(26,050)	(879)	(423)	(12,173)	(77,928)	(1,108)	(1,265)	(1,289)
Recoveries of prior year unpaid obligations, actual	(55)	(72)	(181)	(10)	(170)	(4)	(507)	(1,441)	(15)	(168)
Change in uncollected payments from Federal Sources	2	(23)	89	18	(29)	-	-	12	-	(8)
Obligated balance, net, end of period -										
Unpaid obligations	606	514	9,541	159	187	392	5,347	186	170	387
Uncollected customer payments from Federal Sources	(12)	(35)	(233)	(177)	(116)	-	-	(17)	(2)	(27)
Obligated balance, net, end of period	<b>594</b>	<b>479</b>	<b>9,308</b>	<b>(18)</b>	<b>71</b>	<b>392</b>	<b>5,347</b>	<b>169</b>	<b>168</b>	<b>360</b>
<b>Net Outlays:</b>										
Gross outlays	2,618	3,036	26,050	879	423	12,173	77,928	1,108	1,265	1,289
Offsetting collections	(729)	(1,628)	(13,006)	(553)	(103)	(4,211)	(84)	(146)	(58)	(104)
Distributed offsetting receipts	(951)	-	-	(474)	(1)	-	-	(11)	(155)	(15)
<b>Net Outlays</b>	<b>\$ 938</b>	<b>\$ 1,408</b>	<b>\$ 13,044</b>	<b>\$ (148)</b>	<b>\$ 319</b>	<b>\$ 7,962</b>	<b>\$ 77,844</b>	<b>\$ 951</b>	<b>\$ 1,052</b>	<b>\$ 1,170</b>

FY 2009	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
<b>Budgetary Resources:</b>												
Unobligated balance, brought forward, October 1:	\$ 14	\$ 2,170	\$ 1,793	\$ 241	\$ 127	\$ 4	\$ 4	\$ 1,827	\$ 1,929	\$ 58	\$ 28,078	5,314
Recoveries of prior year unpaid obligations	6	38	572	111	446	4	6	153	672	57	3,934	754
<b>Budget Authority:</b>												
Appropriation	40	7,107	1,308	1,387	1,270	80	152	8,847	-	543	132,335	-
Borrowing Authority	-	-	-	-	-	-	-	-	11,628	-	28,870	14,905
<b>Earned -</b>												
Collected	42	535	108	105	46	-	24	3,846	7,315	816	22,678	9,496
Change in receivables from Federal Sources	-	(23)	(6)	-	(2)	-	-	4	-	24	(60)	-
Change in unfilled customer orders -												
Advance received	-	2	4	-	(18)	-	-	-	-	(2)	140	-
Without advance from Federal Sources	-	(51)	17	(6)	11	1	-	-	215	(10)	(47)	220
Expenditure transfers from trust funds	-	-	-	-	-	-	-	-	-	-	1,130	-
Nonexpenditure transfers, net, anticipated and actual	-	-	1,612	3	160	-	-	204	-	3	(431)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(12)	-	-	-	-	-	(12)	-
Permanently not available	(1)	(5)	(1)	(6)	(5)	(1)	(2)	(2,636)	(3,498)	(7)	(32,938)	(5,605)
<b>Total Budgetary Resources</b>	<b>101</b>	<b>9,773</b>	<b>5,407</b>	<b>1,835</b>	<b>2,023</b>	<b>88</b>	<b>184</b>	<b>12,245</b>	<b>18,261</b>	<b>1,482</b>	<b>183,677</b>	<b>25,084</b>
<b>Status of Budgetary Resources:</b>												
<b>Obligations Incurred:</b>												
Direct	46	6,544	3,540	1,300	1,717	81	153	5,780	16,269	532	122,471	20,395
Reimbursable	42	482	99	112	102	1	24	555	-	844	27,642	-
<b>Unobligated Balance:</b>												
Apportioned	8	2,031	794	399	202	1	5	4,423	1,333	154	13,786	2,324
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	873	4
Unobligated balance not available	5	716	974	24	2	5	2	1,487	659	(48)	18,905	2,361
<b>Total Status of Budgetary Resources</b>	<b>101</b>	<b>9,773</b>	<b>5,407</b>	<b>1,835</b>	<b>2,023</b>	<b>88</b>	<b>184</b>	<b>12,245</b>	<b>18,261</b>	<b>1,482</b>	<b>183,677</b>	<b>25,084</b>
<b>Change in Obligated Balances:</b>												
Obligated balance, net, brought forward October 1	6	1,707	3,006	340	1,489	29	20	4,916	20,358	182	25,277	20,694
Obligations incurred net	88	7,026	3,639	1,412	1,819	82	177	6,335	16,269	1,376	150,113	20,395
Gross outlays	(83)	(6,480)	(2,836)	(1,306)	(1,223)	(80)	(169)	(5,580)	(12,903)	(1,348)	(141,959)	(16,818)
Recoveries of prior year unpaid obligations, actual	(6)	(38)	(572)	(111)	(446)	(4)	(6)	(153)	(672)	(57)	(3,934)	(754)
Change in uncollected payments from Federal Sources	-	74	(11)	6	(9)	(1)	-	(4)	(215)	(14)	107	(220)
<b>Obligated balance, net, end of period</b>	<b>11</b>	<b>2,641</b>	<b>3,322</b>	<b>432</b>	<b>1,716</b>	<b>27</b>	<b>25</b>	<b>5,527</b>	<b>23,741</b>	<b>319</b>	<b>30,836</b>	<b>24,414</b>
Unpaid obligations	11	2,641	3,322	432	1,716	27	25	5,527	23,741	319	30,836	24,414
Uncollected customer payments from Federal Sources	(5)	(351)	(97)	(90)	(86)	(1)	(3)	(11)	(904)	(181)	(1,232)	(1,116)
<b>Obligated balance, net, end of period</b>	<b>6</b>	<b>2,290</b>	<b>3,225</b>	<b>342</b>	<b>1,630</b>	<b>26</b>	<b>22</b>	<b>5,516</b>	<b>22,837</b>	<b>138</b>	<b>29,604</b>	<b>23,298</b>
<b>Net Outlays:</b>												
Gross outlays	83	6,480	2,836	1,306	1,223	80	169	5,580	12,903	1,348	141,959	16,818
Offsetting collections	(42)	(536)	(111)	(105)	(29)	-	(24)	(3,846)	(7,315)	(814)	(23,948)	(9,496)
Distributed offsetting receipts	-	(574)	1	(23)	(5)	-	-	(1,310)	-	(56)	(3,100)	(474)
<b>Net Outlays</b>	<b>\$ 41</b>	<b>\$ 5,370</b>	<b>\$ 2,726</b>	<b>\$ 1,178</b>	<b>\$ 1,189</b>	<b>\$ 80</b>	<b>\$ 145</b>	<b>\$ 424</b>	<b>\$ 5,588</b>	<b>\$ 478</b>	<b>\$ 114,911</b>	<b>\$ 6,848</b>

FY 2008	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
<b>Budgetary Resources:</b>										
Unobligated balance, brought forward, October 1:	\$ 3,165	\$ 1,820	\$ 1,604	\$ 2,139	\$ 387	\$ 2,262	\$ 14,891	\$ 57	\$ 603	\$ 362
Recoveries of prior year unpaid obligations	40	81	1,246	27	96	2	637	1,074	14	129
Budget Authority:										
Appropriation	3,410	-	16,154	-	261	4,222	53,836	940	7,844	1,437
Borrowing Authority	-	1,897	30,267	302	-	-	-	-	-	-
Earned -										
Collected	791	1,499	13,812	1,250	141	2,068	85	150	110	111
Change in receivables from Federal Sources	(3)	-	10	(177)	(42)	-	-	5	-	(9)
Change in unfilled customer orders -										
Advances received	-	-	3	-	-	-	-	-	-	(19)
Without advance from Federal Sources	(1)	(1)	-	194	22	-	-	-	-	-
Expenditure transfers from trust funds	-	-	959	-	-	-	-	-	-	-
Nonexpenditure transfers, net, anticipated and actual	-	-	(2,620)	-	2	1	6,277	(2)	(6,296)	(225)
Temporarily not available pursuant to Public Law	-	-	-	-	-	-	-	-	-	-
Permanently not available	(365)	(2,323)	(33,375)	(350)	(35)	(1)	(838)	(19)	(687)	(24)
<b>Total Budgetary Resources</b>	<b>7,037</b>	<b>2,973</b>	<b>28,060</b>	<b>3,385</b>	<b>832</b>	<b>8,554</b>	<b>74,888</b>	<b>2,205</b>	<b>1,588</b>	<b>1,762</b>
<b>Status of Budgetary Resources:</b>										
Obligations Incurred:										
Direct	4,413	2,104	4,258	869	325	6,497	60,602	2,008	1,096	1,068
Reimbursable	409	-	21,704	-	125	-	28	168	59	326
Unobligated Balance:										
Apportioned	1,092	65	276	1,662	12	2,053	974	8	92	335
Exempt from Apportionment	-	-	811	5	-	-	-	-	289	-
Unobligated balance not available	1,123	804	1,011	849	370	4	13,284	21	52	33
<b>Total Status of Budgetary Resources</b>	<b>7,037</b>	<b>2,973</b>	<b>28,060</b>	<b>3,385</b>	<b>832</b>	<b>8,554</b>	<b>74,888</b>	<b>2,205</b>	<b>1,588</b>	<b>1,762</b>
<b>Change in Obligated Balances:</b>										
Obligated balance, net, brought forward October 1	215	432	7,734	(53)	11	180	4,154	137	112	407
Obligations incurred	4,822	2,104	25,962	869	450	6,497	60,630	2,176	1,155	1,394
Gross outlays	(4,504)	(2,127)	(24,797)	(766)	(365)	(6,219)	(59,859)	(1,072)	(1,132)	(1,291)
Recoveries of prior year unpaid obligations, actual	(40)	(81)	(1,246)	(27)	(96)	(2)	(637)	(1,074)	(14)	(129)
Change in uncollected payments from Federal Sources	5	1	(10)	(17)	20	-	-	(5)	-	9
Obligated balance, net, end of period -										
Unpaid obligations	512	343	7,968	200	106	456	4,288	190	124	410
Uncollected customer payments from Federal Sources	(15)	(13)	(322)	(194)	(86)	-	-	(28)	(2)	(19)
<b>Obligated balance, net, end of period</b>	<b>497</b>	<b>330</b>	<b>7,646</b>	<b>6</b>	<b>20</b>	<b>456</b>	<b>4,288</b>	<b>162</b>	<b>122</b>	<b>391</b>
<b>Net Outlays:</b>										
Gross outlays	4,504	2,127	24,797	766	365	6,219	59,859	1,072	1,132	1,291
Offsetting collections	(791)	(1,499)	(14,773)	(1,249)	(141)	(2,068)	(85)	(150)	(111)	(93)
Distributed offsetting receipts	(581)	-	-	(353)	(1)	-	(1)	(13)	(185)	(20)
<b>Net Outlays</b>	<b>\$ 3,132</b>	<b>\$ 628</b>	<b>\$ 10,024</b>	<b>\$ (836)</b>	<b>\$ 223</b>	<b>\$ 4,151</b>	<b>\$ 59,773</b>	<b>\$ 909</b>	<b>\$ 836</b>	<b>\$ 1,178</b>

USDA: Managing for Results In Performing Its Many Vital Public Functions

FY 2008	GIPSA	FS	NRCS	ARS	CSREES	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
<b>Budgetary Resources:</b>												
Unobligated balance, brought forward, October 1:	\$ 13	\$ 1,672	\$ 1,047	\$ 210	\$ 126	\$ 3	\$ 5	\$ 1,182	\$ 1,249	\$ 167	\$ 27,756	\$ 5,208
Recoveries of prior year unpaid obligations	4	78	491	56	33	2	1	171	1,118	29	4,103	1,226
Budget Authority:												
Appropriation	39	6,309	1,434	1,202	1,211	78	165	3,669	-	444	102,655	-
Borrowing Authority	-	-	-	-	-	-	-	-	12,712	-	30,267	14,911
Earned -												
Collected	46	561	148	81	38	1	19	4,374	6,106	834	23,370	8,855
Change in receivables from Federal Sources	(1)	38	(9)	3	3	-	(3)	(21)	-	(16)	(45)	(177)
Change in unfilled customer orders -												
Advances received	-	(7)	(3)	(1)	17	-	-	-	-	4	(6)	-
Without advance from Federal Sources	-	3	27	16	(3)	-	-	-	48	(52)	12	241
Expenditure transfers from trust funds	-	4	-	-	-	-	-	-	-	-	963	-
Nonexpenditure transfers, net, anticipated and actual	-	(2)	1,956	4	35	1	1	120	-	5	(743)	-
Temporarily not available pursuant to Public Law	-	-	-	-	(11)	-	-	-	-	-	(11)	-
Permanently not available	(3)	(71)	(7)	(17)	(17)	(2)	(2)	(3,455)	(4,238)	(7)	(38,925)	(6,911)
Total Budgetary Resources	<u>98</u>	<u>8,585</u>	<u>5,084</u>	<u>1,554</u>	<u>1,432</u>	<u>83</u>	<u>186</u>	<u>6,040</u>	<u>16,995</u>	<u>1,408</u>	<u>149,396</u>	<u>23,353</u>
<b>Status of Budgetary Resources:</b>												
Obligations Incurred:												
Direct	42	6,055	3,174	1,212	1,245	78	166	3,701	15,066	535	96,475	18,039
Reimbursable	42	360	117	101	60	1	16	512	-	815	24,843	-
Unobligated Balance:												
Apportioned	7	982	517	216	123	1	2	1,234	1,057	1	7,925	2,784
Exempt from Apportionment	-	-	-	-	-	-	-	-	-	-	1,100	5
Unobligated balance not available	7	1,188	1,276	25	4	3	2	593	872	57	19,053	2,525
Total Status of Budgetary Resources	<u>98</u>	<u>8,585</u>	<u>5,084</u>	<u>1,554</u>	<u>1,432</u>	<u>83</u>	<u>186</u>	<u>6,040</u>	<u>16,995</u>	<u>1,408</u>	<u>149,396</u>	<u>23,353</u>
<b>Change in Obligated Balances:</b>												
Obligated balance, net, brought forward October 1	4	1,859	3,176	478	1,411	31	14	5,381	17,728	168	25,472	18,107
Obligations incurred	84	6,415	3,291	1,313	1,305	79	182	4,213	15,066	1,350	121,318	18,039
Gross outlays	(78)	(6,448)	(2,951)	(1,376)	(1,193)	(79)	(179)	(4,528)	(11,269)	(1,373)	(117,444)	(14,162)
Recoveries of prior year unpaid obligations, actual	(4)	(78)	(491)	(56)	(33)	(2)	(1)	(171)	(1,118)	(29)	(4,103)	(1,226)
Change in uncollected payments from Federal Sources	-	(41)	(18)	(19)	-	-	3	21	(48)	68	33	(64)
Obligated balance, net, end of period -												
Unpaid obligations	11	2,132	3,092	436	1,566	29	23	4,924	21,047	349	26,616	21,590
Uncollected customer payments from Federal Sources	(5)	(425)	(86)	(96)	(77)	-	(3)	(8)	(689)	(167)	(1,339)	(896)
Obligated balance, net, end of period	<u>6</u>	<u>1,707</u>	<u>3,006</u>	<u>340</u>	<u>1,489</u>	<u>29</u>	<u>20</u>	<u>4,916</u>	<u>20,358</u>	<u>182</u>	<u>25,277</u>	<u>20,694</u>
<b>Net Outlays:</b>												
Gross outlays	78	6,448	2,951	1,376	1,193	79	179	4,528	11,269	1,373	117,444	14,162
Offsetting collections	(47)	(558)	(145)	(81)	(55)	(1)	(19)	(4,374)	(6,107)	(835)	(24,327)	(8,855)
Distributed offsetting receipts	-	(514)	3	(23)	(4)	-	(1)	(494)	-	(55)	(1,889)	(353)
Net Outlays	<u>\$ 31</u>	<u>\$ 5,376</u>	<u>\$ 2,809</u>	<u>\$ 1,272</u>	<u>\$ 1,134</u>	<u>\$ 78</u>	<u>\$ 159</u>	<u>\$ (340)</u>	<u>\$ 5,162</u>	<u>\$ 483</u>	<u>\$ 91,228</u>	<u>\$ 4,954</u>



## **RISK ASSUMED INFORMATION (UNAUDITED)**

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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 \$8,930 million and \$9,859 million as of September 30, 2009 and 2008, respectively.

## 4. Other Accompanying Information



### Appendix A—Response to Management Challenges

The U.S. Department of Agriculture’s (USDA) Office of Inspector General (OIG) report concerning the Department’s most significant management challenges can be found on the Internet at:

- <http://www.usda.gov/oig/webdocs/MgmtChallenges2009.pdf>. The OIG report also includes emerging issues that could become a Departmental challenge in upcoming years. The challenges herein and the emerging issues may hinder USDA’s mission and program delivery to its customers and constituents. To mitigate these challenges, USDA management provides accomplishments for the current fiscal year and/or planned actions for the upcoming one. The Department is reporting on 10 management challenges for FY 2009, 1 more than last year’s report. OIG did not remove any of the previous year’s challenges; however, sub-elements/issues reported under Challenge 4 (Homeland Security) and Challenge 8 (Food Safety) were either revised or removed this year. The following table summarizes those challenges that changed from FY 2008 to FY 2009.

FY 2008 Management Challenges	FY 2009 Changes
(Challenge #4) Issue—Implement commodity inventory systems that provide critical homeland security features and complete security clearances for employees involved in commodity inventory management activities and risk assessments.	(Challenge #4) Issue Revised — Implement commodity inventory systems that provide critical homeland security features.
(Challenge #8) Issue—Develop a process to accumulate, review, and analyze all data available to assess the adequacy of food safety systems.	Issue Removed by OIG
(Challenge #8) Issue—Continue to develop and implement a strategy for hiring and training inspectors.	Issue Revised — Continue to develop and implement a strategy for training inspectors.

The following table includes fiscal year (FY) 2009 accomplishments, FY 2010 planned actions, and ongoing activities to address the Department’s challenges.

### USDA’s Management Challenges

<p>1) Interagency Communications, Coordination, and Program Integration Need Improvement.</p> <ul style="list-style-type: none"> <li>• Integrate the information management systems used to implement the crop insurance, conservation, and farm programs;</li> <li>• Increase organizational communication and understanding among the agencies that administer the farm, crop insurance, and conservation programs; and</li> <li>• Increase communication and coordination on issues related to agricultural inspection policies and procedures.</li> </ul>
Fiscal Year 2009 Accomplishments





- Natural Resources Conservation Services (NRCS) initiated review testing, security scans, and the development of user roles for the Lean Six Sigma Grants Process;
- Risk Management Agency (RMA) and Farm Service Agency (FSA) held weekly meetings to identify needs, manage project priorities, and review progress;

- RMA issued an online users guide on Comprehensive Information Management System (CIMS) applications. It provides CIMS users efficient access to a central source of information and web report instructions. The user guide emphasizes that the user must safeguard the Personally Identifiable Information contained in the CIMS reports;
- CIMS reports were designed and made available to Approved Insurance Providers (AIPs), showing producer entity and acreage differences;
- FSA formed State and county office user groups to provide them with access to CIMS. The FSA User Group began reviewing applications and providing recommendations and input to CIMS;
- RMA, FSA, and NRCS met to coordinate issues and opportunities common to the conservation agencies. They also discussed program financial assistance eligibility, the Service Center Information Management System, and the Federal Financial Accountability and Transparency Act;
- Implemented a new Conservation Security Program (CSP) rule to require the utilization of FSA farm records for program eligibility; and
- MIDAS is the FSA's initiative to "Modernize and Innovate the Delivery of Agricultural Systems." FSA has collaborated and coordinated with the Department to begin identifying shared data elements, systems interfaces, and program integration.

#### Planned Actions for Fiscal Year 2010

- Continue developing a single acreage reporting process to reduce duplicate reporting requirements for producers for common elements;
- Continue with weekly meetings to set project objectives and priorities, and control CIMS maintenance and enhancements;
- Issue user policy for CIMS Applications;
- Provide CIMS access to the more than 12,000 FSA county and state office workers;
- Establish requirements for RMA Reinsured Policy Acceptance Systems to use CIMS data to verify new producers reported to the agency;
- Continue testing reports showing discrepancies between FSA and RMA data;
- Continue developing the Lean Six Sigma Grants Process to better integrate the management of grants and financial assistance programs. This process will include cost share, easements, stewardship, emergency landscapes, and traditional grants;
- Meet weekly to coordinate issues and opportunities common to the conservation agencies and related to program financial assistance eligibility, the Service Center Information Management System and the Federal Financial Accountability and Transparency Act;
- Continue implementing CSP policy; and
- Acquire a System Integrator and an Independent Validation and Verification contract for MIDAS.

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

- Develop Rural Housing Service controls over administering disaster housing assistance programs to ensure aid is provided to the needy and avoid benefits duplication.

#### Fiscal Year 2009 Accomplishments

- Established and published multifamily housing procedures to monitor assistance in response to a disaster; and
- Implemented single-family housing procedures to require applicant certification of other emergency benefits, and consultation with the Office of the General Counsel on using newly appropriated disaster funds.

#### Planned Actions for Fiscal Year 2010

- Seek assistance from the U.S. Department of Homeland Security's Federal Emergency Management Agency to develop matching agreements to compare disaster assistance and procedures. The agreement would set policy to monitor, deliver, and control assistance in disasters related to housing.

- Strengthen quality control and perform required reconciliation of producer/policy holder data in the Federal Crop Insurance Program.

#### Fiscal Year 2009 Accomplishments

- Reviewed selected RMA approved insurance providers operations to determine their compliance with the quality control guidelines listed in the Standard Reinsurance Agreement and associated appendix.

#### Planned Actions for Fiscal Year 2010

- Continue reviewing selected approved insurance providers operations to determine compliance with quality control guidelines listed in the Standard Reinsurance Agreement and associated appendix; and
- Continue implementing CIMS and integrating it into RMA's and FSA's business processes to allow for duplicate data to be identified and addressed at the time of producer reporting.

- Prepare complete, accurate financial statements without extensive manual procedures and adjustments.

#### Fiscal Year 2009 Accomplishments

##### NRCS:

- Issued interim guidance covering reimbursable agreements that addressed the proper classification, recording, and liquidation of unfilled customer orders;
- Provided training on reimbursable agreements;
- Issued guidance on personal and real property balances, and physical and real property inventories;
- Instituted a process to ensure the Fund Balance with Treasury reconciliation is performed; financial statements are accurate, reliable, and complete; and the management review of monthly statements for fleet card purchases occurs;
- Hired additional accounting staff experienced in financial statement preparation and reporting;
- Conducted financial reviews to ensure compliance with policies and procedures to identify corrective actions and the need for additional guidance or training; and
- Obtained U.S. Standard General Ledger compliant posting models to appropriately record transactions without reclassification.

#### Planned Actions for Fiscal Year 2010

##### NRCS will:

- Seek a contractor to assist in remediating its audit issues;
- Include interim policy in national instructions;
- Remediate financial audit issues including:
  - o Open obligations;
  - o Accruals;
  - o Capital leases;
  - o Internal Use Software;
  - o Unfilled Customer Orders;
  - o Easement reporting;
  - o Deferred maintenance reporting; and
  - o Proper presentation of the Statement of Net Cost.
- Prepare for conversion to the USDA Financial Management Modernization Initiative (FMMI) financial system on October 1, 2010;
- Issue financial policies and procedures; and
- Complete comprehensive training for financial and non-financial employees at all organization levels.

- Improve Forest Service's (FS) and NRCS's internal controls and management accountability to effectively manage resources, measure progress towards goals and objectives, and accurately report accomplishments.

#### Fiscal Year 2009 Accomplishments

- FS completed corrective action on remaining audit recommendations on performance reporting;
- Performed an annual systems assessment of all FS financial/mixed financial systems;
- FS implemented controls to monitor and ensure adequate firefighter training and developed preseason language assessments/certifications;
- NRCS reviewed existing CSP contracts;
- Conducted national CSP training for NRCS personnel on new and existing policies;
- NRCS headquarters personnel visited 20 states to review and ensure compliance with the open obligation review;
- NRCS implemented USDA's new travel system that obligates funds at the time travel is approved;
- NRCS issued accrual policy to strengthen existing procedures and ensure accruals were properly recorded, and trained staff on how to review and properly record accruals;
- NRCS reviewed and ensured appropriate segregation of duties, and established guidelines and procedures for the periodic review of Collaborative Software Development Laboratory project roles; and
- NRCS revised the Web Based Total Cost Accounting System (WebTCAS) Risk Assessment to account for all National Institute of Standards and Technology Special Publication (NIST SP) 800-30 control areas, and the WebTCAS System Security Plan to account for all NIST SP 800-18 control areas.

#### Planned Actions for Fiscal Year 2010

- FS will review performance accountability within various regions and continue implementing corrective actions identified through the Office of Management and Budget Circular A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting" (A-123) process and OIG/GAO audits;
- Assess all FS financial/mixed financial systems;
- Conduct annual internal control risk assessment throughout FS and develop plans to address identified risks;
- FS will improve monitoring and management of critical firefighter positions;
- NRCS will implement corrective actions on findings from the 2009 CSP review prior to making 2010 payments;



- Release a revised NRCS Conservation Programs Manual, and train all office staff;
- NRCS will develop a tracking system for technical assistance requests in the Chesapeake Bay, and expedite the development and implementation of outcome-based performance measurements for evaluating the effectiveness of conservation efforts and programs; and
- NRCS will develop an overall strategy for the dam rehabilitation program. The strategy includes plans to work with State regulatory agencies to assess and rehabilitate high hazard dams.

- Capitalize on FSA compliance activities to improve program integrity.

#### Fiscal Year 2009 Accomplishments

- FSA established a compliance process that calls for annual reviews and analyses.

#### Planned Actions for Fiscal Year 2010

- Continue to analyze results from compliance reviews to identify any program weaknesses and revise procedures to address them.

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

- Emphasize security program planning and management oversight and monitoring.

#### Fiscal Year 2009 Accomplishments

- Completed a Departmental Security Program Plan/Strategic Plan;
- Evaluated current and implemented refined Departmental security performance metrics;
- Established the Agriculture Security Operations Center for centralized incident management and network intrusion/incident monitoring;
- Continued leveraging the Cyber Security Assessment and Management System (CSAM) as a security program compliance tool and document repository;
- Coordinated and monitored agency/Department compliance with new program requirements;
- Initiated Program Reviews for Information Security Management Assistance (PRISMA);
- Implemented ongoing Plans of Actions and Milestones (POA&M) closure validation reviews;
- Began developing a Cyber and Privacy Policy and Oversight (CPPO) tactical plan; and
- Trained agencies on CSAM and PRISMA reviews.

#### Planned Actions for Fiscal Year 2010

- Continue leveraging CSAM to manage IT security program compliance and oversight;
- Continue using Security Metrics and PRISMA reviews to measure agency compliance with Security Program Requirements; and
- Implement the CPPO tactical plan to improve USDA's performance on the Federal Information Security Management Act (FISMA) scorecard.

- Establish an internal control program throughout the systems' life cycle.

#### Fiscal Year 2009 Accomplishments

- Reviewed existing cyber security Departmental manuals, and revised and reissued several as regulations;
- Issued standard operating procedures to document repeatable program oversight processes;
- Integrated A-123 and NIST SP 800-53 Common/Core controls for increased efficiency in controls testing activities;
- Developed and implemented PRISMA review program; and
- Completed incident handling compliance review for all incidents from October 2008 through February 2009.

#### Planned Actions for Fiscal Year 2010

- Conduct nine PRISMA reviews.

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

#### Fiscal Year 2009 Accomplishments

- Review selected POA&M closure documentation to validate/verify corrective actions;
- Continued Certification and Accreditation (C&A) concurrency review program;
- Completed corrective action on OIG audit on wireless security; and
- Continued using the FISMA scorecard to monitor agencies' compliance with security program requirements.

#### Planned Actions for Fiscal Year 2010

- Complete reviewing system security plans and assessing common and high-risk vulnerabilities; and
- Develop mitigation strategies to resolve the highest risk Department vulnerabilities.

<ul style="list-style-type: none"> <li>• Improve access controls.</li> </ul>
<p><b>Fiscal Year 2009 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Improved access control by upgrading existing firewalls and enforcing remote access controls for Animal and Plant Health Inspection Service (APHIS) systems;</li> <li>– Revised Departmental regulation on access control;</li> <li>– Issued requirements for full review of privileged accounts; and</li> <li>– Reviewed POA&amp;M documentation for access control vulnerabilities to verify mitigation actions are being implemented.</li> </ul>
<p><b>Planned Actions for Fiscal Year 2010</b></p> <ul style="list-style-type: none"> <li>– Develop tactical plan for review of all user access profiles/accounts;</li> <li>– Continue FY09 initiatives for integrated access management (IAM and HSPD-12) encompassing physical and logical controls, encryption, and auditing; and</li> <li>– Implement updated policies, procedures, and technologies.</li> </ul>
<ul style="list-style-type: none"> <li>• Implement appropriate application and system software change control.</li> </ul>
<p><b>Fiscal Year 2009 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Validated agency change management processes during C&amp;A concurrency reviews; and</li> <li>– Implemented enterprise-wide security solutions for configuration management information in support of incident management.</li> </ul>
<p><b>Planned Actions for Fiscal Year 2010</b></p> <ul style="list-style-type: none"> <li>– Continue program oversight activities focusing on change/configuration management.</li> </ul>

<ul style="list-style-type: none"> <li>• Develop disaster contingency (service continuity) plans.</li> </ul>
<p><b>Fiscal Year 2009 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Drafted a Departmental regulation for contingency planning;</li> <li>– Validated all agency disaster recovery plans;</li> <li>– Continuity of Operations (COOP) plans were migrated from the Living Disaster Recovery Planning System to CSAM;</li> <li>– Continued monitoring completion of COOP testing by USDA agencies; and</li> <li>– Completed revising templates for contingency testing.</li> </ul>
<p><b>Planned Actions for Fiscal Year 2010</b></p> <ul style="list-style-type: none"> <li>– Verify that agencies develop and test disaster recovery plans for all systems; and</li> <li>– Continue Departmental initiatives to establish and fund alternate 'hot sites' for Service Center Agencies.</li> </ul>

<p><b>4) Departmental Efforts and Initiatives in Homeland Security Need to be Maintained.</b></p> <ul style="list-style-type: none"> <li>• Implement commodity inventory systems that provide critical homeland security features and complete security clearances for employees involved in commodity inventory management activities and risk assessments.</li> </ul>
<p><b>Fiscal Year 2009 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Continued to ensure clearances were obtained for current FSA employees.</li> </ul>
<p><b>Planned Actions for Fiscal Year 2010</b></p> <ul style="list-style-type: none"> <li>– Continue implementing the Web-based supply chain management system.</li> </ul>
<ul style="list-style-type: none"> <li>• Continue to strengthen controls over select agents and toxins.</li> </ul>
<p><b>Fiscal Year 2009 Accomplishments</b></p> <ul style="list-style-type: none"> <li>– Implemented an annual Compliance Inspection Program for all USDA registered entities.</li> </ul>
<ul style="list-style-type: none"> <li>• Continue efforts to coordinate with the U.S. Department of Homeland Security in implementing effective control systems to ensure the safety and security of agricultural products entering the country.</li> </ul>
<p><b>Planned Actions for Fiscal Year 2010</b></p> <ul style="list-style-type: none"> <li>– Develop and implement guidance for the electronic reporting of refused-entry data.</li> </ul>



- Continue to strengthen ability to respond to *avian influenza* outbreaks.

#### Fiscal Year 2009 Accomplishments

- Continued implementing Animal and Plant Health Inspection Service's (APHIS) strategic plan to include detailed goals, objectives, and activities for addressing *avian influenza* from FY 2009 to FY 2012;
- APHIS finalized cooperative agreements with Iowa State University to produce a manual which will detail the live bird marketing system; and
- Completed risk assessments for pasteurized liquid eggs.

#### Planned Actions for Fiscal Year 2010

- Issue manual which will detail the live bird marketing system to include specific biosecurity measures. These measures would allow APHIS to prevent or mitigate the spread of high consequence diseases, respond to highly contagious diseases, including cleaning and disinfection protocols, and develop a continuity of business planning for an outbreak;
- Continue to revise the outbreak surveillance response for *Highly Pathogenic avian influenza* (HPAI), including surveillance in the live bird market system and other off-farm surveillance;
- Continue to develop an APHIS animal disease incident planning system. The system would provide a framework for existing documents, such as emergency management guidelines and disease-specific response plans (HPAI and foot-and-mouth disease); and
- Complete risks assessments on nest run eggs, and washed and sanitized eggs.

- Strengthen controls over live animal imports.

#### Fiscal Year 2009 Accomplishments

- Collected data monthly on Canadian cattle import discrepancies and implement resolution, as needed; and
- Implemented instructions which provided details on how APHIS will communicate with the Canadian Services Agency.

#### Planned Actions for Fiscal Year 2010

- Continue to collect data monthly on Canadian cattle import discrepancies and implement resolution, as needed.

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

- Develop a plan to process complaints timely and effectively.

#### Fiscal Year 2009 Accomplishments

- Developed an automated intake report for pending complaints;
- Established formal procedures for the prompt resolution of complaints not processed timely;
- Developed automated adjudication reports for pending complaints;
- Reassessed performance standards for specialists in the Employment Complaints Division to include the timely completion of assigned cases;
- Required contract agreements for investigations to include a standard provision for timely and quality services;
- Effective July 13, 2009, the Secretary announced his strategy to resolve all open Equal Employment Opportunity (EEO) complaints in the Department through the use of Alternative Dispute Resolution (ADR). The Secretary charged each Under and Assistant Secretary with the responsibility of resolving all open EEO complaints by way of a Departmental "Complaint Resolution Initiative" over a 60-day period. The initiative authorizes use and application of the full range of remedies available "without a finding of discrimination or admission of wrongdoing (no fault) in all administrative and Federal court processes"; and
- As part of Secretary Vilsack's Civil Rights initiative, a Departmental EEO Task Force was established consisting of all agency Resolving Officials (ROs) and employees designated to serve with them. Since June 26, 2009, the Employment Complaint Division and the Complaints Resolution and Prevention Center (CRPC), now the Early Resolution and Conciliation Division (ERC), have conducted three orientation/training sessions to advise ROs and Task Force members of their roles and the use of ADR as a resolution tool.

#### Planned Actions for Fiscal Year 2010

- Request the Equal Employment Opportunity Commission to conduct training and provide technical assistance with investigations and processing of complaints.

- Ensure integrity of complaint data in the system.

#### Fiscal Year 2009 Accomplishments

- Finalized formal plan for business rules;
- Created audit procedures for reviewing sample cases for data integrity;
- Created automated quality control tool; and
- Audited sample cases.

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

**Fiscal Year 2009 Accomplishments**

- Posted vacancy announcement for records manager.

**Planned Actions for Fiscal Year 2010**

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

**6) USDA Needs to Develop a Proactive, Integrated Strategy to Assist American Producers to Meet the Global Trade Challenge.**

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

**Fiscal Year 2009 Accomplishments**

- Drafted standards and guidelines for the APHIS Biotechnology Quality Management System (BQMS); and
- Published the BQMS Pilot Project Draft Audit Standards in the *Federal Register* for public comment.

**Planned Actions for Fiscal Year 2010**

- Review *Federal Register* comments on BQMS draft audit standards; and
- Expand the BQMS pilot project to 10 participants.

- Develop a global market strategy.

**Planned Actions for Fiscal Year 2010**

- Expand outreach activities to key countries;
- Incorporate the Country Strategy Statements (CSS) into the Foreign Agricultural Service (FAS) Mission Strategic Planning process; and
- Redefine the CSS development process to incorporate regional and global perspective encompassing USDA interests in individual countries and regions.

- Strengthen trade promotion operations.

**Planned Actions for Fiscal Year 2010**

- Analyze and reassess market development programs by coordinating industry trade partners' program initiatives with USDA functional area efforts;
- Continue developing new program management software and ongoing efforts to streamline program administration;
- Further develop evaluation criteria and processes to demonstrate the effectiveness of market development program administration and funding allocations; and
- Conduct annual review/reassessment of FAS outreach effort.

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

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

**Fiscal Year 2009 Accomplishments**

- Developed national guidance for the regions to use in assessing the risks from wildfires;
- Monitored the effectiveness of hazardous fuel treatments and restoration projects;
- Partnered with States and counties to develop and deliver fire prevention ordinances for use in planning and zoning in wildland urban interface areas; and
- Conducted large fire cost reviews.

**Planned Actions for Fiscal Year 2010**

- Continue to conduct large fire cost reviews and implement corrective actions, as applicable;
- Monitor the effectiveness of hazardous fuel treatments and restoration projects;
- Obtain clarification from the Office of the General Counsel on FS' and States' protection responsibilities in the wildland urban interface and other private properties threatened by wildfires; if State is responsible, provide direction and begin negotiation of WUI protection



- responsibilities in large fire suppression management in WUI;
- Partner with States and counties to develop and deliver fire prevention ordinances to use in planning and zoning in wildland urban interface areas; and.
- Direct physical resources to effectively address the changing environment of forest health and the expanding WUI.

#### 8) Improved Controls Needed for Food Safety Inspection Systems.

- Develop a time-phased plan to complete assessments of establishment food safety systems control plans and production processes, including a review program that includes periodic reassessment;
- Develop a process to accumulate, review, and analyze all data available to assess the adequacy of food safety system; and
- Improve the accuracy of data available in the systems.

#### Fiscal Year 2009 Accomplishments

- Analyzed data to determine the best way to assess an establishment's ability to control risk;
- Developed a project management plan to assert appropriate control using American National Scientific Institute earned value management standards to measure and control costs and schedule;
- Issued Food Safety and Inspection Service (FSIS) Directive 5100.1, Revision 2, "Enforcement, Investigations, and Analysis Officer Comprehensive Food Safety Assessment Methodology;"
- Developed a risk-based approach to prioritize food safety assessments;
- Met monthly to prioritize analytical and reporting needs. Business requirements were developed, including recommendations on reports that district analysts should be generating;
- Programmed tracking system for monitoring the completion of In-Plant Performance System (IPPS) assessments. These assessments allow users to generate reports displaying lists of individuals who have outstanding IPPS reviews;
- Updated the AssuranceNet Users Guide to provide additional guidance to supervisors reviewing IPPS assessments; and
- Maintained data and information systems infrastructure adequate to support inspection activities.

#### Planned Actions for Fiscal Year 2010

- Test the electronic food safety assessments. As data are collected, they will be evaluated and analyzed. FSIS will examine relevant time windows prior to establishing its exact use in estimating risk;
  - Implement a modernization effort to continue to improve the security, quality, and sustainability of the system infrastructure (ongoing);
  - Continue to utilize the Enterprise Architecture Blueprint to document, assess, and improve the lines of agency business processes, and ensure they are properly aligned to the system's capabilities and needs; and
  - Continue to utilize the Public Health Information Consolidation Projects and the Public Health Data Communication Infrastructure Systems to plan, track, and better report on IT operational and development activities.
- Complete corrective actions on prior recommendations.

#### Fiscal Year 2009 Accomplishments

- Implemented a tracking system for audit recommendations that notifies FSIS program managers monthly about their obligations to respond to and take final action on OIG recommendations. The system is used to track results and produce a variety of reports.

- Continue to develop and implement a strategy for hiring and training inspectors.

#### Fiscal Year 2009 Accomplishments

- Trained public health veterinarians to conduct food safety assessments.

#### Planned Actions for Fiscal Year 2010

- Conduct a review of the effectiveness of its training programs;
- Conduct surveys of inspection program personnel and their supervisors following training to verify that inspectors are performing key job duties as instructed; and
- Develop refresher training to reinforce inspection duties.



**9) Implementation of Renewable Energy Programs at USDA**

- Develop and implement a viable and comprehensive renewable energy strategy for USDA agencies and programs.

**Fiscal Year 2009 Accomplishments**

- USDA agencies cross referenced energy loans, grants, and guarantees against the existing systems to avoid funding duplication;
- Issued guidance to agency personnel who track and report energy activities;
- Identified renewable energy activities and programs of USDA;
- Revised the reporting format to collect funding information for renewable energy activities; and
- Developed and implemented a USDA Energy Matrix to address audit recommendations.

**Planned Actions for Fiscal Year 2010**

- Inter-agency working group will submit recommendations for a renewable energy strategy to the USDA Energy Council;
- USDA will continue to work towards a consolidated database of all Department renewable energy projects. USDA will expand the Energy Matrix to include links to agency databases of renewable energy projects; and
- Continue to correct action items identified through audits.

**10) Implementation of the American Recovery and Reinvestment Act of 2009 (ARRA)**

- Provide timely and effective oversight of ARRA monies expended by USDA programs.

**Fiscal Year 2009 Accomplishments**

- Appointed the Deputy Chief of Staff as Senior Accountable Official for ARRA;
- Established Department of Agriculture Recovery Team (DART) to ensure appropriate coordination of the program funds to USDA under ARRA;
- Held periodic DART meetings to provide forum for agencies to identify best practices, share lessons learned, and resolve implementation issues;
- Monitored compliance and program eligibility for existing USDA programs that received additional funding under the ARRA;
- Collected data from financial systems and IT performance management and monitoring systems to ensure accountability and transparency of ARRA funds;
- Provided funding reports on a quarterly basis or as required by Government-wide ARRA reporting guidance;
- Established USDA and agency Web sites to report on USDA's success with ARRA-related matters;
- Created a geo-spatial map that allows the public to research and review ARRA projects; and
- USDA agencies developed risk mitigation plans for all ARRA-funded activities.

**Planned Actions for Fiscal Year 2010**

- USDA agencies will continue to implement corrective actions to close OIG audit recommendations related to ARRA-funded programs; and
- DART and USDA program managers will continue to monitor and prepare reports on ARRA funds to ensure program accountability and transparency.



## 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 its programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments and submit those estimates to Congress. Section 831 of the Defense Authorization Act requires recovery auditing. In this process, agencies entering into contracts worth more than \$500 million in a fiscal year (FY) must execute a cost effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. 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." Under this guidance, 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 the risk assessment process.

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 rate of 5.92% for FY 2009, is an improvement over the 6.13% rate reported for FY 2008. The estimated improper payments amount of \$4.3 billion for FY 2009 is a slight increase from the \$4.1 billion for FY 2008. This increase is due to the FY 2009 measured outlays of \$72.4 billion being a larger volume than the \$67.4 billion in measured outlays for FY 2008. The FY 2009 results demonstrate that improper payment error rates are being reduced and progress is being made:

- Nine USDA high risk programs reported improper payment error rates below their FY 2008 error rate;
- Seven USDA high risk programs, representing 63% of USDA's total reportable outlays, reported error rates below their reduction targets in FY 2009. This exceeded USDA's goal of achieving reduction targets for 50% or more of the agency's total reportable outlays;
- Forest Service's (FS) Wildland Fire Suppression Management Program error rate of 0.00% was below its reduction target of 0.02%, and below its FY 2008 error rate of 0.02%;
- Natural Resources Conservation Service's (NRCS) Farm Security and Rural Investment Act programs error rate of 0.03% was below its reduction target of 0.30%;
- Rural Development's (RD) Rental Assistance Program error rate of 2.06% was below its reduction target of 3.90%, and below its FY 2008 error rate of 3.95%;
- Farm Service Agency's (FSA) Conservation Reserve Program error rate of 0.72% was below its reduction target of 1.20%, and below its FY 2008 error rate of 1.25%;
- FSA's Miscellaneous Disaster Programs error rate of 0.90% was below its reduction target of 3.00%, and below its FY 2008 error rate of 3.13%;
- FSA's Direct and Counter Cyclical Program error rate of 0.42% was below its reduction target of 0.65%, and below its FY 2008 error rate of 0.70%;
- FSA's Noninsured Assistance Program error rate of 14.18% was below its FY 2008 error rate of 14.67%;
- Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) error rate of 5.01% was below its reduction target of 5.64%, and below its FY 2008 error rate of 5.64%. The SNAP error rate is a historic low for the program and is the 5<sup>th</sup> year in a row that the SNAP error rate has been below 6%, long considered the standard for recognition in the program;

- FNS' National School Lunch Program error rate of 16.44% was below its FY 2008 error rate of 16.55%; and
- FNS' School Breakfast Program error rate of 24.62% was below its FY 2008 error rate of 25.02%.

The root causes of improper payments are summarized into the 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 entry, classification, or processing of information associated with applications, supporting documents, or payments.

For FY 2009, the root causes of USDA improper payments were categorized as:

- 62 % attributable to verification error;
- 34 % attributable to authentication error; and
- 4 % attributable to administrative error.

USDA establishes improper payment recovery targets for high risk programs, where appropriate, and actively collects recoveries. USDA's total improper payment recoveries of \$352.8 million reported for FY 2009 exceeded the Departmental recovery target of \$53.7 million. In addition, USDA continues the recovery auditing program for contract payments made by eight agencies. Since 2005, USDA agencies have recovered \$1.2 million in contact payments identified for recovery.

USDA's goal is to continue to achieve OMB's targets for success in FY 2010. This goal is based upon USDA's previous accomplishments, planned corrective actions in progress, and established improper payment reduction and recovery targets.

OMB provided a reporting template for IPFA in OMB Circular A-136, "Financial Reporting Requirements." The template requires responses to specific issues. USDA's response to these issues follows.

- I. Describe your agency's risk assessments, performed subsequent to compiling your full program inventory.  
List the risk-susceptible programs identified through your risk assessments.**

The Office of the Chief Financial Officer (OCFO) issued detailed guidance for the risk assessment process including templates and performs extensive reviews of drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs. For USDA's largest programs, the risk assessment process required the following:

- 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 offset the program vulnerabilities;
- Internal controls testing for selected programs;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements (optional); and
- Description of how improper payments are recovered (optional).



USDA has identified the following 16 programs as susceptible to significant improper payments.

Selection Methodology	Agency	Program
Section 57 of OMB Circular A-11	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program (MAL)
	Food Nutrition Service (FNS)	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)
		Noninsured Assistance Program (NAP)
	Food 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)	<ul style="list-style-type: none"> <li>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);</li> <li>Testing is conducted using statistically sound samples drawn from the total population of program payments made from October 2007 through August 2008. 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 two-sided confidence level;</li> <li>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; and</li> <li>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.</li> </ul>

Agency	Program	Sampling Process
FNS	Supplemental Nutrition Assistance Program (SNAP)	<p><b>Statistical Sampling</b>                      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.</p> <p><b>Error Rate Calculation</b>                      The National payment error rate is calculated using a multi-step process:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• 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; and</li> <li>• 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.</li> </ul>
FNS	National School Lunch Program (NSLP)	<ul style="list-style-type: none"> <li>• 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;</li> <li>• 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;</li> <li>• 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;</li> <li>• 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; and</li> <li>• 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.</li> </ul>



Agency	Program	Sampling Process
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)	<p>FNS plans to continue periodic examinations of WIC vendor and certification error:</p> <ul style="list-style-type: none"> <li> <b>Vendor Error</b> — 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 selected from each of the 100 PSUs. The final sample size (unweighted) was 1,768 vendors. The study compared the purchase price paid by the compliance buyer with i) observed shelf prices and ii) the purchase amount the vendor reported to the State in order to yield estimates of overcharge and undercharge; and         </li> <li> <b>Certification Error</b> — 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.         </li> </ul>
FNS	Child and Adult Care Food Program (CACFP)	The national estimate of erroneous payments for the sponsor error component is based on a nationally representative sample of sponsor files for 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)	MILC was not measured since the FY 2008 outlays significantly decreased to \$2 million. Measuring the program was not cost justifiable. The FY 2009 outlays will be measured and reported in FY 2010.
FSA	Loan Deficiency Payments (LDP)	LDP was not measured since the FY 2008 outlays significantly decreased to \$6 million. Measuring the program was not cost justifiable. The FY 2009 outlays will be measured and reported in FY 2010.
FSA	Direct and Counter-Cyclical Payments (DCP)	See the process described in the MAL discussion. The same process was used for this program.
FSA	Conservation Reserve Program (CRP)	See the process described in the MAL discussion. The same process was used for this program.
FSA	Miscellaneous Disaster Programs (MDP)	See the process described in the MAL discussion. The same process was used for this program.
FSA	Noninsured Assistance Program (NAP)	See the process described in the MAL discussion. The same process was used for this program.
FS	Wildland Fire Suppression Management (WFSM)	<p>WFSM employs monetary unit sampling. Transactions coded to the Wildland Fire Suppression Fund are systematically analyzed and reviewed.</p> <p>Two samples were selected by systematic random sampling with probability proportional to size (dollar amount). Sample size determination was based on total transaction amounts through 6/30/2008 for sample one. The second sample size determination was based on total transaction amounts from 7/01/2008 through 9/30/2008. Due to the seasonality of the final amounts, the first nine months were sampled as a higher dollar rate (conservative rate) than the last three months. The final three months were sampled at the dollar rate for the entire balance.</p> <p>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% confidence level, with a precision range of 2.5%. Software used for sample selection was SAS 9.1 for Windows.</p>



Agency	Program	Sampling Process
RD	Rental Assistance Program (RAP)	<p>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 2008. The sampling plan consisted of 666 RA payments from a universe of 3,373,862 or .019 percent. The methodology produced a sample with a 99-percent confidence level. This year, the audit unit from the Centralized Servicing Center (CSC) conducted the study rather than the RD field staff that were used in previous years. The study required CSC to evaluate tenant files and income calculations.</p> <p>The FY 2008 universe of rental assistance payments was 3,373,862. 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. The extract contained a list of all tenants receiving RA during FY 2008. The data included month of payment, project name, project identifier (case number/project number) and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique.</p> <p>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 the Centralized Servicing Center (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. The survey results for this year are lower than prior years. This is attributable to the aggressive implementation of Multi-Family Housing's corrective action plan and a concerted effort of focused training by both the Agency and the Industry groups.</p>
RMA	Federal Crop Insurance Corporation Program Fund (FCIC)	<p>RMA drew 900 random 2005, 2006 and 2007 crop year indemnities to review during 2006, 2007 and 2008. For FY 2009 reporting, RMA sampled and reviewed the 2008 crop year, using those results to replace the 2005 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 900 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 the compliance staff which oversees the compliance review data base and is responsible for data quality control. Limited resources make it impractical to conduct a statistically valid program review each year. Despite these limits, in combination with the National Operations Reviews conducted by RMA compliance personnel, these random reviews of paid indemnities should provide the program with sufficient data to establish an acceptable error rate for the purposes of the IPIA.</p>
NRCS	Farm Security and Rural Investment Act programs (FSRIP)	<p>NRCS determined the universe size of payments for all the programs by using all transactions for FY 2008 entered into the accounting system against general ledger account 4902 and Treasury Symbols 12_1004. Transaction codes were identified and extracted which represented payments against the individual program fund codes to create a universe of payments for each individual program.</p> <p>Based upon last year's results and conversations with the individual Program Managers, NRCS projected the anticipated rate of occurrence. This would be the error rate from the previous years sampling factoring in any substantial changes made which mitigates improper payment risk found in prior IPIA efforts, external and internal audits or reviews.</p> <p>NRCS estimated the precision range, i.e., the upper and lower bounds around the estimated rate of occurrence as 5.00% (+/- 2.50%) based upon conversations with the Program Managers. OMB guidance recommended a 90% confidence level. However, NRCS used a more rigorous confidence level of 95% for the sample since accounting and financial applications typically use that confidence level. Based upon the four variables above (universe size, anticipated occurrence rate, precision range, and confidence level), we calculated the necessary sample size.</p> <p>Using a random number generator, NRCS selected payments for the sample. For program payments made through ProTracts system, payment amounts were aggregated by payment document number. ProTracts produced a payment transaction for each component of a payment request. This resulted in testing of the entire payment instead of a portion and simplifies the research required.</p> <p>A complete copy of the contract file was requested from the field office. The field office was required to verify highly erodible land/wetland conservation compliance and obtain adjusted gross income compliance documentation from the participant. Headquarters financial management (FMD) personnel audited the contract information against the program's business process using a standard template developed for each individual program. The template ensured consistency in the reviews and incorporated tests for known causes of improper payments, issues identified by the Program Managers and internal controls implemented as a result of prior internal and external audits and reviews.</p>





**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)	<p>MAL improper payments were primarily attributable to administrative errors. The most significant causes for payments being identified as improper were as follows:</p> <ul style="list-style-type: none"> <li>• A lien search was not conducted before loan disbursement;</li> <li>• An acceptable acreage report is not on file at time of review; and</li> <li>• Lien waiver was not obtained before loan disbursement.</li> </ul> <p>Actions taken or that will be taken to reduce the weaknesses identified are as follows:</p> <p><b>a. Broad Scope Actions Taken:</b></p> <ul style="list-style-type: none"> <li>• FSA has committed to reducing improper payments and program weaknesses that contribute to improper payments;</li> <li>• 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</li> <li>• 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. 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.</li> </ul> <p><b>b. Actions Already Taken that Impact All Causes of Improper Payments Identified:</b></p> <ul style="list-style-type: none"> <li>• 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 including in person and via Ag Learn, and is being followed up with communications and job aid to help facilitate compliance controls;</li> <li>• Integrated the employee's individual performance results related to reducing improper payments into his/her annual performance rating;</li> <li>• 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;</li> <li>• 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;</li> <li>• Issued a notice for each program for the FY 2008 National CORP review of improper payments, providing detailed findings discovered during the FY 2008 statistical sample including established policy and procedure references for each finding;</li> <li>• Issued various National notices to SOs and COFs re-enforcing current program policies and procedures; and</li> <li>• Conducted a 2008 National Farm Bill training conference that included a specific presentation pertained to necessary internal control procedures and action expected upon issuance of National CORP review notices pertaining to improper payments. PowerPoint presentations of each of the respective training sessions were posted to the FSA intranet for immediate reference for SOs and COFs to utilize in conducting subsequent training sessions for all the applicable FSA employees within a respective state.</li> </ul> <p><b>c. Actions That Will be Taken that Impact All Causes of Improper Payments Identified:</b></p> <ul style="list-style-type: none"> <li>• Provide a notice to SOs and COFs providing the detail findings discovered during the FY 2009 program specific statistical sample including established policy and procedure references for each finding;</li> <li>• Reinforce current program policies regarding program compliance through the issuance of National notices to SOs and COFs personnel; and</li> <li>• Review existing policy and procedures to determine program compliance inefficiencies and eliminate inadequate program compliance controls.</li> </ul>

Agency	Program	Corrective Actions Planned
FNS	Supplemental Nutrition Assistance Program (SNAP)	<p>SNAP improper payments were primarily attributable to verification and authentication errors.</p> <p><b>Causes of improper payments</b></p> <p>An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which they are eligible. This can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification. It also can occur from changes subsequent to certification or errors in determining eligibility or benefits by caseworkers. Eligibility worker delays in action or inaction taken on client reported changes also can cause of improper payments.</p> <p>An analysis of the FY 2007 completed statistical sample revealed that approximately 71.18 percent of all variances occurred before or at the most recent certification/recertification. Additionally, 59.44 percent of the errors were State agency caused. About half of the errors (49.18 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 31.06 percent. The analysis of the FY 2008 data is scheduled for release in early 2010.</p> <p><b>Steps that are (or will be) taken to address specific findings in the last statistical sample</b></p> <p>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 rate in a future fiscal year.</p> <p><b>Steps that are (or will be) taken to improve the overall control environment and improper payments</b></p> <p>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:</p> <ul style="list-style-type: none"> <li>• Analyzing data;</li> <li>• Reviewing and monitoring corrective action plans;</li> <li>• Developing strategies for error reduction and corrective action;</li> <li>• Participating on boards and in work groups; and</li> <li>• Hosting, attending and supporting payment accuracy conferences.</li> </ul> <p>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.</p>
FNS	National School Lunch Program (NSLP)	<p>NSLP improper payments were primarily attributable to verification and authentication errors.</p> <p>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.</p> <p><b>Strengthened the Certification Process through Legislative Program Reauthorization</b></p> <p>FNS worked with Congress to develop the Child Nutrition and WIC Reauthorization Act of 2004 (CNR) to enact program changes that address school meals certification problems. The act strengthened the certification process by:</p> <ul style="list-style-type: none"> <li>• 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;</li> <li>• Simplifying the certification process by requiring a single application for all eligible children in a household;</li> <li>• Requiring eligibility determinations to be in effect for the entire school year;</li> <li>• Modifying verification requirements, and adding authority for optional direct verification of children's eligibility;</li> <li>• Requiring State agencies to conduct additional administrative reviews of school districts with higher rates of error;</li> <li>• Expanding authority for the use of public records for verification of applications;</li> <li>• Requiring increased efforts to obtain household response to application verification requests; and</li> <li>• Requiring districts with high rates of non-response to verification to target subsequent year verification activity toward error-prone applications.</li> </ul> <p>FNS is engaged in continuing efforts to fully implement all the provisions of the CNR designed to improve program accountability.</p>



Agency	Program	Corrective Actions Planned
		<p><b>Improved State and Federal Oversight and Technical Assistance</b>            FNS conducted the following to improve oversight and technical assistance:</p> <ul style="list-style-type: none"> <li>• Since 2004, required annual training for schools on certification and accountability issues;</li> <li>• Secured funding from Congress in 2004 for FNS technical assistance to help State and local partners reduce administrative errors and improve program integrity;</li> <li>• Provided ongoing guidance and training materials to State agencies to improve monitoring of schools;</li> <li>• In addition to providing ongoing guidance and training materials to States on the School Meals Initiative (SMI) since 1995, provided in-person technical assistance to over 30 State agencies between 2005 and 2008 to improve compliance with program nutrition and meal planning standards, leading to improved accuracy of reimbursable meal-counting;</li> <li>• 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, the National School Lunch Program (NSLP) (including after school snacks and commodity schools) and the School Breakfast Program (SBP);</li> <li>• Trained more than 500 State and federal reviewers on the Coordinated Review Effort (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 CRE training sessions. Also, the CRE Guidance, which was developed in the early 1990s is being 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 for the 2008-2009 school year;</li> <li>• Pursuant to the CNR, FNS released applications for the fourth round of Direct Certification/Verification grant funding in FY 2008. 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 and SNAP State agencies are eligible to apply for funds. CNR provided \$9 million for this purpose. A series of grants were awarded in FY 2006-08; with an approximately \$2.5 million in FY 2009; and</li> <li>• FNS annually releases a solicitation for funding to State agencies 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.</li> </ul> <p><b>Expanded National Data Collection and Analysis to Inform Policy</b>            FNS conducted the following to collect and disseminate program data:</p> <ul style="list-style-type: none"> <li>• Initiated an annual measure of administrative errors in the certification process in school year 2004-2005;</li> <li>• As early as the 1990s, tested alternative approaches to the existing school meals certification and verification processes to assess their impact on accuracy and program access;</li> <li>• Highlighted the results of the data collections at numerous briefings with State and Federal partners and Congressional staff;</li> <li>• Published the APEC study, which provides the first comprehensive national estimate of erroneous school meal payments for IPIA reporting. Additionally we are working on developing an appropriate approach to improving the deficiencies noted in the APEC study; and</li> <li>• Published the third annual report, "Accuracy of School Food Authorities' (SFA) Processing of School Lunch Applications – Regional Office Review of Applications" in May 2008. Covering the year 2007, the publication is part of a series of annual reports assessing administrative errors associated with SFAs approval of applications for free and reduced-price school meals.</li> </ul> <p><b>Additional Action Planned</b>            FNS proposes to expand training, technical assistance, and other efforts to reduce payment errors that result from operational problems. Planned efforts include:</p> <ul style="list-style-type: none"> <li>• Implementing improvements in data reporting systems, and have launched an improved we-based system for States to report the results of verification activity. We anticipate that this reporting mechanism will improve the accuracy and timeliness of this data. In addition, we have been actively emphasizing to States the importance of using this and other data sources, such as the CRE Data Report (FNS-640) to identify and target corrective action;</li> </ul>
		<ul style="list-style-type: none"> <li>• Continuing the APEC study, which would enable FNS to estimate and measure changes in erroneous payments over time, and would help inform FNS, Congress, the States, and advocacy partners on the development of additional guidance, training, and policy options. For the past two decades, research and evaluation conducted by FNS has suggested that there are potentially significant risks for payment errors in the school meal programs. During that time, FNS worked closely with Congress, State agencies, school food authorities, advocacy partners and others to assess and find ways to reduce erroneous payments in the</li> </ul>

Agency	Program	Corrective Actions Planned
		<p>programs. Now that FNS has a nationally-representative estimate, it is expanding its efforts and focusing on reducing erroneous payments in the programs; and</p> <ul style="list-style-type: none"> <li>Working with the National Food Service Management Institute to provide web-based training to States and Schools on certification and other issues.</li> </ul>
FNS	School Breakfast Program (SBP)	<p>SBP improper payments were primarily attributable to authentication and verification errors. The corrective actions planned for this program are similar to NSLP. See the NSLP description.</p>
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	<p>WIC improper payments were primarily attributable to verification and authentication errors.</p> <ul style="list-style-type: none"> <li><b>Vendor Error:</b> 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/FSP 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.</li> <li><b>Certification Error:</b> 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 will measure the level of improper payments due to certification error for FY 2009 payments, with the initial improper payment amount and error rate available in March 2011.</li> </ul>
FNS	Child and Adult Care Food Program (CACFP)	<p>CACFP improper payments were primarily attributable to verification errors. 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. 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 (<i>tiering error</i>) or by FDCH error in reporting the number of meals which are eligible for reimbursement (<i>claiming error</i>). Two activities are underway which provide information on improper payments in the FDCH component of CACFP. A third activity was pilot tested during FY2007.</p> <ul style="list-style-type: none"> <li><b>Child Care Assessment Project (CCAP)</b>—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 is conducting comprehensive on-site assessments of a sample of participating family day care home sponsors. These assessments are designed to analyze the effectiveness of FNS regulatory and policy initiatives on program performance. They will also offer insights on the control points in the claiming and reimbursement process that most frequently cause or contribute to improper payments. This</li> </ul>



Agency	Program	Corrective Actions Planned
		<p>information will also help to support the effort to develop measurement strategies to estimate CACFP erroneous payments pursuant to IPIA. Data collection for this activity has been completed and the final results will be reported in FY 2010.</p> <ul style="list-style-type: none"> <li>• <b>Tiering Error</b>—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). For FY 2008, the third annual data collection was conducted to determine a nationally representative sponsor tiering determination error rate.</li> <li>• <b>Claiming Error</b>—FNS has identified two potential methods of estimating the risk of claiming error: <ul style="list-style-type: none"> <li>– <i>State data approach</i>. Use data from State monitoring visits of FDCHs.</li> <li>– <i>Sponsor data approach</i>. Federal staff select a random sample of sponsoring organizations and from each use a random selection of the sponsor's monitoring visits of FDCHs.</li> </ul> </li> </ul> <p>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.</p> <p>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.</p>
FSA	Milk Income Loss Contract Program (MILC)	MILC was not measured since the FY 2008 outlays significantly decreased to \$2 million. The FY 2009 outlays will be measured with planned corrective actions reported in FY 2010.
FSA	Loan Deficiency Payments (LDP)	LDP was not measured since the FY 2008 outlays significantly decreased to \$6 million. The FY 2009 outlays will be measured with planned corrective actions reported in FY 2010.
FSA	Direct and Counter-Cyclical Payments (DCP)	<p>DCP improper payments were primarily attributable to administrative errors. The most significant cause for payments being identified as improper are as follows:</p> <ul style="list-style-type: none"> <li>• Paperwork error pertaining to whether an acreage report was on file to account for all cropland for the farm participating in DCP.</li> </ul> <p>For DCP corrective actions, see the MAL section. The same corrective actions apply to this program.</p>
FSA	Conservation Reserve Program (CRP)	<p>CRP improper payments were primarily attributable to administrative errors. The most significant causes for payments being identified as improper is:</p> <ul style="list-style-type: none"> <li>• Payment amount is incorrect for calculated cost-share assistance (non-paperwork error) with an error rate of 1.24%; and</li> <li>• Revised CRP-1 contract errors (non-paperwork error) with an error rate of .31%. The original CRP-1 was on file, but the errors were associated with a revised CRP-1.</li> </ul> <p>For CRP corrective actions, see the MAL section. The same corrective actions apply to this program.</p>
FSA	Miscellaneous Disaster Programs (MDP)	<p>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. Of the eight disaster programs included in the statistical sample, none are permanent programs.</p> <p>The most significant causes for payments being identified as improper are as follows:</p> <ul style="list-style-type: none"> <li>• <b>Crop Disaster Programs</b> – Calculated payment amount is incorrect (non-paperwork error) - .41%; and</li> <li>• <b>Livestock Disaster Programs</b> – Feed loss value is incorrect (non-paperwork error) - .36%</li> </ul> <p>For MDP corrective actions, see the MAL section. The same corrective actions apply to this program.</p>
FSA	Noninsured Assistance Program (NAP)	<p>NAP improper payments were primarily attributable to administrative errors. The most significant causes for payments being identified as improper are as follows:</p> <ul style="list-style-type: none"> <li>• Application for payment filed late (paperwork error) – 6.82% error rate;</li> <li>• Incorrect total production used to calculate the NAP payment (non-paperwork error) – 2.35% error rate;</li> <li>• Notice of loss filed late (paperwork error) – 1.96% error rate;</li> <li>• Unit yield is not properly calculated (non-paperwork error) – 1.96% error rate; and</li> <li>• Incorrect crop acreage used to calculate payment (non-paperwork error) – 1.12% error rate.</li> </ul> <p>For NAP corrective actions, see the MAL section. The same corrective actions apply to this program.</p>



Agency	Program	Corrective Actions Planned
FS	Wildland Fire Suppression Management (WFSM)	FS corrective actions have significantly 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, centralization of accounting functions, improved communications, and follow-up prior to payment authorization.
RD	Rental Assistance Program (RAP)	<p>RAP improper payments were primarily attributable to administrative errors.</p> <p>Root cause of improper payment errors included:</p> <ul style="list-style-type: none"> <li>• Insufficient file documentation; and</li> <li>• Borrower/agent calculation errors and number transposition.</li> </ul> <p>Corrective actions include:</p> <ul style="list-style-type: none"> <li>• Established a working group 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 – May 30, 2009.</li> <li>• Implement a new management agent performance assessment review that will reduce management fees paid to noncompliant management agents. If performance decreases, there will be a concurrent decrease in the base management fee allowed for that year. Errors made on tenant certifications will be one of six criteria used for determining reduction in management fees paid. Timeframe – September 30, 2010; and</li> <li>• Continue to pursue access to the Department of Health and Human Services New Hires database and the Department of Housing and Urban Development's Enterprise Income Verification System to be shared with State Offices and management agents. Ongoing.</li> </ul>
RMA	Federal Crop Insurance Corporation Program Fund (FCIC)	<p>FCIC improper payments were primarily attributable to verification errors.</p> <p>RMA completed the fourth year of the three-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 correct them, however, as with the first 900 policies reviewed, there are still no definitive trends in the 900 policies completed in 2008. 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.</p> <p>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</p>
		<p>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.</p> <p>When RMA negotiated and executed the new Standard Reinsurance Agreement (SRA) starting in 2005, it emphasized improved quality controls and enhanced penalties that together should encourage participating companies who sell and service Federal crop insurance policies to improve their improper payments rate. Based on the passage of the 2008 Farm Bill, RMA will have another opportunity beginning with the 2011 reinsurance year to further adjust and improve SRA holder quality control requirements.</p>
NRCS	Farm Security and Rural Investment Act programs (FSRI)	<p>FSRI improper payments were primarily attributable to verification errors.</p> <p>The improper payments discovered were final payments on conservation contracts. In December 2008, NRCS performed a 100% open obligation review. NRCS performs a quarterly review of open obligations in accordance with Department Regulation 2300-001, "USDA Travel Card Regulation." Checklists are developed to be completed during the reviews. NRCS will add specific questions to the checklist to address the missing documentation issues found during our IPIA testing.</p>

**IV. Based on the Rate(s) Obtained in Step III, Set Annual Improvement Targets through FY 2012.**

**Improper Payment Reduction Outlook FY 2008 – FY 2012**



Below is a summary level table for all high risk programs outlining improper payment rates for the last two years and future reduction targets. When a number cannot be provided, an explanation is provided in the notes below. Amounts represent when the sampling results are reported. USDA programs report results the year following sampling activity. For example, results reported during FY 2009 represent measures of FY 2008 outlays and program activity.

Improper Payment Sampling Results (millions)						
Program	Results Reported in FY 2008			Results Reported in FY 2009		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Marketing Assistance Loan Program, FSA/CCC [Note #3]	4,981	1.76%	92	4,935	2.56%	85
Supplemental Nutrition Assistance Program, FNS	30,373	5.64%	1,713	34,611	5.01%	1,733
National School Lunch Program, FNS [Note #1]						
Total Program	8,756	16.55%	1,449	9,436	16.44%	1,551
Certification Error	8,756	9.67%	847	9,436	9.56%	902
Counting/Claiming Error	8,756	6.88%	602	9,436	6.88%	649
School Breakfast Program, FNS (Note #1)						
Total Program	2,150	25.02%	538	2,273	24.62%	560
Certification Error	2,150	9.23%	198	2,273	8.83%	201
Counting/Claiming Error	2,150	15.79%	339	2,273	15.79%	359
Women, Infants and Children, FNS [Note #2]						
Total Program	3,950	N/A	N/A	4,483	N/A	N/A
Certification Error Component	3,950	N/A	N/A	4,483	N/A	N/A
Vendor Error Component	3,950	0.87%	34	4,483	1.27%	57
Child and Adult Care Food Program, FNS [Note #2]						
Total Program						
FDC Homes – Tiering Decisions	2,311	N/A	N/A	2,214	N/A	N/A
FDC Homes – Meal Claims	728	1.56%	11	713	2.07%	15
	728	N/A	N/A	713	N/A	N/A
Milk Income Loss Contract Program, FSA [Note #5]	155	0.21%	0.3	2	N/A	N/A
Loan Deficiency Payments, FSA [Note #5]	134	0.60%	0.8	6	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #3]	7,144	0.70%	47	4,948	0.42%	20
Conservation Reserve Program, FSA [Note #3]	1,888	1.25%	24	1,876	0.72%	11
Miscellaneous Disaster Programs, FSA [Note #3]	154	3.13%	5	2,245	0.90%	19
Noninsured Assistance Program, FSA [Note #3]	126	14.67%	18	67	14.20%	8
Wildland Fire Suppression Management, FS	1,370	0.02%	0.2	1,016	0.00%	0.0
Rental Assistance Program, RD	887	3.95%	35	887	2.06%	18
Federal Crop Insurance Corporation Program Fund, RMA [Note #4]	3,508	4.70%	165	3,545	5.79%	205
Farm Security and Rural Investment Act programs, NRCS	1,138	0.00%	0.0	1,320	0.03%	0.0
USDA Total	67,442	6.13%	4,132	72,363	5.92%	4,283

Detailed Breakout of Improper Payment Reported in FY 2009							
	Total Payments \$ in millions	IP %	Over-Payments %	Under-Payments %	Other %	Incorrect Disbursement %	Incomplete Paperwork %
Marketing Assistance Loan Program, FSA/CCC [Note #3]	4,935	2.56%	2.56%	0.00%	N/A	0.16%	2.40%



Detailed Breakout of Improper Payment Reported in FY 2009							
	Total Payments \$ in millions	IP %	Over-Payments %	Under-Payments %	Other %	Incorrect Disbursement %	Incomplete Paperwork %
Supplemental Nutrition Assistance Program, FNS	34,611	5.01%	4.01%	1.00%	N/A	5.01%	N/A
National School Lunch Program, FNS	9,436	16.44%	12.47%	3.96%	N/A	16.44%	N/A
School Breakfast Program, FNS	2,273	24.62%	21.28%	3.35%	N/A	24.62%	N/A
Women, Infants and Children, FNS	4,483	1.27%	0.81%	0.46%	N/A	1.27%	N/A
Child and Adult Care Food Program, FNS	713	2.07%	1.87%	0.20%	N/A	2.07%	N/A
Milk Income Loss Contract Program, FSA [Note #5]	2	N/A	N/A	N/A	N/A	N/A	N/A
Loan Deficiency Payments, FSA [Note #5]	6	N/A	N/A	N/A	N/A	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #3]	4,948	0.42%	0.40%	0.02%	N/A	0.17%	0.32%
Conservation Reserve Program, FSA [Note #3]	1,876	0.72%	0.71%	0.01%	N/A	0.44%	0.38%
Miscellaneous Disaster Programs, FSA [Note #3]	2,245	0.90%	0.65%	0.25%	N/A	0.84%	0.11%
Noninsured Assistance Program, FSA [Note #3]	67	14.20%	13.01%	1.17%	N/A	6.40%	9.30%
Wildland Fire Suppression Management, FS	1,016	0.00%	0.00%	0.00%	N/A	0.00%	0.00%
Rental Assistance Program, RD	887	2.06%	2.06%	0.0%	N/A	0.63%	1.43%
Federal Crop Insurance Corporation Program Fund, RMA	3,545	5.79%	5.78%	0.01%	N/A	5.79%	0.00%
Farm Security and Rural Investment Program, NRCS	1,320	0.03%	0.03%	0.00%	N/A	0.00%	0.03%
USDA Total	72,363	5.92%	4.78%	1.14%	0.00%	5.47%	0.45%

Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2010 Reporting			FY 2011 Reporting			FY 2012 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Marketing Assistance Loan Program, FSA/CCC	8,824	1.55%	137	8,824	1.45%	128	8,824	1.45%	128
Supplemental Nutrition Assistance Program, FNS [Note #6]	35,189	5.60%	1,971	35,483	5.40%	1,916	35,483	5.30%	1,881
National School Lunch Program, FNS	10,215	15.63%	1,597	10,941	15.19%	1,662	11,370	14.76%	1,678
School Breakfast Program, FNS	2,589	23.42%	606	2,823	22.66%	640	2,959	21.92%	649
Women, Infants and Children, FNS	4,901	0.77%	38	5,265	0.72%	38	5,376	0.67%	36
Child and Adult Care Food Program, FNS	758	1.46%	11	799	1.41%	11	816	1.36%	11
Milk Income Loss Contract Program, FSA	600	0.21%	1	282	0.21%	1	282	0.21%	1
Loan Deficiency Payments, FSA	152	0.60%	1	151	0.60%	1	151	0.60%	1



Improper Payment Reduction Outlook (\$ in millions)									
Program	FY 2010 Reporting			FY 2011 Reporting			FY 2012 Reporting		
	Outlays	IP%	IP\$	Outlays	IP%	IP\$	Outlays	IP%	IP\$
Direct and Counter-Cyclical Payments, FSA	5,985	0.41%	25	5,859	0.40%	23	4,282	0.39%	17
Conservation Reserve Program, FSA	1,852	0.71%	13	1,764	0.70%	12	1,841	0.69%	13
Miscellaneous Disaster Programs, FSA	1,643	0.89%	15	1,284	0.88%	11	1,205	0.87%	10
Noninsured Assistance Program, FSA	275	9.22%	25	275	5.90%	16	275	2.50%	7
Wildland Fire Suppression Management, FS	2,090	0.02%	0.4	2,300	0.02%	0.5	2,400	0.02%	0.5
Rental Assistance Program, RD	961	2.05%	20	999	2.04%	20	1,030	2.03%	21
Federal Crop Insurance Corporation Program Fund, RMA	8,550	4.50%	385	6,000	4.40%	264	6,000	4.30%	258
Farm Security and Rural Investment, NRCS	1,790	0.20%	4	2,172	0.15%	3	2,688	0.10%	3

**Note #1:** Does not adjust for interaction between the different sources of certification error and counting/claiming error. Improper Payment Rates (School Year 2007/08) times SBP outlays (FY 2008).

**Note #2:** WIC and CACFP tests components of their total program. WIC currently tests and reports on the vendor error component of the payment process. The WIC certification error component information should be available by March 2011. CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measure processes for the CACFP meal claim component and has not set a date for measurement and reporting.

**Note #3:** The FY 2009 estimated improper payment dollar amounts for MAL, DCP, CRP, MDP, and NAP 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% confidence level. The MAL, DCP, CRP, MDP, and NAP universe of payments for the FY 2009 reporting cycle was October 2007 through August 2008. The measurement period was adjusted in order to meet an earlier report timeframe. The FY 2010 reporting cycle measurement period will be September 2008 through August 2009.

**Note #4:** RMA uses a three year running average to calculate the improper payment error rate. This is the fourth year RMA has used this process to measure the improper payment error rate.

**Note #5:** FSA did not measure MILC and LDP for the FY 2009 IPIA review and reporting cycle since sampling was not cost effective due to the very low outlay amounts (\$2 million for MILC and \$6 million for LDP). FSA will measure MILC and LDP and report the results for the FY 2010 IPIA review cycle.

**Note #6:** The presented SNAP improper payment targets are being evaluated by USDA and OMB. These targets may be revised in OMB's annual report "Improving the Accuracy and Integrity of Federal Payments" provided to Congress in January 2010.

**V. Discussion of your Agency's Recovery Auditing effort, if applicable, including any contract types excluded from review and the justification for doing so; actions taken to recoup improper payments, and the business changes and internal controls instituted and/or strengthened to prevent further occurrences.**

**In addition, complete the table below.**

USDA continued its recovery audit program with eight agencies in FY 2009. All agencies used independent recovery audit firms working on contingency.

Steps taken to reduce future errors include strengthening internal controls by providing information related to all recovered monies and the underlying transactions to management. The most successful method of identifying funds to be recovered has been the review of vendor statements. Most amounts identified during FY 2009 were due to the vendor statements reviews of FY 2008 payments.

FY 2009 Recovery Auditing Results (\$ in Million)								
Agency Component	Amount Subject to Review for FY 2009 Reporting	Actual Amount Reviewed and Reported	FY 2009 Amounts Identified for Recovery	FY 2009 Amounts Recovered	Prior Years Amounts Identified for Recovery	Prior Years Amounts Recovered	Cumulative (Current & Prior Years) Amounts Identified for Recovery	Cumulative (Current & Prior Years) Amounts Recovered
Forest Service	1,906.069	1,906.069	0.002	0.002	.682	0.682	.684	0.684
Natural Resources Conservation Service	693.067	693.067	0.000	0.000	0.026	0.026	0.026	0.026
Agricultural Research Service	461.173	461.173	0.059	0.059	0.000	0.000	0.059	0.059
Animal Plant Health Inspection Service*	428.645	428.645	0.021	0.021	0.374	0.374	0.395	0.395
Farm Service Agency	94.819	94.819	0.000	0.000	0.047	0.047	0.047	0.047
Food Safety and Inspection Service	33.550	33.550	0.000	0.000	0.000	0.000	0.000	0.000
Rural Development	110.314	110.314	0.000	0.000	0.000	0.000	0.000	0.000
Agricultural Marketing Service	47.995	47.995	0.000	0.000	0.002	0.002	0.002	0.002
All Others	1,154.138	0.000	N/A	N/A	N/A	N/A	N/A	N/A
USDA Total	4,929.77	3,775.632	0.082	0.082	1.131	1.131	1.213	1.213



**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 and their compliance with regulations, policies, and procedures through their performance plans;
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability;
- Employees at all levels of the Agency will be held accountable for efficient and accurate delivery of all FSA programs; 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 must develop a corrective action plan. The plan will include procedures to train field staff, borrowers and property manager in appropriate required documentation and follow-up with tenants and income-verifiers.

**RMA**

RMA revised its strategic plan to provide results to enhance accountability. It also has established procedures to ensure RMA management takes future corrective actions to address program vulnerabilities. Additionally, every employee's performance plan agreement 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 A. Describe whether the agency has the information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.**

**VII B. If the agency does not have such systems and infrastructure, describe the resources the agency requested in its FY 2009 budget submission to Congress to obtain the necessary information systems and infrastructure.**

While USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. USDA has worked closely with OMB to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

**VIII. Describe any statutory or regulatory barriers which may limit the agencies' corrective actions in reducing improper payments and actions taken by the agency to mitigate the barriers' effects.**

**FSA/CCC**

The Department of Agriculture Reorganization Act of 1994, Section 281 provides that "[E]ach decision of a State, county, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This statute commonly is referred to the "Finality Rule."

**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 meals 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 meals 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; and
- **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.

## 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.

### **IX. 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

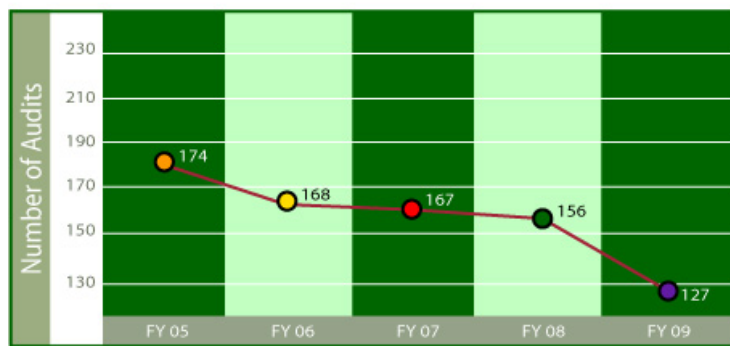
### BACKGROUND

The Office of Inspector General (OIG) audits USDA’s programs, systems, and operations. OIG then recommends improvements to management based on its findings. U.S. Department of Agriculture (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 Office of the Chief Financial Officer (OCFO) oversees audit follow-up for the Department. An audit remains open until all corrective actions for each recommendation are completed. As agencies complete planned corrective actions and submit closure documentation, OCFO reviews it for sufficiency and determines if final action is completed.

### FY 2009 Results

Exhibit 33: Decrease in Total Open Audit Inventory



Note: The FY 2008 ending balance was revised from 150 to 156 to include 6 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 35 and Exhibit 37.

USDA agencies closed 60 audits in fiscal year (FY) 2009. OIG and USDA agencies reached management decision on 31 audits during the year. One audit is in appeal status. As shown in Exhibit 33, the Department reduced its inventory of open audits in FY 2009 by 18 percent in FY 2009.

### Audit Follow-Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress providing the status of resolved audits that remain open. Reports on resolved audits must include the elements listed in the 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 34: 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: <ul style="list-style-type: none"> <li>• Reductions in outlays or other savings;</li> <li>• De-obligation of funds from programs or operation or withdrawal of subsidy costs on loans, guarantees, or bonds; and</li> <li>• Implementing recommended improvements for grants or contracts, or unnecessary expenditures noted in pre-award reviews of contract or grant agreements.</li> </ul>
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 (DC) and Funds to Be Put to Better Use (FTBU)<sup>1</sup>**

**Exhibit 35: Inventory of Audits with Disallowed Costs<sup>7</sup>**

Audits with Disallowed Costs	# of Audits	Amount (\$)
Beginning of the Period	44	76,090,844
Plus: New Management Decisions	8	4,827,523
Total Audits Pending Collection of Disallowed Costs	52	80,918,367
Adjustments		3,337,765
Revised Subtotal		77,580,602
Less: Final Actions (Recoveries)*	11	4,156,479
Audits with DC Requiring Final Action at the End of the Period	41	\$73,424,123

\*Recoveries do not include \$14,185 interest collected.

**Exhibit 36: Distribution of Adjustments to Disallowed Costs**

Category	Amount (\$)
Legal Decision	1,687,842
Agency Appeals	86,080
Write-Offs	1,136,425
Agency Documentation	805,324
Agency Discovery	-377,906
<b>Total</b>	<b>\$3,337,765</b>

**Exhibit 37: Inventory of Audits with Funds To Be Put to Better Use<sup>1</sup>**

Audits with Funds to be Put to Better Use	# of Audits	Amount (\$)
Beginning of the Period	19	471,061,054
Plus: New Management Decisions	3	144,519,851
Total Audits Pending	22	615,580,905
Less: Final Actions	9	113,030,766
Audits with FTBU Requiring Final Action at the End of the Period	13	502,550,139
Disposition of Funds to Be Put to Better Use:		
FTBU Implemented		41,992,447
FTBU Not Implemented		71,038,319
Total FTBU Amounts for Final Action Audits		\$113,030,766

<sup>7</sup> Exhibit 35 and Exhibit 37 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 35 and Exhibit 37 does not equal the total resolved audit inventory balance in Exhibit 33.

Of the 60 audits that achieved final action during the fiscal year, 11 contained Disallowed Costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 41 with a monetary value of \$73,424,123.

For audits with disallowed costs that achieved final action in FY 2009, OIG and management agreed to collect \$7,494,244. Adjustments were made totaling \$3,337,765 (45 percent of the total) because of: 1) legal decisions; 2) agency appeals; 3) write-offs; 4) USDA agencies' ability to provide sufficient documentation to substantiate disallowed costs; and 5) agency discovery. Management recovered the remaining \$4,156,479.

Final action occurred on 9 audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is 13 with a monetary value of \$502,550,139.

### Decrease in the Number of Audits Open One or More Years Past the Management Decision Date

Audits one Year or More Past MDD	# of Audits
Beginning of the period	109
Less: FY 2008 audits closed	35
Audit in appeal	1
Subtotal FY 2008 Audits one year or more past MD	73
Plus: Audits that turned one year during FY 2009	25
End of the Period	98

The numbers of audits open 1 or more years without final action in FY 2008 decreased from 109 to 73 audits, a 33 percent decrease. During the year, an additional 25 audits turned one year past Management Decision Date (MDD) for a balance of 98 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 22 audits that are pending collection of associated disallowed costs. Eight audits were scheduled for completion by September 30, 2009, but final action documentation was not

evaluated during this reporting period. 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 and audits under collection is available from OCFO.

Exhibit 38: Distribution of Audits Open One Year or More Past the Management Decision Date

Agency	Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)	No.	DC (\$)	FTBU (\$)
<b>Totals</b>	<b>5</b>	<b>144,923</b>	<b>0</b>	<b>71</b>	<b>31,069,486</b>	<b>431,340,480</b>	<b>22</b>	<b>39,420,666</b>	<b>640,135</b>

### Management's Report on Audit Follow-Up

Exhibit 39: Audits Open One Year or More Past the Management Decision Date and Behind Schedule

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC\$	FTBU\$
(34) Pending issuance of policy/guidance and legislation					
02601-1-CH	9/30/05	12/31/09	Agricultural Research Service Adequacy of Controls to Prevent the Improper Transfer of Sensitive Technology	-	-
03601-11-AT	11/17/05	12/30/09	Farm Service Agency Minority Participation in Farm Service Agency's Programs	-	-
04004-3-AT	6/26/03	12/31/09	Rural Development, Rural Housing Service, Rural Rental Housing Program, Tenant Income Verification – Gainesville, Florida	\$134,639	\$3,183,305



Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC\$	FTBU\$
04099-339-AT	3/23/05	12/31/09	Rural Development, Rural Housing Service Subsidy Payment Accuracy in Multi-Family Housing Program	-	-
06401-22-FM	11/13/07	10/31/09	Commodity Credit Corporation's Financial Statements for FY 2007 and 2006	-	-
08001-1-AT	4/19/07	12/31/09	Forest Service Implementation of the Capital Improvement Program	-	-
08401-8-FM	11/15/07	3/31/10	Forest Service Financial Statements for FY 2007 and 2006	-	-
08601-30-SF	3/31/03	10/30/09	Forest Service Review of Security Over Explosives/Munitions/Magazines Located Within the National Forest System	-	-
08601-38-SF	9/23/04	12/31/09	Forest Service Firefighting Safety Program	-	-
08601-44-SF	12/7/06	3/31/10	Forest Service Large Fire Suppression Cost	-	-
08601-45-SF	8/8/06	10/31/09	Forest Service Follow-up Review of FS Security Over Explosives/Munitions Magazines Located within the National Forest System	-	-
08601-48-SF	2/5/08	3/31/10	Forest Service Air Safety Program	-	-
08601-50-SF	9/28/07	12/31/09	Forest Service Stewardship Contracts	-	\$467,326
08601-51-SF	8/5/08	3/31/10	Forest Service Controls over Documenting and Reporting Its Hurricane Relief Expenditures to FEMA	-	\$116,827,492
09601-4-TE	9/30/05	12/31/09	Rural Development, Rural Utilities Service Broadband Grant and Loan Programs	\$25,614,279	\$308,063,204
10099-10-KC	9/30/03	3/31/10	Natural Resources Conservation Service Protection of Federal Assets	-	-
24501-1-FM	11/24/04	10/31/10	Food Safety and Inspection Service Application Controls - Performance Based Inspection Service System	-	-
24601-1-CH	6/21/00	3/31/10	Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	-	-
27099-34-SF	8/17/07	6/30/10	Food and Nutrition Service Summer Food Service Program California and Nevada	\$53,635	-
27501-2-HY	3/31/08	9/30/09	Food and Nutrition Service Application Control Review of the Food and Nutrition Service's Store Tracking and Redemption System II	-	-
27601-3-CH	3/22/96	9/30/09	Food and Nutrition Service Food Stamp Program— Disqualified Recipient System – Alexandria, Virginia	-	-
27601-35-CH	7/14/06	3/31/10	Food and Nutrition Service Child and Adult Care Food Program, Supper Meals Served in Schools	-	-
33601-2-AT	6/23/05	9/30/09	Animal and Plant Health Inspection Service Evaluation of the Implementation of the Select Agents or Toxins Regulations (Phase 1)	-	-
33601-3-CH	2/20/03	3/31/10	Animal and Plant Health Inspection Service Safeguards to Prevent Entry of Prohibited Pests and Diseases into the United States	-	-
34099-2-AT	9/14/01	10/1/09	Rural Development Rural Business-Cooperative Service Business and Industry Loan Program, OMNIVEST Resources, Inc. – Fort Gaines, Georgia	\$4,052,351	-
34601-15-TE	9/30/03	10/30/09	Rural Development, Rural Business-Cooperative Service National Report on the Business and Industry Loan Program	-	-

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC\$	FTBU\$
50099-13-AT	3/29/02	12/31/09	Departmental Administration Oversight and Security of Biological Agents at Laboratories Operated by the United States Department of Agriculture	-	-
50601-2-HY	9/9/05	12/31/09	Departmental Administration Review of Oversight of Federal Employee's Compensation Act Operations within the U.S. Department of Agriculture	-	-
50601-8-TE	1/28/05	9/30/09	Animal and Plant Health Inspection Service Controls Over Issuance of Genetically Engineered Organism Release Permits	-	-
50601-9-AT	3/24/04	12/31/09	Departmental Administration Controls Over Chemical and Radioactive Materials at U.S. Department of Agriculture Facilities	-	-
50601-10-AT	3/8/04	12/31/09	Homeland Security Follow-up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	-	-
50801-12-AT	9/9/02	3/31/10	Departmental Administration Management of Hazardous Materials Management Funds	-	\$1,813,809
60601-4-HY	5/14/07	12/30/09	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	-	-
60801-4-HQ	3/10/00	12/30/09	Office of the Assistant Secretary for Civil Rights Status of the Implementation of Recommendations Made in Prior Evaluations of Program Complaints	-	-
<b>(1) Pending conclusion of investigation, negotiation or administrative appeal</b>					
04801-3-KC	3/31/99	12/31/09	Rural Development, Rural Housing Service – Rural Rental Housing Program Bosley Management, Incorporated – Sheridan, Wyoming	\$146,690	\$85,516
<b>(14) Pending completion of IT system security weaknesses, systems development, implementation, or enhancement</b>					
04601-14-CH	3/20/07	10/31/09	Rural Development, Rural Housing Service Improper Payments - Monitoring the Progress of Corrective Action for High-Risk Programs in Rural Housing Service	-	-
04801-6-KC	12/18/00	10/31/09	Rural Development, Rural Housing Service Rural Rental Housing Program Insurance Expenses, Phase I	\$1,029,999	\$9,000
06401-17-FM	11/5/04	12/30/12	Commodity Credit Corporation's Financial Statements for Fiscal Years 2004 and 2003	-	-
08601-2-HY	12/22/06	3/31/10	Forest Service Follow up on Recommendations Made on the Maintenance of Forest Service Infrastructure	-	-
08601-40-SF	7/6/05	12/31/09	Forest Service Emergency Equipment Rental Agreements	-	-
08601-41-SF	1/13/06	3/31/10	Forest Service Collaborative Ventures and Partnerships with Non-Federal Entities	\$37,890	-
11099-44-FM	12/14/06	10/31/09	Departmental Administration Purchase Card Management System Controls Need Strengthening	-	-
24601-3-CH	9/30/04	10/31/10	Food Safety and Inspection Service Use of Food Safety Information Systems	-	-
24601-7-HY	9/28/06	10/31/10	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	10/31/10	Food Safety and Inspection Service Egg Products Processing Inspection	-	-



Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC\$	FTBU\$
33501-1-CH	3/31/05	12/31/09	Animal and Plant Health Inspection Service Review of Application Controls for the Import Tracking System	-	-
33601-1-HY	2/14/05	10/31/10	Food Safety and Inspection Service Oversight of the Importation of Beef Products from Canada	-	-
50601-10-HQ	7/24/06	3/31/10	Natural Resources Conservation Service Chesapeake Bay Restoration Agricultural Impacts on Water Quality	-	-
50601-10-KC	1/25/06	10/31/10	Food Safety and Inspection Service Controls Over BSE Sampling, Specified Risk Materials and Advanced Meat Recovery Products - Phase III and Animal and Plant Health Inspection Service <i>Bovine Spongiform Encephalopathy (BSE)</i> Surveillance Program – Phase II	-	-
<b>(11) Pending results of internal monitoring or program review</b>					
05099-109-KC	1/27/05	12/31/10	Risk Management Agency Renegotiation of the Standard Reinsurance Agreement	-	-
05600-1-TE	9/28/89	9/30/10	Risk Management Agency Crop Year 1988 Insurance Contracts with Claims	-	-
06401-4-KC	2/26/02	12/30/09	Commodity Credit Corporation's Financial Statements for FY 2001	-	\$19,586
33601-7-CH	8/14/07	12/31/09	Animal and Plant Health Inspection Service Review of Customs and Border Protection Inspection Activities	-	-
34601-4-AT	1/10/03	10/31/09	Rural Development, Rural Business-Cooperative Service Lender Servicing of Business and Industry Guaranteed Loans in Georgia	-	-
50401-62-FM	11/15/07	10/31/09	Office of the Chief Financial Officer USDA's Consolidated Financial Statements for Fiscal Years 2007 and 2006	-	-
50601-9-CH	9/28/06	9/30/09	Animal and Plant Health Inspection Service Control Over the <i>Bovine Tuberculosis</i> Eradication Program	-	-
50601-13-CH	8/14/08	10/31/09	Rural Development Implementation of Renewable Energy Programs in USDA	-	-
60016-1-HY	9/8/05	12/30/09	Office of the Assistant Secretary for Civil Rights Follow up on Prior Recommendations for Civil Rights Program and Employment Complaints	-	-
60801-1-HQ	9/30/98	12/30/09	Office of the Assistant Secretary for Civil Rights Evaluation of the Office of Civil Right's Efforts to Reduce the Backlog of Program Complaints	-	-
60801-2-HQ	3/24/99	12/30/09	Office of the Assistant Secretary for Civil Rights Evaluation of the Office of Civil Rights Efforts to Implement Civil Rights Settlements	-	-
<b>(1) Conclusion of external action</b>					
50601-6-TE	3/04/04	12/30/09	Agricultural Research Service Controls Over Plant Variety Protection and Germplasm Storage	-	-
<b>(1) Pending results of request for change in management decision</b>					
05099-18-KC	6/1/04	9/30/09	Risk Management Agency Management and Security of Information Technology Resources	-	-
<b>(1) Pending Office of General Counsel (OGC) or OIG advice</b>					
04601-15-CH	3/30/07	12/31/09	Rural Development, Rural Housing Service, Controls over Single Family Housing Funds Provided for Hurricane Relief Efforts	-	\$388,842
<b>(8) Pending administrative action</b>					
06401-15-FM	12/26/02	12/30/12	Commodity Credit Corporation's Financial Statements for FY 2002	-	-
06401-20-FM	11/9/05	12/30/12	Commodity Credit Corporation's Financial Statements for FY 2005 and 2004	-	-

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount	
				DC\$	FTBU\$
06401-21-FM	11/13/06	9/30/09	Commodity Credit Corporation's Financial Statements for FY 2006 and 2005	-	-
08401-4-FM	11/10/04	10/30/09	Forest Service's Financial Statements for FY 2004 and 2003	-	-
08401-6-FM	11/24/06	10/31/09	Forest Service's Financial Statements for FY 2005 and 2004	-	-
08601-42-SF	3/14/06	10/31/09	Forest Service Firefighting Contract Crews	-	-
13001-3-TE	8/16/04	3/31/10	Cooperative State Research, Education, and Extension Service Implementation of Agricultural Research, Extension and Education Reform Act of 1998	\$3	\$482,400
50099-11-HY	03/31/05	9/30/09	Research Education and Economics Implementation of Federal Research Misconduct Policy in the U.S. Department of Agriculture	-	-
Total Number Audits (71)			Total	\$31,069,486	\$431,340,480



## Appendix D—Acronyms

### A

**ACIO**—Associate Chief Information Officer

**ACSI**—American Customer Satisfaction Index

**AGI**—Adjusted Gross Income

**AHMS**—Animal Health Monitoring and Surveillance

**AI**—*Avian influenza*

**AIP**—Approved Insurance Provider

**ANSI**—American National Scientific Institute

**APHIS**—Animal and Plant Health Inspection Service

**AQIM**—Agricultural Quarantine Inspection Monitoring

**ARPA**—Agricultural Risk Protection Act of 2000

**ARRA**—American Recovery and Reinvestment Act of 2009

**ASB**—Agricultural Statistics Board

**ASCR**—Assistant Secretary for Civil Rights

### B

**B&I**—Business and Industry

**BQMS**—Biotechnology Quality Management System

**BSE**—*Bovine Spongiform Encephalopathy*

### C

**C&A**—Certification and Accreditation

**CACFP**—Child and Adult Care Food Program

**CBP**—Customs and Border Protection

**CCC**—Commodity Credit Corporation

**CDC**—United States Centers for Disease Control

**CDP**—Crop Disaster Program

**CEAP**—Conservation Effects Assessment Project

**CF**—Community Facilities

**CFP**—Cochrane Fellowship Program

**CFR**—Code of Federal Regulations

**CIMS**—Comprehensive Information Management System

**CNMP**—Comprehensive Nutrient Management Plan

**CNPP**—Center for Nutrition Policy and Promotion

**COOL**—County of Origin Labeling

**COOP**—Continuity of Operations

**CPAP**—Community Programs and Application Processing

**CPPO**—Cyber and Privacy Policy and Oversight

**CR**—Civil Rights

**CRES**—Civil Rights Enterprise System

**CRP**—Conservation Reserve Program

**CSAM**—Cyber Security Assessment

**CSP**—Conservation Security Program

**CSP**—Conservation Stewardship Program

**CSS**—Country Strategic Statement

**CTA**—Conservation Technical Assistance Program

**CWPP**—Community Wildfire Protection Plans

### D

**DAR**—Data At Rest

**DART**—Department of Agriculture Recovery Team

**DHS**—The United States Department of Homeland Security

**DOI**—The United States Department of Interior

### E

**EAPIC**—East Africa Phytosanitary Information Committee

**EEO**—Equal Employment Opportunity

**EERA**—Emergency Equipment Rental Agreements

**eFMS**—Electronic Funds Management System

**EQIP**—Environmental Quality Incentives Program

**EU**—European Union

### F

**FAD**—Foreign Animal Disease

**FAS**—Foreign Agricultural Service

**FATER**—Food Aid Targeting Effectiveness Ratio

**FCIC**—Federal Crop Insurance Corporation

**FDCH**—Family Day Care Home

**FEMA**—Federal Emergency Management Agency

**FFMIA**—Federal Financial Management Improvement Act

**FISMA**—The Federal Information Security Management Act

**FLP**—Farm Loan Programs

**FMFIA**—The Federal Managers' Financial Integrity Act

**FMPP**—Farmers Market Promotion Program



**FNS**—Food and Nutrition Service  
**FPA**—Fire Program Analysis  
**FRPP**—Farm and Ranch Lands Protection Program  
**FS**—Forest Service  
**FSA**—Farm Service Agency

**FSA**—Food Safety Assessment  
**FSIS**—Food Safety Inspection Service  
**FSWG**—Food Safety Working Group  
**FWS**—U.S. Fish and Wildlife Service  
**FY**—Fiscal Year

**G**

**GAO**—Government Accountability Office  
**GE**—Genetically Engineered

**GEO**—Genetically Engineered Organisms  
**GLS**—Guaranteed Loan System

**H**

**HACCP**—Hazard Analysis and Critical Control Point  
**HEI**—Healthy Eating Index  
**HIP**—Hurricane Indemnity Program  
**HIS**—Habitat Suitability Indices

**HPAI**—Highly Pathogenic Avian Influenza  
**HSC**—Homeland Security Counsel  
**HSO**—[USDA] Homeland Security Office  
**HUD**—United States Department of Housing and Urban Development

**I**

**IPIA**—Improper Payments Information Act of 2002  
**IPM**—Integrated Pest Management  
**ipmPIPE**—integrated pest management Pest Information Platform for Extension and Education

**IPPS**—In-Plant Performance System  
**ISO**—The International Organization of Standardization  
**IT**—Information Technology

**L**

**LEA**—Local Education Agency

**LM**—*Listeria monocytogenes*

**M**

**MOU**—Memorandum of Understanding

**MRL**—Maximum Residue Level

**N**

**NAHLN**—The National Animal Health Laboratory Network  
**NAP**—Noninsured Crop Disaster Assistance Payment  
**NAS**—National Academy of Sciences  
**NCFD**—National Computer Forensic Division  
**NCP**—National Conservation Planning Database  
**NDB**—National Data Bank

**NGO**—Non-Governmental Organization  
**NOP**—National Organic Program  
**NOSB**—National Organic Standards Board  
**NPDN**—National Plant Diagnostic Network  
**NRCS**—Natural Resources Conservation Services  
**NSLP**—National School Lunch Program

**O**

**OCFO**—Office of the Chief Financial Officer  
**OCIO**—Office of the Chief Information Officer  
**OGC**—Office of the General Counsel

**OIE**—World Organization for Animal Health  
**OIG**—The Office of Inspector General  
**OMB**—The United States Office of Management and Budget

**P**

**PAR**—Performance and Accountability Report  
**PBIS**—Performance-Based Inspection System  
**PEIS**—Program Evaluation and Improvement Staff  
**PHDCIS**—Public Health Data Communication Infrastructure Systems  
**PHICP**—Public Health Information Consolidation Projects  
**PHIS**—Public Health Information System

**PII**—Personally Identifiable Information  
**POA&M**—Plans of Actions and Milestones  
**PRISMA**—Program Reviews for Information Security Management Assistance  
**ProTracts**—Program Contracts Database  
**PRS**—Performance Results System  
**PRT**—Provincial Reconstruction Team



## Q

**QC**—Quality Control

## R

**RBEG**—Rural Business Enterprise Grant

**RBOG**—Rural Business Opportunity Grant

**RD**—Rural Development

**Recovery Act**—American Reinvestment and Recovery Act of 2009

**Response Plan**—National Avian Influenza Preparedness and Response Plan

**RHS**—Rural Housing Service

**RMA**—Risk Management Agency

**RORA**—Regional Office Review of Applications

**RTE**—Ready-to-Eat

## S

**SBP**—School Breakfast Program

**SIP**—*Salmonella* Initiative Program

**SNAP**—Supplemental Nutrition Assistance Program

**SPPA**—Strategic Partnership Program Agroterrorism Initiative

**SPS**—Sanitary and Phytosanitary

**SRA**—Standard Reinsurance Agreement

**SSOP**—Sanitation Standard Operating Procedure

**SURE**—Supplemental Revenue Assistance Payments (Program)

**SWCD**—Soil and Water Conservation District

## T

**T&E**—Transportation and Exportation

**TBT**—Technical Barriers to Trade

**TRQ**—Tariff-Rate Quota

## U

**ULO**—Unliquidated Obligations

**USDA**—The United States Department of Agriculture

**USTR**—The Office of the U.S. Trade Representative

## V

**VS**—Veterinary Services

## W

**WBSCM**—Web-based Supply Chain Management

**WebTCAS**—Web Based Total Cost Accounting System

**WEP**—Water and Environment Program

**WFU**—Wildland Fire Use

**WIC**—Special Supplemental Nutrition Program for Women, Infants, and Children

**WRP**—Wetland Reserve Program

**WTO**—World Trade Organization

**WUI**—Wildland Urban Interface