UNITED STATES DEPARTMENT OF AGRICULTURE

OFFICE OF INSPECTOR GENERAL

Washington, D.C. 20250

DATE: February 22, 2000

REPLY TO
ATTN OF: 50401-35-FM

SUBJECT: U. S. Department of Agriculture
Consolidated Financial Statements for Fiscal Year 1999

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

ATTN: Gary Barber
Director
Executive Services Staff

This report presents the results of our audit of the U.S. Department of Agriculture's financial statements for the fiscal year ended September 30, 1999. The report contains our disclaimer of opinion and the results of our assessment of the Department's internal control structure and compliance with laws and regulations.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective action 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.

ROGER C. VIADERO
Inspector General

U.S. Department of Agriculture
Office of Inspector General
Financial and IT Operations
Audit Report

U.S. Department of Agriculture
Consolidated Financial Statements
For Fiscal Year 1999

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Report No.
50401-35-FM
FEBRUARY 2000

EXECUTIVE SUMMARY

U.S. DEPARTMENT OF AGRICULTURE
CONSOLIDATED FINANCIAL STATEMENTS
FOR FISCAL YEAR 1999
AUDIT REPORT NO. 50401-35-FM

PURPOSE

Our audit objectives were to determine whether (1) the financial statements present fairly, in all material respects, in accordance with generally accepted accounting principles, the assets, liabilities, and net position; net costs; changes in net position; budgetary resources; and reconciliation of net costs to budgetary obligations, (2) the internal control structure provides reasonable assurance that the internal control objectives were met, (3) the Department complied with laws and regulations for those transactions and events that could have a material affect on the financial statements, and (4) the information in the Overview of the Reporting Entity and Supplemental Financial Information sections was materially consistent with the information in the financial statements.

We conducted our audit at the financial offices of various USDA agencies and the Office of the Chief Financial Officer (OCFO) located in Washington, D.C., and its National Finance Center (NFC) located in New Orleans, Louisiana. We also performed site visits to selected agencies' field offices. In addition, we reviewed the policies and procedures followed by the OCFO in its consolidation of the financial statements for the agencies, corporations and mission area listed in exhibit A.

RESULTS IN BRIEF

We are unable to express, and do not express, an opinion on the Department's financial statements as of and for the year ended September 30, 1999. We concluded that, overall, the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements, including:

- Fund Balances with U.S. Treasury totaling over $38 billion,
- Credit Program Receivables and Related Foreclosed Property, Net and Estimated Losses on Loan and Foreign Credit Guarantees stated at over $70.7 billion and $1.7 billion, respectively, as related to the subsidy costs,
- General Property, Plant, and Equipment, Net totaling over $3.7 billion, and,

- Forest Service's Accounts Receivable totaling over $180 million.

Because of these and other internal control structure weaknesses, we were also unable to obtain sufficient, competent evidential matter to support the Consolidating Statement of Changes in Net position, and the Combined Statements of Budgetary Resources and Financing. In addition, the Farm and Foreign Agricultural Services (FFAS) mission area's information included in the Department's financial statements, footnotes, and overview and supplemental information has not been audited and cannot be relied upon.

The Department has many serious financial management system problems that impact the Department's ability to provide accurate and reliable reporting on its financial operations. For the last 8 years, the Department has reported to the President that it is unable to provide reasonable assurance that the Department's financial systems conform with certain standards and principles. This difficulty will continue until at least 2003, and possibly longer.

In our Report on the Internal Control Structure, we reported:

- There are material weaknesses in the processes and procedures used by the Department's lending agencies to estimate and reestimate loan subsidy costs that have existed since 1994. The Department's Chief Financial Officer (CFO) formed a task force under her overall leadership, to assist in resolving the Department's longstanding credit reform problems. While progress has been made, much work remains to be accomplished, and the material weaknesses continue to exist. As a result, we are unable for the sixth consecutive year to assess the reasonableness of USDA's credit program receivables and estimated losses on loan guarantees, stated at about $70.7 billion and $1.7 billion, respectively, as related to subsidy costs. These same problems also materially impact the Department's budget submissions. Because we can provide no assurance on USDA's credit reform financial data, the Congress and other decision makers do not know whether the costs of USDA's loan programs, estimated in excess of $27.3 billion, as of September 30, 1999, can be relied upon.

- In our fiscal year 1997 and 1998 audit reports, we reported that the Department's overall administrative and program accounting systems do not always process and report departmentwide financial information timely or accurately. We noted that the systems were not fully integrated with their subsystems and did not fully adhere to Federal Financial Management System Requirements (FFMSR). In addition, the delay in implementing the FFIS further impacted the Department's financial and program operations. Without the full implementation of FFIS and other recently begun initiatives to develop a corporate administrative and

financial accounting system, Department officials will continue to function without accurate, reliable, and consistent financial information. This will hinder their ability to make informed decisions when the need for such information is a crucial factor in the management of a Department with $118 billion in assets.

The Department, in response to our prior audits, has taken the following actions:

- In a memorandum dated November 24, 1999, the Secretary directed the CFO, in association with the Chief Information Officer (CIO) and the Assistant Secretary for Administration to lead a Senior Executives group charged with developing a corporate strategy, including budget and timeframes, for administrative/financial system changes for the Department. The strategy is to include procurement, property, human resources, travel, budget formulation and salary projections and the associated telecommunications and security.

- The CFO has undertaken an independent assessment of USDA's financial management which will lead to detailed recommendations for setting priorities for consolidation, integration or reengineering of "feeder" systems within the Department. The plan for interfacing, integrating or elimination of existing systems is scheduled for July 31, 2000.

  We believe these actions should resolve the problems identified in our prior reports when fully implemented, as directed by the Secretary, within the next 18 months. The Secretary noted in his November 24, 1999, memorandum to Department officials that these actions will advance the Department significantly toward achieving his goal of reliable and timely corporate information to support informed decision making.

- Material internal control problems exist in the accountability and valuation of personal property at agency field office and headquarter operations, and at the OCFO/NFC. These weaknesses exist because of the lack of implemented internal control procedures and processes relating to personal property and the personal property system. Because of these weaknesses, we were unable to substantiate whether the financial statements were free from material misstatements for personal property valued at over $888 million.

  In addition, despite the significance of the problems disclosed, the Department failed to identify these problems in either the OMB Circular A-130 reviews performed, or internal control reviews performed by the OCFO, Department Administration, or any other departmental agency. Because of the absence of an effective internal control process and the inherent vulnerability of personal property to loss or misuse, immediate actions need to be taken to correct these weaknesses.

- Our tests of the Department's computer network disclosed significant security vulnerabilities that require immediate action. We attributed these material weaknesses to the need for a stronger Departmental IT security program. As a result, the Department is highly vulnerable to intrusion from within and externally. With assets in excess of $118 billion and annual payments totaling billions of dollars, we believe that, unless prompt and comprehensive actions are taken, the Department is at high risk of data and/or financial losses.

  The Secretary, in a July 1, 1999, memorandum, expressed his concern on computer data protection and stated that immediate actions needed to be taken to improve the security of Departmental operations, personnel and infrastructure. He requested that the CIO and the CFO provide him a plan within 30 days. In response to this concern, the CIO and CFO presented the Secretary on August 13, 1999, information for strengthening the Department's IT security.

  The CIO and CFO reported the following:

  - USDA has no risk management program to prioritize its vulnerabilities;
  - most program managers are not sufficiently involved in security;
  - the Department lacks resources to monitor compliance, test security or provide agencies with technical expertise; and,
  - security training and awareness are inadequate.

  The CIO and CFO made the following recommendations:

  - Strengthen USDA's cyber security program;
  - establish a Risk Management Program to identify and protect assets;
  - establish a Departmentwide information security architecture;
  - institutionalize Departmentwide security compliance;
  - develop a comprehensive set of security policies; and,
  - enhance technical skills and increase security awareness.

  As noted in our Management Alerts to departmental officials, dated March 9, 1999, March 17, 1999, May 19, 1999, and June 25, 1999, we concur with the CIO's and CFO's assessment of IT security in the Department. We also support the approach outlined for addressing the weaknesses we, GAO, the CIO and CFO have identified. We believe that prompt actions are necessary to implement corrective actions to reduce the risk of loss to the Department.

In our Report on Compliance with Laws and Regulations, we noted that the CFO was in substantial compliance with the CFO Act. We did, however, identify where further actions are necessary related to improving financial

management systems and reviewing user fees. We also reported some problems in adherence to the DCIA and a failure to meet FFMIA requirements.

Achieving the reforms required by recent financial management legislation is essential because USDA officials need accurate financial information to effectively and efficiently manage its $118 billion in assets. Until the OCFO/NFC implements its new accounting system, FFIS, scheduled for fiscal year 2003, and enhancements are made to other program financial management systems, USDA does not have all of the necessary financial information to support its decision-making process, know the cost of all of its operations or many other meaningful measures of financial performance. In essence, poor accounting and financial reporting obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions – whether for budget purposes or operationally.

KEY RECOMMENDATIONS

Corrective action has been recommended in previous audit reports for many of the conditions noted in this report. Therefore, we did not make recommendations in this report relating to these weaknesses. However, we will continue to monitor and report on the status of ongoing corrective actions.

We did, however, recommend that the CFO take action to remediate the reconciliation problems discussed in this report and correct the material weaknesses in the internal control related to the management of, and accounting for, personal property.

AGENCY POSITION

Departmental officials generally agreed with the recommendations contained in this report.

TABLE OF CONTENTS

EXECUTIVE SUMMARY i

PURPOSE i

RESULTS IN BRIEF i

KEY RECOMMENDATIONS v

AGENCY POSITION v

TABLE OF CONTENTS vi

REPORT OF THE OFFICE OF INSPECTOR GENERAL 1

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE 4

FINDINGS AND RECOMMENDATIONS 8

I. CREDIT REFORM PROBLEMS SIGNIFICANTLY IMPACT USDA'S FINANCIAL STATEMENTS AND BUDGET SUBMISSIONS 8

II. FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES NEED IMPROVEMENT 10

RECOMMENDATIONS 15

III. OPERATIONAL AND SYSTEM PROBLEMS EXIST IN ACCOUNTING FOR PERSONAL PROPERTY 18

RECOMMENDATIONS 20

IV. IMPROVEMENTS NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY AND CONTROLS 22

V. FMFIA CORRECTIVE ACTION NEEDS TO BE MORE TIMELY 25

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS 28

FINDINGS AND RECOMMENDATIONS 30

VI. CFO ACT REQUIREMENTS ARE SUBSTANTIALLY MET 30

VII. DEBT COLLECTION IMPROVEMENT ACT REQUIREMENTS 32

RECOMMENDATIONS 34

VIII. FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REQUIREMENTS NOT MET 35

EXHIBIT A – RECENT USDA FINANCIAL STATEMENTS AND FINANCIAL RELATED AUDITS 37

ABBREVIATIONS 38

REPORT OF THE OFFICE OF INSPECTOR GENERAL

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying Consolidated Balance Sheet of the U.S. Department of Agriculture (USDA) as of September 30, 1999, and the related Consolidating Statement of Net Cost, Consolidating Statement of Changes in Net Position, Combined Statement of Budgetary Resources, and Combined Statement of Financing for the fiscal year then ended. These financial statements are the responsibility of the Department's management.

We concluded that, overall, the Department could not provide sufficient, competent evidential matter to support numerous material line items on its financial statements. For example:

- We were unable to substantiate the "Fund Balances with U.S. Treasury," totaling over $38 billion, because reconciliation procedures of the Office of the Chief Financial Officer's (OCFO)/National Finance Center (NFC) were not sufficient. Unidentified differences, first identified in our fiscal year 1992 audit, between departmental records and Treasury records went uncorrected, in some instances, in excess of 10 years. The out-of-balance amount as of September 30, 1999, was about $5 billion. This problem impacts both the Central Accounting System (CAS) and FFIS processes. The Chief Financial Officer (CFO) has initiated a corrective action plan to address this serious problem and is making progress in fixing this long-standing problem with a goal of resolving this problem by March 31, 2000.

- We were unable to obtain sufficient and competent evidential matter to support the Department's "Credit Program Receivables and Related Foreclosed Property, Net" and "Estimated Losses on Loan and Foreign Credit Guarantees" stated at over $70.7 billion and $1.7 billion, respectively, as of September 30, 1999, and the related financial results reported in the Net Position and Program Costs, Non-Federal sections in the Consolidated Balance Sheet and Consolidating Statement of Net Costs, respectively, as they relate to loan and loan guarantee subsidy costs. The Department has developed a task force to resolve this problem in fiscal year 2000. While progress has been made, much work is left to be done.

- The Commodity Credit Corporation (CCC), because of problems we identified in CCC's credit reform accounting system, was unable to provide us, within the timeframes established by the Department, its Principal Financial Statements. CCC is a component of the Farm and Foreign Agricultural Services (FFAS) Mission area. As a result, the information in the financial statements, footnotes, and overview and supplemental information relating to CCC and/or FFAS has not been audited and should not be relied upon.

- We were unable to obtain sufficient and competent evidential matter to support the Consolidating Statement of Changes in Net Position, and Combined Statements of Budgetary Resources and Financing, except for the amounts reported by the Food and Nutrition Service (FNS), Rural Telephone Bank (RTB), and the Federal Crop Insurance Corporation. These Statements are impacted by the problems discussed above for credit program receivables and estimated losses on loan guarantees. The statements are also impacted by the OCFO/NFC CAS inability to meet prescribed standards in many material aspects. As a result, the statements relating to CAS data were arrived at by using a combination of proprietary and budgetary accounts that contained incomplete and/or unreliable data. Until the Department resolves this problem through full implementation of FFIS and other accounting system enhancements, we will be unable to opine on this information. Accordingly, we determined that it was not practicable to perform further alternate procedures to satisfy ourselves as to the reported values in these statements.

- We were unable to substantiate "General Property, Plant and Equipment, Net," totaling over $3.7 billion. We could not verify the accuracy of the recorded values for the Forest Service, including pre-fiscal year 1995 pooled assets, because of the lack of documentation to support the capitalized values and related depreciation. In addition, there were large unidentified differences between the general ledger accounts and subsidiary records and material errors in recording and depreciating personal property.

- We were unable to verify Forest Service's accounts receivable totaling over $180 million because of problems in the general ledger and its subsidiary records. For example, the subsidiary system could not match an individual cash collection with a specific account receivable.

- A material part of the Department's financial information system is comprised of the OCFO/NFC's CAS. For the last 9 years, we have reported numerous material internal control weaknesses in CAS. For example, we reported that CAS does not conform with the U.S. Government Standard General Ledger (SGL); general ledger accounts were not always appropriately crosswalked to the financial statements as required by SGL, and the audit trail from the general ledger to supporting documentation, in some cases, was nonexistent. Also, material weaknesses continued to exist in the areas of accounting adjustments and reconciliations within

the CAS.

Because of the extent of the problems noted above, we were not able to satisfy ourselves as to the value of USDA's assets, liabilities, and net position as of September 30, 1999; as well as its net costs, changes in net position, budgetary resources, and reconciliation of net costs to budgetary obligations for the fiscal year then ended. Therefore, we are unable to express, and we do not express, an opinion on these financial statements.

The Overview and Supplemental Information (OSI) provides explanatory analysis for the users of USDA's financial statements and it summarizes fiscal year 1999 results. Some of this information is produced from the same financial systems as the financial statements. Because of the problems discussed above, we are unable to provide any assurances on the OSI. The Department also states that all systems are year 2000 compliant and discusses its Business Contingency Plan in the Overview.

We have also issued a report on the Department's internal control structure which includes five reportable conditions and a report on the Department's compliance with laws and regulations which includes three instances of noncompliance.

ROGER C. VIADERO
Inspector General

February 11, 2000

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON INTERNAL CONTROL STRUCTURE

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying financial statements of the USDA, as of, and for the fiscal year ended September 30, 1999, and have issued our report thereon dated February 11, 2000. In planning and performing our audit of the financial statements, we considered its internal controls over financial reporting by obtaining an understanding of the internal controls, determined whether the internal controls had been placed in operation, assessed control risk, and performed tests of controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Consequently, we do not provide an opinion on internal controls.

In addition, we considered USDA's internal controls over Required Supplementary Stewardship Information by obtaining an understanding of the internal controls, determined whether these internal controls had been placed in operation, assessed control risk, and performed tests of controls as required by Office of Management and Budget (OMB) Bulletin 98-08, "Audit Requirements for Federal Financial Statements," and subsequent issuances, and not to provide assurance on these internal controls. Accordingly, we do not provide assurance on such controls.

The information presented in the Overview of the Reporting Entity is supplemental information required by OMB Bulletin 97-01, entitled “Form and Content of Agency Financial Statements.“ OMB Bulletin 98-08 requires that we obtain an understanding of the internal controls designed to ensure that data supporting the measures are properly recorded and accounted for to permit the preparation of reliable and complete performance information. Our audit work in the area of performance measures was primarily limited to confirming the financial information included in the overview with information contained in the principal financial statements. However, we are reviewing the internal controls over the preparation of the performance measures and will be reporting on them under separate cover.

MANAGEMENT'S RESPONSIBILITY FOR INTERNAL CONTROL STRUCTURE

The management of USDA is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of the internal control structure policies and procedures. The objectives of an internal control structure are to provide management reasonable, but not absolute assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the agency's prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In its "draft" fiscal year 1999 Federal Managers' Financial Integrity Act (FMFIA) report, the Secretary of Agriculture plans to report that except for 29 material control weaknesses, USDA as a whole, could provide reasonable assurance that its systems of management control complied with the objectives of Section 2, Management Accountability and Control, of the FMFIA. However, the Department was unable to provide assurance that its financial management systems complied with Section 4, Financial Management Systems, because of 8 material deficiencies which result in a system that does not conform to certain standards, principles, and other specifications to ensure that Federal managers have relevant, consistent financial information for decision-making purposes.

Additionally, the Department submitted its 1999 Federal Financial Management Improvement Act (FFMIA) remediation plan, which included the corrective action necessary to bring several of its component agencies into substantial compliance with FFMIA and to provide the details for FMFIA Section 4, Financial Management Systems.

OIG'S EVALUATION OF USDA'S INTERNAL CONTROL STRUCTURE

For the purpose of this report, we have classified USDA's significant internal control structure policies and procedures into the following categories:

Administrative Costs - consists of policies and procedures associated with disbursing funds for salaries and administrative expenses.

Treasury - consists of policies and procedures associated with disbursing and collecting cash, reconciling cash balances, and managing debt.

Financial Reporting - consists of policies and procedures associated with processing accounting entries and preparing the USDA's annual financial statements.

Direct Loans and Grants - consists of policies and procedures associated with authorizing and disbursing loans and grants, accruing interest on loans, and collecting loan repayments.

Guaranteed Loans - consists of policies and procedures associated with authorizing and disbursing payments, authorizing guarantees, and accruing interest and collecting repayments on defaulted guaranteed loans.

Insurance Premiums and Claims - consists of policies and procedures associated with processing catastrophic risk program fees and reinsured company premiums and indemnities for these insurance policies.

Property and Inventory - consists of policies and procedures associated with acquisition, maintenance and disposition of property and/or inventory.

Food Stamp Redemption - consists of the policies and procedures associated with coupons being redeemed and applied against the USDA's fund balance at the Treasury.

For each of the internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation. We assessed control risk and performed tests of USDA's internal control structure.

In making our risk assessment, we considered the Department's FMFIA reports, Office of the Inspector General (OIG) audits and other independent auditor reports on financial matters and internal accounting control policies and procedures. We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the organization's ability to have reasonable assurance that the following objectives are met:

(1) Transactions are properly recorded and accounted for to permit the preparation of reliable financial statements and to maintain accountability over assets;

(2) Funds, property, and other assets are safeguarded against loss from unauthorized use or disposition; and,

(3) Transactions, including those related to obligations and costs, are executed in compliance with (a) laws and regulations that could have a direct and

material effect on the Principal Statements, and (b) any other laws and regulations that Office of Management and Budget (OMB), USDA, or we have identified as being significant for which compliance can be objectively measured and evaluated.

Matters that we consider to be reportable conditions are presented in the "Findings and Recommendations" section of this report. Furthermore, as discussed in that section, we noted certain deficiencies in internal control over reported performance measures which that, in our judgment, could adversely affect the agency's ability to collect, process, record and summarize performance information and report performance measures in accordance with management's criteria.

FINDINGS AND RECOMMENDATIONS

I. CREDIT REFORM PROBLEMS SIGNIFICANTLY IMPACT USDA'S FINANCIAL STATEMENTS AND BUDGET SUBMISSIONS

FINDING NO. 1

We have reported material weaknesses in the processes and procedures used by the Department's lending agencies to estimate and reestimate loan subsidy costs since 1994. The Department's CFO formed a task force under her overall leadership, to assist in resolving the Department's longstanding credit reform problems. While progress has been made, much work remains to be accomplished, and the material weaknesses continue to exist. As a result, we are unable for the sixth consecutive year to assess the reasonableness of USDA's credit program receivables and estimated losses on loan guarantees, stated at about $70.7 billion and $1.7 billion, respectively, as they relate to the subsidy costs. These same problems also materially impact the Department's budget submissions. Because we can provide no assurance on USDA's credit reform financial data, the Congress and other decision makers do not know whether the costs of USDA's loan programs, estimated in excess of $27.3 billion, as of September 30, 1999, can be relied upon.

Effective for fiscal year 1992, the Federal Credit Reform Act (Act) of 1990 required the President's Budget to reflect the "costs" of direct loan and guarantee programs. "Costs" are defined by this Act to mean the estimated long-term cost (defaults, subsidy cost, etc.) to the Government of direct loans or loan guarantees, calculated on a net present value basis, excluding administrative costs and incidental effects of receipts and outlays. The primary intent of the Act is to ensure that the subsidy costs of Federal loan programs are taken into account in making budgetary decisions (emphasis added).

In a memorandum, dated February 18, 1997, OMB advised agencies with international sovereign loans and guarantees that when reestimating default subsidy, a country's expected default cash flow should remain the same as originally estimated at the time the loan/guarantee was obligated. However, accounting standards require that the subsidy (loan loss reserve) be estimated as of the date of the financial statements. We believe that the failure to use the most current risk rating can seriously distort the budget. To

test this, we compared 3 of 54 risk categories of loans guaranteed by CCC, totaling about $2.9 billion for the General Sales Manager (GSM)-102 program. We believe that the budget, by not using the most current risk rating, may have understated the losses associated with these guarantees by about $430 million.

The CFO has established a task force to assist in resolving the Department's credit reform problem. The task force includes representatives from Rural Development, CCC, Farm Service Agency (FSA), OCFO, OIG, and GAO. The task force developed a comprehensive plan to enable it to resolve the credit reform issues by September 30, 2000. Although progress was made in fiscal year 1999 toward fixing these problems, much work remains. Until these problems are corrected, the Department does not know the cost of its operations or any other meaningful measure of financial performance relating to loan costs, defaults, etc. As a result, users of information reported or taken from the underlying accounting systems, risk making wrong decisions.

Because OIG continues to work with the Department to overcome the credit reform problem, we are making no further recommendations herein.

II. FINANCIAL MANAGEMENT SYSTEMS AND PROCEDURES NEED IMPROVEMENT

FINDING NO. 2

In our fiscal year 1997 and 1998 audit reports, we reported that the Department's overall administrative and program accounting systems do not always process and report departmentwide financial information accurately. We noted that many of the systems are not fully integrated with their subsystems and do not fully adhere to FFMSR. In addition, the delay in implementing FFIS further impacted the Department's financial and program operations. Without the full implementation of FFIS and other recently begun initiatives to develop a corporate administrative and financial accounting system, Department officials will continue to function without all of the accurate, reliable, and consistent financial information they need. This will hinder their ability to make informed decisions when the need for such information is a crucial factor in the management of a Department with $118 billion in assets.

Some of the most serious and longstanding problems that have impacted the financial management of the Department include the following:

- We could not verify the accuracy of Forest Service's pooled assets, valued at $1.4 billion, because of the lack of sufficient documentation for pre-fiscal year 1995 pooled assets to support capitalized values and in-service dates, and to calculate accumulated depreciation. Although improvements have been made by Forest Service, continuing internal control and financial management weaknesses have prevented the Forest Service from preparing complete, reliable, and consistent financial statements again for fiscal year 1999. Since OIG began auditing Forest Service's financial statements in fiscal year 1991, we have identified weaknesses in the agency's accounting for accounts receivable; property, plant, and equipment; as well as other material accounts. The Forest Service has initiated many changes to overcome these deficiencies including full implementation of a new general ledger system for fiscal year 2000; initiatives to improve real property records; and increased resources devoted to the preparation of the financial statements and other critical financial management reporting.

- The Food and Nutrition Service (FNS) has not yet corrected its internal control weakness related to food stamp recipient claims although corrective actions have been initiated. The Food Stamp Program accounts receivable accounting and reporting weakness has been reported in FNS' financial statement audit reports since fiscal year 1991. FNS plans to have all corrective actions taken by September 2001.

- There are material weaknesses in the procedures used by OCFO/NFC to reconcile general ledger accounts to subsidiary ledgers and/or Treasury reports. We have reported these problems since our initial audit of the fiscal year 1991 financial statements. As a result, large, unidentified

differences are carried for extended periods and the reliability of departmental reports is questionable. Examples of problems noted with reconciliations follow:

- We have reported weaknesses in the processes and procedures used by OCFO/NFC to reconcile and control the Fund Balance with Treasury since 1992. Treasury procedures require that Federal agencies reconcile their Fund Balance with Treasury accounts with Treasury records. These reconciliations are critical internal controls, to improving the integrity of various U.S. Government financial reports, and providing more accurate measurement of budget results.

  The OCFO, in response to our reports, established a project team to correct the Fund Balance with Treasury deficiencies. In addition, the CFO contracted with an accounting firm to provide her with an assessment of the ongoing reconciliation efforts and recommendations for resolving the reconciliation backlog. The OCFO has invested significant resources to resolve this serious problem and to improving the overall reconciliation process. As of January 2000, the following table represents the status of the reconciliation efforts for the transactions through September 30, 1999.

	Universe of Out-of-Balance Schedules[1]		Remaining Unreconciled Schedules	
	Schedules	Dollars	Schedules	Dollars
CAS Disbursements[2]	41,883	$2.1 billion	33,420	$1.4 billion
CAS Deposits[2]	6,341	$2.9 billion	4,050	$75 million
FFIS[3]	8,350	$832 million	5,718	$665 million

- As part of the CFO's efforts to correct deficiencies related to its Fund Balance with Treasury reconciliation processes, the OCFO is attempting to correct deficiencies related to its On-line Payment and Collection System (OPAC) process. Substantial efforts have been made to process the backlog of OPAC bills in suspense and to ensure timely processing of current OPAC bills. During fiscal year 1999, OCFO/NFC processed 75,229 bills totaling almost $34 billion. There were 1,559 OPAC bills totaling approximately $38 million that remained unprocessed as of September 30, 1999, (none older than

[1] An out-of-balance schedule is one in which Treasury information related to the schedule does not match the information in the OCFO/NFC general ledger.

[2] The CAS disbursement and deposit data is based on the universe of out-of-balance schedules. For activity prior to May 1999, a sample of 3,524 disbursement schedules totaling about $1.7 billion and 686 deposit schedules totaling over $200 million were selected to be researched. As of January 28, 2000, 2,329 disbursement schedules totaling about $1.3 billion and 320 deposit schedules totaling over $14 million remained to be reconciled. The sample results will be used to determine the number of the remaining schedules that need to be reconciled. For May through September 1999 activity, the universe of out-of-balance schedules is based on the number of out-of-balance schedules associated with the initial monthly TFS-6652.

[3] The FFIS data is based on disbursement and deposit schedules combined.

fiscal year 1998). Of the 1,559 bills, at least 1,058 bills totaling over $21.6 million were not processed within 30 days. In addition, we continue to note that certain OPAC bills were inaccurately processed. Specifically, about 85 bills totaling approximately $1.9 million may have been inappropriately charged to agency accounts. We believe continued emphasis in this area is needed. The OCFO/NFC did not detect/report these problems in its internal control/management reviews.

- In our fiscal year 1998 financial statement audit report, we reported that a reconciliation of the general ledger to the property master file was not being performed. As of December 1998, there was a net difference of about $130 million between the general ledger and the subsidiary records. The OCFO advised that actions to resolve this problem were to begin in March 1999. In this year's audit, we again found substantial differences that are unidentified. OCFO/NFC assigned additional personnel to this task in January 2000 and expects corrective action to occur during fiscal year 2000. See Finding 3 for a detailed discussion of the problems we identified with the overall management and accounting for personal property. The OFCO/NFC did not detect/report these material problems in its internal control/management reviews.

- A payroll subsidiary system,[4] was first reported as having an approximate $3.5 million unreconciled difference with general ledger records during our fiscal year 1995 audit of the general control structure at OCFO/NFC. During our current audit, we noted that the system recorded over $14 million in cash receipts, as of September 25, 1999, which have not been cleared, dating as far back as 1979. In addition, there is an unreconciled difference with the general ledger of over $1 million. OCFO/NFC personnel stated that no reconciliations are currently performed in this system. The OCFO/NFC did not detect/report these problems in its internal review/management reviews.

- Despite reporting problems with "reclassifying" abnormal balances contained in the general ledger accounts since fiscal year 1993 we continue to find problems in this area. OCFO/NFC reclassified an abnormal balance from the "Trust and Deposit Liabilities" line item to "Other Assets" because there were liability accounts with debit balances totaling $116 million. OCFO/NFC did not research and/or CAS could not allocate this suspense to appropriate agencies, in a timely manner.

[4] This system is used to make payments to personnel or vendors that are generated by other payment systems but for various reasons cannot be paid by them. Funds are held in this system until disbursement. Information contained in this subsidiary system are county and state tax withholdings, union dues withholding, miscellaneous deductions withholdings, etc.

- During our audits of CAS, we noted that there are numerous methods of making accounting adjustments to the general ledger and related subsidiary records. We continue to find inadequate controls to assure that the adjustments affected the proper accounts, were properly researched, were authorized, adequately documented and processed accurately. Our current review disclosed that the weaknesses continue to exist in many of these areas. These weaknesses substantially lessen the reliance that can be placed on the OCFO/NFC general ledger. We noted where ledger adjustments were made to:

  - Correct "abnormal" balances without researching the cause of the condition;

  - Correct previous adjustments made in error (one of these errors resulted in the general ledger being misstated by $307 million for most of fiscal year 1999); and,

  - Adjust out-of-balance conditions in the ledger without adequate research and/or support.

- We have reported, since 1993, that accounting entries generated within the General Ledger Interactive Description System (GLID) resulted in postings to inappropriate accounts. Our current audit disclosed that new GLID codes (established during fiscal year 1999) continue to be developed improperly and were designed to post entries to incorrect general ledger accounts. For example, we identified GLID codes that were posting to a proprietary account with an offset to a budgetary or memorandum account. In addition, we noted that account descriptions did not reflect what entries were allegedly posted to these accounts, and improper GLID codes caused large abnormal balances in general ledger accounts.

- First reported in fiscal year 1994, we continue to find problems with the methodology used to establish an allowance for loss on administrative and program accounts receivable maintained by the OCFO/NFC. The Billings and Collections Branch uses an unsupported method (3 percent of accounts receivable and 50 percent of all claims) to determine the estimated allowance for losses. The same percentages are used to establish the bad debt allowance for all agencies regardless of the type and age of the debts. During fiscal year 2000, OCFO/NFC is revising its methodology and will incorporate the aging of debts.

The Chief Financial Officers (CFO) Act of 1990 requires agencies to develop and maintain an integrated agency accounting and financial management system, including financial reporting and internal control which:

- Complies with applicable accounting principles, standards, and requirements, and internal control standards,

- complies with policies and requirements prescribed by OMB, and

- provides for complete, reliable, consistent, and timely information which is uniform and responsive to management's needs.

Achieving the reforms required by financial management legislation is essential because the Department needs accurate financial information and appropriate internal controls to effectively manage the Department's vast resources including over $118 billion in assets and a budget authority totaling over $89 billion. Until FFIS is successfully implemented, and planned enhancements to other agencies' financial management systems are completed, the Department will not have all of the necessary financial information to support its decision-making process. Our disclaimer of opinion for the last 6 years means that no one knows whether the Department, as a whole, correctly reported the monies collected in total, how much money is collected, the full cost of its operations, or many other meaningful measures of financial performance. In essence, poor accounting and financial reporting, obscures facts. As a result, users of information reported or taken from the underlying accounting systems, as a whole, risk making errant decisions - whether for budget purposes or operationally.

The Department, in response to our prior audits, has taken the following actions:

- In a memorandum dated November 24, 1999, the Secretary directed the CFO, in association with the CIO and the Assistant Secretary for Administration to lead a Senior Executives group charged with developing a corporate strategy, including budget and timeframes, for administrative/financial system changes for the Department. The strategy is to include procurement, property, human resources, travel, budget formulation and salary projections and the associated telecommunications and security.

- In advance of the Secretary's memorandum, the CFO contracted for and received an independent assessment of USDA's financial management architecture which will lead to detailed recommendations for setting priorities for consolidation, integration or reengineering of "feeder" systems processes in coordination with ongoing implementation of FFIS within the Department. The findings will be presented to the group by July 31, 2000, along with analyses, recommendations and proposed interim milestones for revamping the existing USDA "feeder" system architecture.

We believe these actions should begin to resolve the problems identified in our reports when fully implemented, as directed by the Secretary, within the next 18 months. The Secretary noted in his November 24, 1999, memorandum to Department officials that these actions will advance the Department significantly toward achieving his goal of reliable and timely corporate information to support informed decision making. Because of these actions, we are making no further recommendations in this report relating to integration of accounting systems.

RECOMMENDATION NO. 1

Assess the current procedures used to control the activity processed through OPAC by the OCFO/NFC. Revise suspense reports to more accurately reflect suspense balances, and to isolate or better identify, to senior executives, the problems relating to OPAC.

RECOMMENDATION NO. 2

Establish a plan, with goals, to eliminate the duplicate processing of OPAC bills to agency records. Hold responsible managers accountable when the goals are not met.

RECOMMENDATION NO. 3

Establish additional OPAC processing controls that would enable all OPAC bills to be processed within 30 days.

RECOMMENDATION NO. 4

Research all overprocessed bills and rebate all overbilling back to respective agencies.

RECOMMENDATION NO. 5

Establish a headquarters executive level lead task force to develop corrective actions to remediate the OCFO/NFC problems identified in this finding. Assure the task force includes a cross-discipline group, similar to that established to resolve fund balance with Treasury problems.

RECOMMENDATION NO. 6

Reconcile, research and make appropriate adjustments to enable the subsidiary ledgers identified in this finding to balance with the general ledger.

RECOMMENDATION NO. 7

Assure internal control and OMB Circular A-130 reviews completed on OCFO/NFC "systems" are independently performed to better assure weaknesses such as those identified in the report are detected.

RECOMMENDATION NO. 8

Establish an independent quality control unit within the OCFO/NFC to approve accounting adjustments made by OCFO/NFC units. Implement additional supervisory control procedures to assure adjustments made meet accounting standards, etc.

RECOMMENDATION NO. 9

Discontinue, reclassifying "abnormal" balances without appropriate research and development of necessary supporting documentation and correct the system problems and weaknesses that cause these problems. Assure all "abnormal" balances are identified and controlled until thorough research is performed and supporting adjustments are made.

RECOMMENDATION NO. 10

Require the OCFO/NFC to reconcile the balance in Payday Interface Centralized Accounting System to corresponding SGL accounts and

Treasury Symbols in a timely manner. Establish a plan, with appropriate timeframes to identify and resolve the out-of-balance conditions between the subsidiary ledgers and the general ledger, dating back to 1979.

RECOMMENDATION NO. 11

Provide oversight and develop a policy which ensures that GLID codes are properly developed and are designed to post entries to appropriate general ledger accounts.

III. OPERATIONAL AND SYSTEM PROBLEMS EXIST IN ACCOUNTING FOR PERSONAL PROPERTY

FINDING NO. 3

Material internal control problems exist in the accountability and valuation of personal property at agency field office and headquarter operations, and at the OCFO/NFC. These weaknesses exist because of the lack of established corporate internal control procedures and processes relating to personal property and the personal property system. Because of these weaknesses, we were unable to substantiate whether the financial statements were free from material misstatements for personal property valued at over $888 million. In addition, these weaknesses have not been reported in the OCFO/NFC's FMFIA report.

The OCFO/NFC maintains the Personal Property Management System (PROP) which is used to record personal property information and track capitalized and non-capitalized personal property, depreciation, etc. We

reviewed the internal control procedures and processes in the PROP system and personal property controls at various agencies' field and headquarter offices. We found the following material internal control weaknesses:

- Agriculture Property Management Regulation AG 5109 Part 104-51.106, dated January 1997, requires that physical inventories of all accountable personal and real property, except land, shall be taken by each agency every 2 years. Our review of information in the PROP system disclosed that there were over 10,000 USDA accountable officers as of December 7, 1999, and about 60 percent were either delinquent in performing physical inventories or had never recorded that an inventory had been performed. About 40 percent were delinquent in performing the required biennial inventory. Our analyses of a sample of these accountable officers revealed that, based on the information in the PROP system, the delays in recording a physical inventory ranged from 6 days to up to 13 years, with an average delinquency of 3 years. Our analyses of the system also disclosed that another 20 percent of these accountable officers had never recorded that an inventory had been performed.

- During our reviews at selected field office locations, we identified numerous instances where accountable officers were unable to locate personal property that was shown in the PROP inventory. We also noted, at the sites, a lack of documentation supporting the recorded value of the personal property. In addition, our analysis of the PROP database for properties valued at over $1 million disclosed errors, such as a motor vehicle valued at over $97 million. We identified 5 other motor vehicles valued at over $8 million in total, and a microscope valued at $11 million. After contacting the accountable officers, we determined that these and other items had been overvalued because of keypunch errors made by agency personnel. In addition, even though these items had appeared on an OCFO/NFC PROP exception report, necessary corrective action had not been taken.

- OCFO/NFC and agency personnel proposed an adjustment to reclassify over $332 million from "negative operating expenses" to a prior period adjustment for one agency. We reviewed the documentation related to this adjustment and determined it was improper. In working with OCFO/NFC personnel to resolve this problem, we identified an incorrect GLID transaction code related to personal property capitalization that had resulted in the misclassification of operating expenses. In addition, we determined that prior period adjustments were not being properly accounted for in the PROP system. While OCFO/NFC made the necessary adjustments to the financial statements related to this error we detected, we, and the OCFO/NFC, were unable to quantify the total amount of the misstatement because the CAS does not track the usage of individual GLID codes or the dollars associated with the postings.

- USDA's policy is to capitalize property with a useful life of 2 or more years and an acquisition value of $5,000 or more. Our review of information in the PROP system disclosed substantial inconsistent application of this policy. For example, we noted numerous items where property valued at less than $5,000, which were being depreciated; and numerous property items valued at more than $5,000, which were not. These errors impact the reliability of the assets and expenses recorded in the financial statements related to personal property.

- We determined that a reconciliation of the personal property asset and depreciation general ledger accounts to balances in PROP was not currently being performed by OCFO/NFC personnel. As of September 30, 1999, we identified large differences between the general ledger accounts and PROP. This problem, first reported in fiscal year 1992 has remained uncorrected. Corrective action has begun and is expected to be completed during fiscal year 2000.

The overall management and accounting for personal property by the Department has serious internal control implications. The management of this system, coupled with incorrect capitalization of assets, failure to perform required inventories and missing property noted in our field tests makes this system highly vulnerable and calls into question the support for almost $900 million in personal property.

In addition, despite the significance of the problems we disclosed, the Department failed to report any of these problems in either the OMB Circular A-130 reviews performed or the internal control reviews performed by OCFO/NFC, departmental administration, or any other departmental agency. Because of the absence of an effective internal control process and the inherent vulnerability of personal property to loss or misuse, immediate actions need to be taken to correct these weaknesses.

RECOMMENDATION NO. 12

Require each accountable officer who has failed to perform/record the required biennial inventory, to perform a complete inventory within 90 days.

RECOMMENDATION NO. 13

Remind agencies that they need to make and track adjustments to property inventories so that any losses will be identified for possible follow-up during the required inventory.

RECOMMENDATION NO. 14

Require accountable officers to validate the recorded value of property in the system to supporting documentation.

RECOMMENDATION NO. 15

Assure necessary accounting adjustments are made to correct errors noted during this inventory.

RECOMMENDATION NO. 16

Review the accounting process for the personal property system and research all incorrect entries made due to identified posting model errors and make necessary adjustments and/or corrections.

IV. IMPROVEMENTS STILL NEEDED IN INFORMATION TECHNOLOGY (IT) SECURITY AND CONTROLS

FINDING NO. 4

Our tests of the Department's computer network disclosed significant security vulnerabilities that require immediate action. We attributed these material weaknesses to the need for a stronger departmental IT security program. As a result, the Department is highly vulnerable to intrusion from within and externally. With assets in excess of $118 billion and annual payments totaling billions of dollars, we believe that, unless prompt and comprehensive actions are taken, the Department is at high risk of data and/or financial losses. Details follow:

- The Department is vulnerable to abuse and losses because few agencies comply with the departmental regulation that requires encryption of sensitive and Privacy Act data transmitted over the internet. In addition, we believe that the Department is at risk because sensitive data is not required to be encrypted on the Department or agencies' intranets, many of which are accessible from the internet.

- The Department's computer network is at risk because of weaknesses we identified in security at individual sites. We attributed these material weaknesses to the need for a more structured security program, additional central control over mission area security, and the need for an intrusion detection program.

- The Department did not have a proactive network monitoring and intrusion detection program. Such a program would require agencies to promptly identify and investigate unusual or suspicious network activity, such as repeated failed attempts to log onto the network; attempts to identify systems and services on the network; connections to the network

from unauthorized locations; and efforts to disrupt operations by overloading the network. An effective network monitoring program would also include provisions for logging and reviewing network access activities on a regular basis. Without these controls, the Department has little assurance that unauthorized access to systems on its network would be detected in time to prevent or minimize damage.

- We reported on our examination of Office of the Chief Information Officer/National Finance Information Technology Center's internal control structure in Audit Report 88099-1-FM, dated December 10, 1999. Our review disclosed material internal control weaknesses that could impact the Department's operations, such as the need for a strengthened network security monitoring and detection intrusion program, and improved controls over access authorities established for authorized users. The CIO agreed to correct these problems and actions have been implemented to remediate all conditions.

The weaknesses discussed above leave the Department highly vulnerable to intrusion to its network both from within, and externally, and at risk that its computer systems, data, and programs may be misused, destroyed or improperly altered. With assets in excess of $118 billion and multi-billion dollar payments made annually, we have recommended in the aforementioned reports that prompt actions are needed to prevent the loss of data.

The Secretary, in a July 1, 1999, memorandum, expressed his concern on computer data protection and stated that immediate actions needed to be taken to improve the security of departmental operations, personnel and infrastructure. He requested that the CIO and the CFO provide him a plan within 30 days. In response to this concern, the CIO and CFO presented the Secretary, on August 13, 1999, information for strengthening the Department's IT security.

The CIO and CFO data showed the following:

- USDA has no Risk Management Program to prioritize its vulnerabilities;
- most program managers are not sufficiently involved in security;
- the Department lacks resources to monitor compliance, test security or provide agencies with technical expertise; and,
- security training and awareness are inadequate.

The CIO made the following recommendations:

- Strengthen USDA's cyber security program;
- establish a Risk Management Program to identify and protect assets;

- establish a Departmentwide information security architecture;
- institutionalize Departmentwide security compliance;
- develop a comprehensive set of security policies; and,
- enhance technical skills and increase security awareness.

As noted in our Management Alerts, dated March 9, 1999, March 17, 1999, May 19, 1999, and June 25, 1999, we concur with the CIO's assessment of IT security in the Department. We also support the approach outlined for addressing the weaknesses we, GAO and the CIO have identified. We believe that prompt and aggressive action is necessary to implement corrective actions to reduce the risk of loss to the Department. Because of actions underway, we are not making any new recommendations.

V. FMFIA CORRECTIVE ACTION NEEDS TO BE MORE TIMELY

FINDING NO. 5

Since our fiscal year 1991 Financial Statement audit, we have reported that the Department has been unable to provide reasonable assurance to the President of the United States, that the Department's financial management systems conform with certain standards and principals. These systems account for over $118 billion in total assets.

USDA has a long-standing history of deficiencies in its accounting and financial management systems. Since 1991, because of these deficiencies, we have issued a series of unfavorable financial audit reports on USDA and several of its component agencies. In addition, USDA ability to comply with budgetary and financial statement reporting requirements is severely hampered by its accounting and financial systems' deficiencies. Given the long-standing nature of USDA's financial management deficiencies and the lack of timely corrective actions, complete resolution will continue to be a significant challenge.

We have reported concerns with the lack of timely corrective actions on long-standing material weaknesses since 1991 in our financial statement audits. For example:

- Of the 21 material Section 2 weaknesses existing prior to fiscal year 1999, we noted 6 weaknesses where the estimated completion timeframes for corrective action had been extended for at least 5 and up to 10 times.

- We also analyzed each of the eight Section 4 systems nonconformances reported in the "draft" fiscal year 1999 FMFIA report to determine if there were any similar "slippages" in the target completion date. Three of the Section 4 system nonconformances were first identified prior to fiscal year 1986. Based on our analysis, we determined that all of the eight Section 4 system nonconformances had at least two extensions or slippages, two had four extensions, and five had six or more extensions.

  For example, the reported FMFIA nonconformance involving the guaranteed loan accounting subsystem, which is inadequate to support program and management information needs, was originally reported in fiscal year 1983. Targeted completion action dates have slipped eight times since it was originally reported. A targeted corrective action date

of fiscal year 2001 was reported in last year's FFMIA Remediation Plan; however, that date has now slipped 2 years to fiscal year 2003, subject to funding.

In a prior year's financial statement audit we recommended agency administrators to establish, with OCFO oversight, a task force consisting of each agency's top financial management to identify the obstacles that prevent corrective action; and to develop a corrective action plan and establish realistic timeframes for achieving corrective action. The OCFO responded that it agreed with the finding in general, but believed the recommendations were not cost effective because they essentially duplicate actions already in progress.

Many of the problems are long-standing and remain open because agencies have not focused on corrective actions. In fiscal year 1999, the OCFO began to seek resolution of these matters and as a first step in achieving compliance with the FFMSR, one agency has elected to undertake a joint review of their financial management system in coordination with OIG. This review will use GAO checklists based upon the FFMSR to identify significant deficiencies that preclude compliance.

Because of recommendations made in prior reports relating to this issue, we are making no further recommendations in this report.

Material weaknesses are reportable conditions in which the design or operation of one or more internal control components does not reduce to a relatively low level the risk that

misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Because of inherent limitations in internal controls, misstatements, losses, or noncompliance may nevertheless occur and not be detected. We believe the reportable conditions described in this report are material weaknesses.

This report is intended solely for the information and use of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that misstatements, losses, and noncompliance may occur and not be detected by the testing performed and that such testing may not be sufficient for other purposes.

ROGER C. VIADERO
Inspector General

February 11, 2000

REPORT OF THE OFFICE OF INSPECTOR GENERAL ON COMPLIANCE WITH LAWS AND REGULATIONS

TO: Sally Thompson
Chief Financial Officer
Office of the Chief Financial Officer

We attempted to audit the accompanying financial statements of USDA as of and for the fiscal year ended September 30, 1999, and have issued our report thereon dated February 11, 2000.

The management of USDA is responsible for compliance with laws and regulations applicable to the Department. As part of obtaining reasonable assurance about whether the principal financial statements are free of material misstatement, we performed tests of the Department's compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material affect on the determination of financial amounts and certain other laws and regulations specified in OMB Bulletin 98-08, and subsequent issuances. We tested compliance with:

- Anti-Deficiency Acts of 1906 and 1950;
- Budget and Accounting Procedures Act of 1950;
- Chief Financial Officers (CFO) Act of 1990;
- Debt Collection Improvement Act (DCIA) of 1996;
- Federal Credit Reform Act of 1990;
- Federal Financial Management Improvement Act (FFMIA) of 1996:
- Federal Managers' Financial Integrity Act (FMFIA) of 1982;
- Government Performance and Results Act (GPRA) of 1993; and,

As part of the audits of six USDA agency/mission area financial statements, we tested compliance with additional laws and regulations that may directly affect those statements and certain other laws and regulations designated as significant by OMB or the agency/mission area. (See exhibit A for a listing of the agencies' audits and related audit report numbers.)

As part of the audit, we reviewed management's process for evaluating and reporting on internal control and accounting systems, as required by the FMFIA, and compared USDA's most recent FMFIA reports, with the evaluation we conducted of USDA's internal control structure. We also reviewed and tested USDA policies, procedures, and systems

for documenting and supporting financial, statistical, and other information presented in the Overview section. However, providing an opinion on compliance with certain provisions of laws and regulations was not an objective of our audit, and accordingly, we do not express such an opinion.

Under FFMIA, we are required to report whether the Department's financial management systems substantially comply with (1) the FFMSR, (2) applicable accounting standards, and (3) the SGL at the transaction level. To meet this requirement, we performed tests of compliance using the implementation guidance for FFMIA included in Appendix D of OMB Bulletin 98-08.

The results of our tests disclosed instances, described in our "Findings and Recommendations" section, where the Department's financial management systems, as a whole, did not substantially comply with the three requirements in the preceding paragraph.

Material instances of noncompliance are failures to follow requirements, or violations of prohibitions, contained in law or regulations that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements, or the sensitivity of the matter would cause it to be perceived as significant by others. Material instances of noncompliance noted during our audit are presented in the "Findings and Recommendations" section of this report.

FINDINGS AND RECOMMENDATIONS

VI. CFO ACT REQUIREMENTS

FINDING NO. 6

The primary purpose of the CFO Act of 1990 is to bring more effective general and financial management practices to the Federal Government. The Act also establishes the authority and functions of each Federal Executive agency CFO. These include, among others, that each CFO:

- oversee all financial management activities,
- develop and maintain an integrated accounting and financial management system including financial reporting and internal control standards,
- direct, manage and provide policy guidance and oversight of financial management personnel, activities and operations (including training of personnel); and,
- review on a biennial basis, fees, etc., imposed by agencies.

We assessed the CFO's compliance with the Act's requirements and concluded that the CFO was overall, in substantial compliance with the Act. We did note two areas where remediation actions, while ongoing, have not yet resolved the problems previously reported:

- The Department's financial information system is not fully integrated and relies on data from various program and administrative systems throughout the Department in order to prepare its consolidated financial statements. In addition, it does not always provide for complete, reliable, and consistent information (see finding 2).

  During our audit, we noted that improvements were necessary in the quality control procedures in preparing the USDA consolidated financial statements. As a result, adjustments and/or reclassifications totaling over $17.5 billion needed to be made after the statements were submitted for audit.

- As noted in our fiscal years 1997 and 1998 financial statement audits of the Department's financial statements, the OCFO has not conducted required biennial reviews of the fees, rents, royalties, and other charges as imposed by USDA agencies for services and things of value they provide, and made recommendations on revising those charges to reflect costs incurred by the agencies in providing those services and things of value. The OCFO issued procedures and delegated these responsibilities to the agencies, starting in fiscal year 1999. However, we noted where these reviews had not always been performed by the agencies and reviewed by OCFO.

  In a letter dated June 15, 1999, OMB concurred with our position and noted that interest and fees on direct loans and fees on loan guarantees should be reviewed by agencies at least annually.

  We noted where one agency had not updated its user fees for its inspection services for fiscal year 1998 and part of fiscal year 1999. As a result, the fees were not adjusted for salary increases and inflation factors and the agency did not bill for millions of dollars that it was entitled to receive. The rates were updated, effective April 1999, and have also been updated for fiscal year 2000.

Because of recommendations in prior reports relating to these problems, we are making no recommendations in this report.

VII. DEBT COLLECTION IMPROVEMENT ACT REQUIREMENTS

FINDING NO. 7

We reported in prior financial statement reports (Audit Report Nos. 50401-28-FM, dated January 1999; 06401-7-FM, dated July 1998; and 06401-9-FM, dated February 1999), that the Department's lending agencies are not in full compliance with some of the provisions of the DCIA and/or OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." During this year's audits, we continue to note that more action is needed to bring FSA, CCC, FNS and Rural Development into full compliance. In addition, we noted that OCFO/NFC is not complying with the Treasury Offset Program (TOP).

The purpose of DCIA is to maximize collections of Federal non-tax debt by directing actions towards debtors with the ability to pay, and to minimize the costs of debt collection by consolidating related functions and activities. DCIA states that persons owing an outstanding Federal non-tax debt in delinquent status are not eligible for additional Federal financial assistance (Federal loans, loan guarantees, loan insurance, etc.). In order to identify those ineligible applicants, Federal agencies must both report on and check for delinquent debt. OMB Circular A-129, dated January 11, 1993, states "All credit programs shall use CAIVRS for loan screening to ensure that applicants are not delinquent on Federal Debt." A revised draft of OMB Circular A-129, dated January 18, 2000, states that "Agencies are also encouraged to use other appropriate databases, such as the Department of Housing and Urban Development's CAIVRS to identify delinquencies on Federal debt."

We noted that several USDA agencies were not in full compliance with provisions of the DCIA and/or OMB Circular A-129, "Policies for Federal Credit Programs and Non-Tax Receivables." For example:

- Rural Development needs to change its guaranteed loan regulations and lenders agreements to fully utilize the collection tools authorized by the DCIA. Because Rural Development has not taken action to increase its legal rights to collect default guaranteed loans, it may have missed opportunities to reduce its losses.

  Last year, we recommended that Rural Development take appropriate actions to both report defaulted guaranteed loans to the Treasury Offset Program.

- FSA/CCC made substantial progress in referring all eligible debt to Treasury under TOP. Under TOP, Treasury is able to offset Treasury payments against debts that have been transferred by individual agencies. By the end of fiscal year 1999, FSA/CCC has transferred all Farm Commodity Loan and Farm Program debts which were

centralized in the Kansas City Management Office's debt management division under TOP. However, FSA/CCC has other debt in its field offices which has not been transferred to Treasury under the Cross-Servicing Program. FSA/CCC made software changes to allow the referral of the remaining debt, such as farm ownership and operating loans transferred from the old Farmers Home Administration for which responsibilities have transferred to FSA. FSA/CCC expects to be in full compliance with reporting eligible debt to Treasury during fiscal year 2000.

Although FSA/CCC made improvements to refer the eligible FSA/CCC debt to Treasury under TOP so that payments made by Treasury can be matched against a government-wide delinquent debtor database, there is also a provision in the DCIA to allow disbursing officials other than Treasury to make these offset payments. In order for FSA/CCC to offset TOP payments, FSA/CCC and Treasury will need to have an automated interface between their systems. FSA/CCC and Treasury still have not coordinated to develop the necessary system requirements so that FSA/CCC will be able to interface with Treasury to offset payments. FSA personnel advised that FSA/CCC is dependent on Treasury to advise and/or develop the requirements needed by it to reach complete compliance with the DCIA requirements for TOP. This is especially true for FSA/CCC because CCC is a non-Treasury disbursing organization and this necessitates the need for further development of requirements for CCC to access and interface with Treasury. FSA/CCC and Treasury have not set a current timeframe for implementing this aspect of DCIA.

In addition, although, FSA/CCC is referring delinquent Farmer Loan Program debt to CAIVRS, it does not use CAIVRS to check for delinquent debt before loan applicants are approved. FSA/CCC's failure to mandate CAIVRS usage by all programs lessens the effectiveness of CAIVRS for both FSA/CCC and other Federal lending agencies.

- The OCFO/NFC is not in full compliance with DCIA requirements. We noted that OCFO/NFC is not referring debt that is delinquent over 180 days to Treasury for cross-servicing. OCFO/NFC was waiting for notification from Treasury as to whether it was going to be designated as a debt collection center. In January 2000, OCFO/NFC received notification that it was not going to receive the designation. OCFO/NFC expects to begin referring delinquent debt during fiscal year 2000. As of September 30, 1999, OCFO/NFC was servicing about $15.9 million in debt that was over 180 days delinquent.

- The FNS has not effectively pursued all Food Stamp Program recipient claim debt through TOP. This occurred because FNS did not take action to develop or implement alternative procedures for pursuing debt when Treasury's requirement for the use of an Internal Revenue Service (IRS) address for due process notice was eliminated. As a result, as of December 1999, FNS had not pursued almost $339 million for offset because it did not have an IRS address.

RECOMMENDATION NO. 17

Provide guidance to USDA agencies for developing a methodology to ensure that all programs maximize the usage of DCIA tools and meet the requirements of OMB Circular A-129, such as the use of CAIVRS, etc.

RECOMMENDATION NO. 18

Assist agencies in coordinating with Treasury to develop a methodology and timeframe for ensuring that future payments can interface with Treasury systems so that offsets can be made against eligible debts.

VIII. FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT REQUIREMENTS

FINDING NO. 8

We continue to note not all of USDA's financial management systems substantially comply with the three requirements of FFMIA. Under FFMIA, each agency shall implement and maintain financial management systems that comply substantially with FFMSR, applicable Federal accounting standards, and the SGL at the transaction level.

FFMIA requires that the agency head, in consultation with OMB, prepare a

remediation plan to bring these systems into substantial compliance no later than 3 years after the date of determination is made. The remediation plan needs to include the resources, remedies, and intermediate target dates necessary to bring the financial management systems into substantial compliance.

In our prior audit report, "Audit of the USDA's Fiscal Year 1998 Financial Statement Audit," Audit No. 50401-30-FM, we reported that USDA does not have a single integrated financial management system with:

- Standard data classification (definition and format) established and used for recording financial events;
- Common processes used for processing similar kinds of transactions;
- Internal controls over data entry, transaction processing, and reporting that is applied consistently; and,
- Single source data entry.

In terms of compliance with FFMIA, the Department has made progress in accomplishing its remediation plan, but has acknowledged that it does not currently comply with FFMIA requirements. To correct problems with its accounting system, the Department plans to complete implementation of its new accounting system by October 1, 2002. The Department has prepared its remediation plan, which includes planned remedial actions necessary along with its planned completion dates.

We will monitor the actions taken to accomplish the remediation plan. As required by the law, we will include our assessment of the progress achieved in our future Semiannual Report to Congress. Based on the remediation plan and related corrective actions, we are making no further recommendations at this time.

We considered these material instances of noncompliance in forming our opinion on whether the fiscal year 1999 principal financial statements of USDA are presented fairly, in all material respects, and this report does not modify our disclaimer of opinion on USDA's principal financial statements expressed in our report, dated February 11, 2000.

This report is intended solely for the information of the management of USDA, OMB and Congress, and is not intended to be and should not be used by anyone other than these specified parties. We caution that noncompliance may occur and not be detected by the tests performed and that such testing may not be sufficient for other purposes.

ROGER C. VIADERO
Inspector General

February 11, 2000

EXHIBIT A – RECENT USDA FINANCIAL STATEMENTS AND FINANCIAL RELATED AUDITS

AUDIT NUMBER	TITLE
50401-30-FM	Audit of USDA's Fiscal Year 1998 Consolidated Financial Statements
06401-11-FM	Audit of Commodity Credit Corporation's Financial Statements for Fiscal Year 1999
85401-1-FM	Audit of Rural Development's Consolidated Financial Statements for Fiscal Year 1999
08401-9-AT	Audit of Forest Service's Fiscal Year 1999 Financial Statements
27401-17-HY	Audit of Food and Nutrition Service's Fiscal

	Year 1999 Financial Statements
05401-7-FM	Audit of Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Year 1999
11401-4-FM	Fiscal Year 1998 National Finance Center Review of Internal Control Structure
50801-5-FM	Material Control Weaknesses Will Continue to Impact Departmental Financial Operations Because of Delayed FFIS Implementation
09401-5-FM	Rural Telephone Bank Financial Statements as of September 30, 1999
88099-1-FM	USDA Fiscal Year 1998 National Information Technology Center General Controls Review

ABBREVIATIONS

CAIVRS	Credit Alert Interactive Voice Response System
CAS	Central Accounting System
CCC	Commodity Credit Corporation
CFO	Chief Financial Officers Act
DCIA	Debt Collection Improvement Act
FFAS	Farm and Foreign Agriculture Service
FFMIA	Federal Financial Management Improvement Act
FFMSR	Federal Financial Management System Requirements
FMFIA	Federal Managers Financial Integrity Act
FNS	Food and Nutrition Service
GAO	General Accounting Office
GLID	General Ledger Interactive Description System
IT	Information Technology
NFC	National Finance Center
OCFO	Office of the Chief Financial Officer
OIG	Office of the Inspector General
OBM	Office of Management and Budget
OPAC	Online Payment and Collection System
OSI	Overview and Supplemental Information
PROP	Personal Property Management System
SGL	U.S. Government Standard General Ledger
TOP	Treasury Offset Program
Treasury	U.S. Department of Treasury
USDA	U.S. Department of Agriculture

United States
Department of
Agriculture

Fiscal Year 1999 Annual Financial Statement

Some of the Commodity Credit Corporation data incorporated herein may be revised after the completion of the audit of USDA's FY 1999 Annual Financial Statement.

Table of Contents

Overview of the Reporting Entity

Overview 1

Principal Statements

Balance Sheet 22

Statement of Net Cost 24

Statement of Changes in Net Position 26

Statement of Budgetary Resources 29

Statement of Financing 31

Notes to Principal Statements

Notes 33

Required Supplementary Stewardship Information

Stewardship Information 73

Required Supplementary Information

Supplementary Information 86

Audit Opinion

Opinion 99

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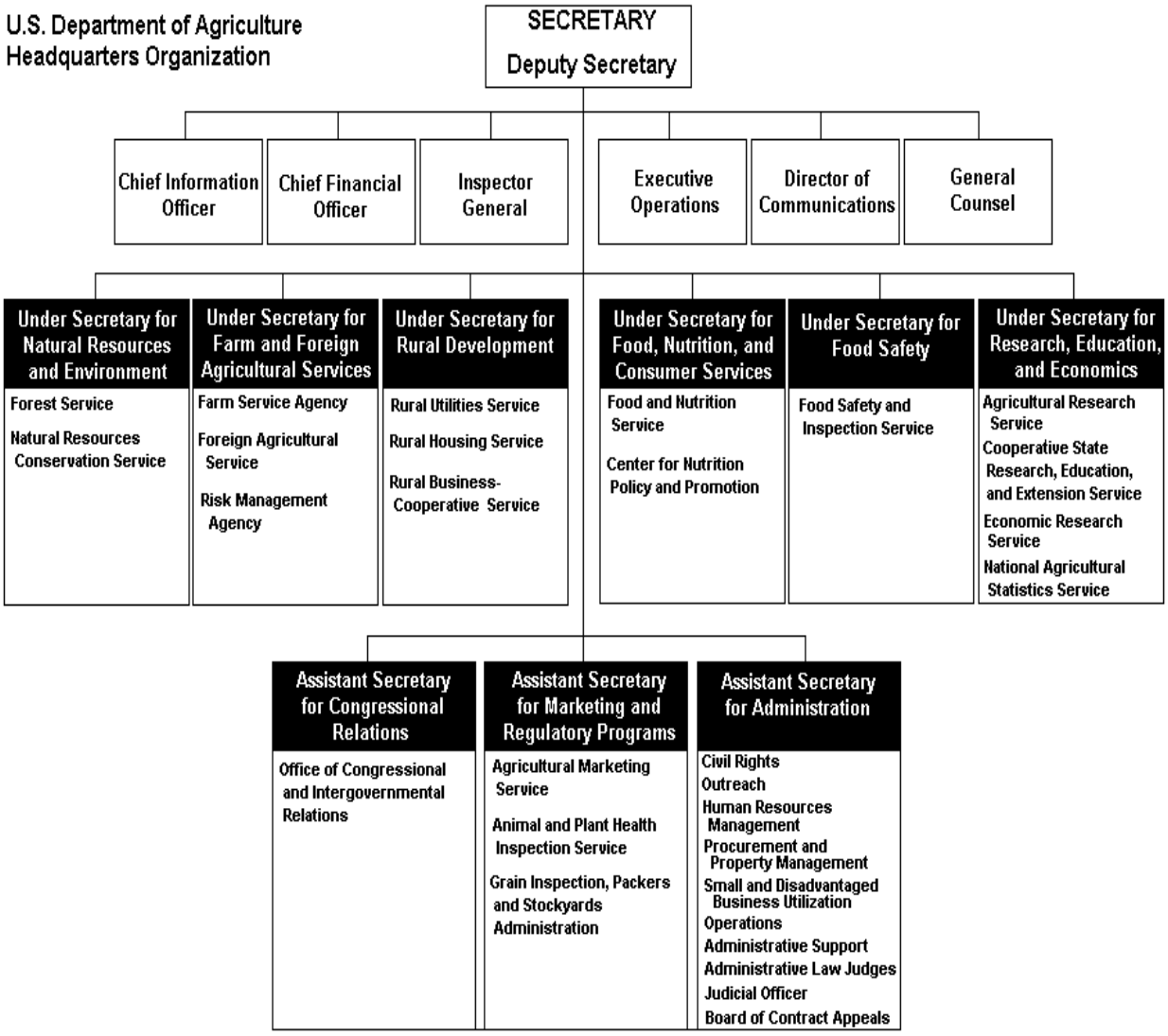
Overview of the Reporting Entity

Mission And Organizational Structure

The mission of the U. S. Department of Agriculture (USDA) is to enhance the quality of life for the American people by supporting production agriculture; ensuring a safe, affordable, nutritious, and accessible food supply; caring for agricultural, forest, and range lands; supporting sound development of rural communities; providing economic opportunities for farm and rural residents; expanding global markets for agricultural and forest products and services; and working to reduce hunger in America and throughout the world.

The mission of USDA is carried out by agencies working cooperatively, with each having its own role, to achieve the Department's mission. The chart below depicts the organizational structure of USDA.



Performance Goals And Results

Embodied in the USDA Mission Statement are the following three themes the Secretary has identified as strategic goals for USDA policies and programs:

- Expand economic and trade opportunities for agricultural producers and other rural residents.
- Ensure food for the hungry and a safe, affordable, nutritious, and accessible food supply.
- Promote sensible management of our natural resources.

Each of these goals is supported by a set of management initiatives designed to provide effective customer service and efficient program delivery.

GOAL 1: Expand Economic and Trade Opportunities for Agricultural Producers and Other Rural Residents

In support of the first goal, USDA has expanded economic and trade opportunities for agricultural producers and other rural residents by:

- Enhancing the economic safety net for farmers and ranchers.
- Opening, expanding, and maintaining global market opportunities for agricultural producers.
- Providing access to capital and credit to enhance the ability of rural communities to develop, grow, and invest in projects to expand economic opportunities and improve the quality of life for farmers and rural residents.

1.1 Enhance the Economic Safety Net for Farmers and Ranchers

Primary Programs

A safety net to help ensure the long-term economic vitality of American farmers and ranchers consists of commodity and income support, farm credit, risk management, and related programs furnished by the Farm Service Agency (FSA), Risk Management Agency (RMA), and Commodity Credit Corporation (CCC).

FSA administers the farm credit program and the guarantees of loans made by private lenders for farm ownership and operations. Eligibility is limited to those who cannot obtain credit elsewhere.

Measuring the loss rates of farm loan portfolios indicates the agency's success in preventing losses. Additionally, the agency has improved its outreach by increasing the number of loans made to socially disadvantaged farmers and ranchers by 25 percent.

By Fiscal Year	Actual	
	1999	1998
Reduce Total Direct Loan Portfolio Loss Rate	3.50%	5.40%
Maintain the Guaranteed Loan Loss Rate at or below 2.0 Percent	.93%	.78%
Increase the Number of Direct and Guaranteed Loans to Socially Disadvantaged Farmers and Ranchers	4,005	3,186

FSA provides operating personnel for CCC, which provides assistance to farmers through loans and purchases of certain agricultural commodities. For example, instead of immediately selling an eligible crop after harvest, a farmer can store the commodity and take out a nonrecourse loan from CCC for the value of the commodity. The commodity is pledged as collateral for the loan and the loan is discharged in full upon repayment or by delivering or forfeiting the commodity to CCC. The loan rates are designed to keep the crops competitive in the marketplace. The loan and purchase programs provide farmers with interim financing and help maintain balanced and adequate supplies of farm commodities throughout the year and during times of surplus and scarcity.

Under the Agricultural Market Transition Act (AMTA), CCC administers Production Flexibility Contracts (PFC) that provide fixed but declining income support payments to eligible producers. Payments are independent of farm prices and production levels. High participation rates in the AMTA contracts indicate that producers find the program an effective means of farm income support. The goal of CCC is to achieve a 98 percent annual participation rate during FY 1996 through FY 2002. CCC achieved a 99 percent annual participation rate during FY 1999, when the total production flexibility contract acres enrolled was 213 million out of 215 million potential acres.

In FY 1999, there were 1,761 farms enrolled under PFC. This number was significantly higher than the 858 farms enrolled in the FY 1995 predecessor acreage reduction programs.

The CCC tobacco and peanut price support programs provide loans to eligible producers through loan associations under cooperative agreements with CCC. By law, these programs operate at no net cost to the federal government and marketing assessments are applied to both producers and purchasers of tobacco and peanuts. The tobacco and peanut allotments and quotas, approved by producers in referenda, are established to help ensure a balance between supply and demand in the marketplace.

Maintaining a balance between supply and demand in the marketplace stabilizes the price of tobacco and peanuts by helping to ensure that market prices exceed price support loan rates. When market prices exceed loan rates, producer income improves and loan inventories decrease, thereby lowering expenses associated with the operation of the tobacco and peanut price support programs.

Analysis of Tobacco Price Support Program Activity

By Crop Year	Target		Actual		Variance Favorable (Unfavorable)	
	1999	1998	1999	1998	1999	1998
Price per Pound of Tobacco	1.70	1.70	1.84	1.24	(8%)	7%
Assessment per Pound of Tobacco	.0800	.0800	.036	.0189	55%	76%

Analysis of Peanut Price Support Program Activity

By Crop Year	Target		Actual		Variance Favorable (Unfavorable)	
	1999	1998	1999	1998	1999	1998
Price per Pound of Peanuts – Quota	.00366	.00366	*	.00366	*	0%
Assessment per Pound of Peanuts – Nonquota	.0011	.0004	*	.0011	*	(175%)

* Actual crop year data for 1999 was not available at time of publication.

RMA's provision of risk management tools allows farmers and ranchers to customize their risk management plans to cover production losses due to unavoidable causes, and it enables them to deal

with natural disasters and fluctuations in the marketplace. Crop insurance is administered by RMA through the Federal Crop Insurance Corporation and delivered by private sector reinsured companies. Crop insurance is the primary means of federal assistance for agricultural crop losses.

By Crop Year	Actual	
	1999	1998
Number of Insurance Plans Available	138	121
Total Crop Insurance Premium	2.3 billion	1.9 billion
Percent of Net Crop Land Acres Insured	73%	67%
Total Insurance in Force	32.2 billion	27.9 billion
Total Number of Policies in Force	1,297,000	1,242,854

Other Programs

In addition to the programs of CCC, FSA, and RMA, other agencies contribute to the safety net for farmers and ranchers.

- Agricultural Marketing Service (AMS) programs ensure fair and competitive marketing through administration of marketing orders, other marketing tools, and regulations.
- Economic Research Service (ERS) provides economic analyses of the issues affecting the U.S. food and agriculture sector's competitiveness, including factors related to performance, structure, risk and uncertainty, marketing, changing market structure, and domestic policy reforms.
- Agriculture Research Service (ARS) develops new knowledge and integrated technologies for more efficient and economically sustainable agricultural production systems for farms of all sizes, for alternative crops and new agricultural products and processes that increase the demand for agricultural commodities, and to control or eliminate postharvest insects and diseases to increase market quality and product longevity.
- Cooperative State Research, Education, and Extension Service (CSREES) integrates research and extension activities to improve access to information and adopt appropriate scientific discoveries and technologies targeted toward enhancing small-scale farm operations.

1.2 Open, Expand, and Maintain Global Market Opportunities for Agricultural Producers

The USDA role is to protect, open, expand, and maintain the position of American agricultural and forestry products in foreign markets. Economic growth, currency exchange rates, weather and crop conditions, barriers to market access, changing consumer lifestyles and food preferences, national support programs, and public and private market promotion efforts affect foreign demand for American agricultural products. Exports of agricultural and forestry products provide expanded market opportunities and increased incomes for agricultural producers and forest product harvesters as well as food processing companies and associated manufacturing, financing, marketing, and transportation firms.

Programs for Global Market Opportunities

The role to open, expand, and maintain global market opportunities for agricultural products is carried out by several USDA agencies.

- Foreign Agricultural Service (FAS) takes the lead within the Department to protect and strengthen the long-term competitive position of U.S. agricultural, fish, and forest products in foreign markets. This goal is accomplished through negotiating and monitoring trade agreements; market development, promotion, and outreach activities; country and commodity market intelligence collection, analysis, and dissemination; and international financial assistance programs. FAS works in partnership with other public and private sector organizations to help build stable and more prosperous economies through the sustainable management of natural resources.
- CCC administers export credit guarantee programs that encourage the export of U.S. agricultural products to buyers in countries where credit is necessary to maintain or increase U.S. sales. In some markets, financing may not be available without CCC guarantees.
- AMS collects and disseminates time-sensitive agricultural market information for domestic and foreign markets and ensures the data reported is accurate and consistent with current and future market needs. AMS uses results of customer focus groups and surveys to assess the accuracy, timeliness, and appropriateness of reported data used to ensure efficient markets, thus reducing costs for producers and future market needs. AMS also provides cost-effective agricultural commodity quality grading/certification services whereby market efficiency is enhanced and customer gains exceed the cost of the service. AMS tallies cost-effectiveness by measuring grading/certification service cost per hundredweight by year. AMS further implements national organic production and labeling standards, as well as an accreditation and certification program to enhance returns to producers and to reduce nontariff trade barriers in foreign markets. AMS measures its success by the growth in sales of organic products.
- Animal and Plant Health Inspection Service (APHIS) strengthens the domestic and international marketability of livestock, poultry, and other agricultural products by controlling and eradicating damaging pests and disease outbreaks that threaten to reduce the value of American agricultural exports and their access to international markets. By controlling and eradicating fruit fly outbreaks, APHIS ensures that barriers to trade are not erected by foreign governments to prevent the access of American agricultural products to their markets in an attempt to block the spread of the fruit fly into their agricultural system. APHIS controls brucellosis to limit trade barriers for U.S. livestock for the same reasons. APHIS ensures that produce is not damaged or of low quality, which reduces market value. APHIS also ensures that agricultural trade complies with international science-based plant and animal health standards. Some countries establish nontariff trade barriers based on questionable scientific reasoning for purely protectionist reasons. APHIS maintains expertise for resolving these disputes. Questionable trade barriers can be lifted when faulty scientific reasoning is exposed. The World Trade Organization requires that nontariff trade barriers be based on sound scientific theory which indicates that the prohibited trade could potentially cause biosecurity contamination.

By Fiscal Year	Target		Actual	
	1999	1998	1999	1998
Number of Fruit Fly Outbreaks in the U.S.	2	Not established	4	11
Number of States in Brucellosis-Free Status (Including Puerto Rico and the Virgin Islands)	50	50	47	45
Number of Sanitary and Phytosanitary (SPS) Trade Barrier Issues Resolved	Not established	Not established	Not established	44
Note: It is difficult to set targets for future years around the number of SPS issues resolved because of economic, political, and pest issues that have pronounced effects on the measure and which are beyond APHIS control. APHIS tracks this measure but does not set targets for future years.				

- Grain Inspection, Packers, and Stockyards Administration (GIPSA) ensures a fair, open, and competitive market environment for livestock, meat, and poultry by identifying and correcting unfair, deceptive, or discriminatory trade practices that affect the marketplace. GIPSA promotes and protects the integrity of the domestic and global marketing of U.S. grains by enhancing the uniformity of grain quantity and quality measurements.
- National Agricultural Statistics Service (NASS) provides price and production data that assists in the administration of agricultural price, income support, and production adjustment programs.
- ARS provides knowledge and technology to expand and improve the grading systems for agricultural products. ARS demonstrates methods to measure the critical processing and end-use properties of agricultural commodities important to the agricultural marketing system and the processing industry.

Greater income potential is provided to agricultural producers as well as other related businesses when global markets are opened, expanded, or maintained. In addition, agricultural exports enhance the Nation's ability to make efficient use of land, labor, and capital resources, and this efficiency increases the United States' comparative advantage in agricultural production.

1.3 Provide Access to Capital and Credit to Enhance the Ability of Rural Communities to Develop, Grow, and Invest in Projects to Expand Economic Opportunities and Improve the Quality of Life for Farm and Rural Residents

USDA provides access to capital and credit to enhance the ability of rural communities to develop, grow, and invest in projects to expand economic opportunities and improve the quality of life for farm and rural residents. A major concern of USDA is ensuring that the 20 percent of Americans residing in rural areas have the same opportunity for economic growth as other Americans. Rural America faces greater difficulties in providing basic community facilities and services. Seven hundred thousand rural Americans lack drinking water in their homes and 538,000 rural households have reported moderate to severe physical housing problems. To ensure local needs are met, USDA is partnering with State, local, and tribal governments; educational institutions; and other organizations to tailor programs to meet the special needs of rural communities.

Primary Programs

USDA's Rural Development (RD) mission area has the lead role in the economic development of rural communities. RD provides access to affordable capital and credit plus technical assistance that is essential for business development, home ownership, and the creation of an infrastructure to support

economic and social improvements. RD programs help rural families and communities to build, purchase, or rehabilitate housing for low income families. In addition, the programs help communities acquire facilities for fire protection, health care clinics, and libraries and provide loans and grants to rural cooperatives to develop telecommunications, electric, water, and wastewater service.

It is difficult to measure the actual tangible benefits to rural residents as a result of better job opportunities and a higher quality of life in rural areas. However, indicators of their benefits can be found in the number of rural residents that have access to modern, affordable utility services, home ownership, and perhaps the most important, good paying jobs.

By Fiscal Year	Target		Actual	
	1999	1998	1999	1998
Rural Consumers Benefitting from Electric System Improvements Made Possible with New Loan Assistance	2.4 million	1.6 million	2.8 million	2.7 million
Rural Families Receiving Home Ownership Loans and Grants for Purchase or Repair	59,701	67,691	65,721	67,691
Jobs Created or Saved through Business and Industry Guaranteed and Direct Loans	43,611	45,794	37,670	45,794

Other Programs

FSA provides supervised credit and technical assistance to borrowers in obtaining secured loans from commercial lenders.

GOAL 2: Ensure Food for the Hungry and a Safe, Affordable, Nutritious, and Accessible Food Supply

In support of its second goal, the Department has:

- Reduced hunger by assuring low-income households access to adequate supplies of nutritious food.
- Reduced the incidence of foodborne illness and ensured that commercial food supplies are safe and wholesome.
- Promoted gleaning and other food recovery programs.
- Improved dietary practices and promoted a healthy, well nourished population through nutrition education and research.
- Enhanced world food security and assisted in the reduction of world hunger.

2.1 Reduce Hunger by Assuring Low-income Households Access to Adequate Supplies of Nutritious Food

Food and Nutrition Assistance Programs

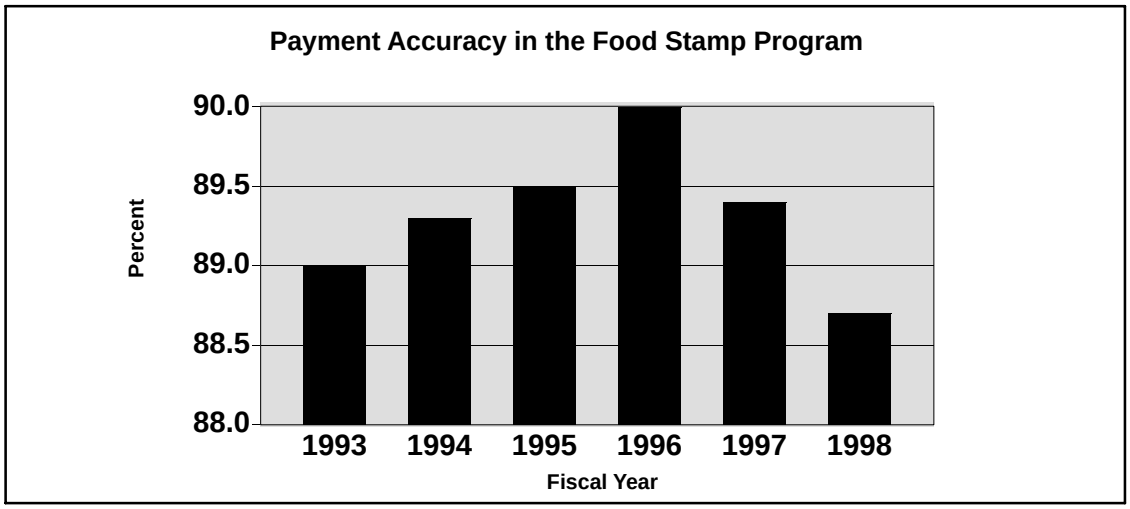
The purpose of the Nation's food assistance programs administered by Food and Nutrition Service (FNS) is to promote general welfare and safeguard the health and well-being of the Nation's

population by reducing hunger and raising levels of nutrition among low-income households. This is achieved via the Food Stamp, Child Nutrition, Child and Adult Care Feeding, and Special Supplemental Food programs.

The Food Stamp Program is an entitlement program with standardized eligibility and benefits administered through a federal-State partnership and is the primary source of nutrition assistance for low-income Americans.

By Fiscal Year	Actual	
	1999	1998
Household Participation per Month	7.7 million	8.2 million
Individual Participation per Month	18.2 million	19.8 million
Average Monthly Per-Person Benefit	72.28	71.12
Total Program Costs	19.1 billion	20.4 billion

Maintaining accurate payment in the delivery of Food Stamp Program benefits is a Department priority. Payment accuracy is measured by State agencies via an annual statistical sample of households participating in the Food Stamp Program. A total of about 50,000 case files are reviewed each year, out of total of about 100 million. This large sample is, in turn, subsampled by FNS to measure the over and underpayment accuracy for the program. During the period from FY 1993 through FY 1996, the overall accuracy rate increased from 89.17 percent to 90.78 percent. In FY 1997, the payment accuracy rate decreased by 0.66 percentage points, which is attributed to the new variables introduced by the implementation of Welfare Reform legislation. In FY 1998, the payment accuracy rate again decreased by 0.81 percentage points to 89.31 percent. Consequently, the Department did not meet the goal of maintaining the FY 1997 payment accuracy rate of 90.12 percent. The chart below will be updated for FY 1999 shortly after FNS receives from the State agencies the result of the annual statistical sample of households participating in the Food Stamp Program.



Although the Department anticipates an improvement of the trend in payment accuracy, it will take time for State agencies to achieve the level of accuracy attained before the implementation of Welfare Reform legislation. In order to achieve its goal, FNS will, among other things, provide technical

assistance to States on effective payment accuracy activities, coordinate and attend State payment accuracy conferences, and encourage States to use data bases to ensure that prisoners and the deceased are not counted as household members.

In addition to payment accuracy, the Department is continuing its commitment to fight waste, fraud, and abuse in the Food Stamp Program. The goal for FY 1999 was to increase to 38 the number of States operating Electronic Benefits Transfer (EBT) systems. By eliminating paper coupons and creating an electronic record of every food stamp transaction, EBT is a useful tool for improving effectiveness and efficiency in program delivery and reducing certain types of food stamp fraud and trafficking.

In FY 1999, 40 States used EBT to issue food stamp benefits, an increase of 4 States from 36 States in FY 1998. The percentage of food stamp benefits issued through EBT increased from 55 percent in September 1998 to over 70 percent in September 1999.

The Child Nutrition Program (Lunch and Breakfast) provides nutritionally balanced, low cost or free lunches or breakfasts to children each day in public and nonprofit private schools or residential child care institutions.

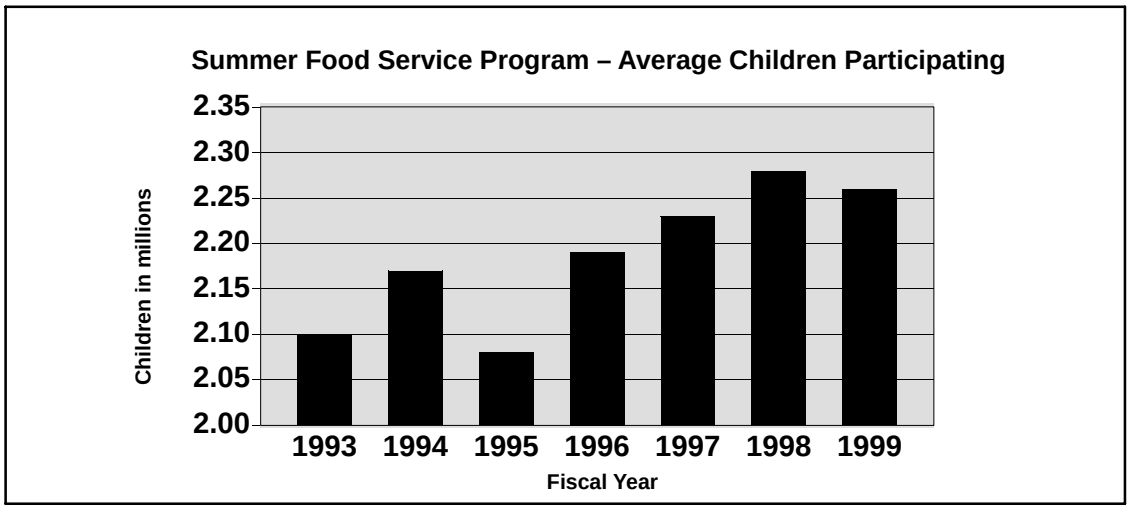
Lunch		
By Fiscal Year	Actual	
	1999	1998
Average Participation per Day	26.9 million	26.6 million
Total Lunches Served	4.49 billion	4.42 billion
Total Program Costs	5.9 billion	5.7 billion

Breakfast		
By Fiscal Year	Actual	
	1999	1998
Average Participation per Day	7.3 million	7.1 million
Total Breakfasts Served	1.3 billion	1.2 billion
Total Program Costs	1.3 billion	1.3 billion

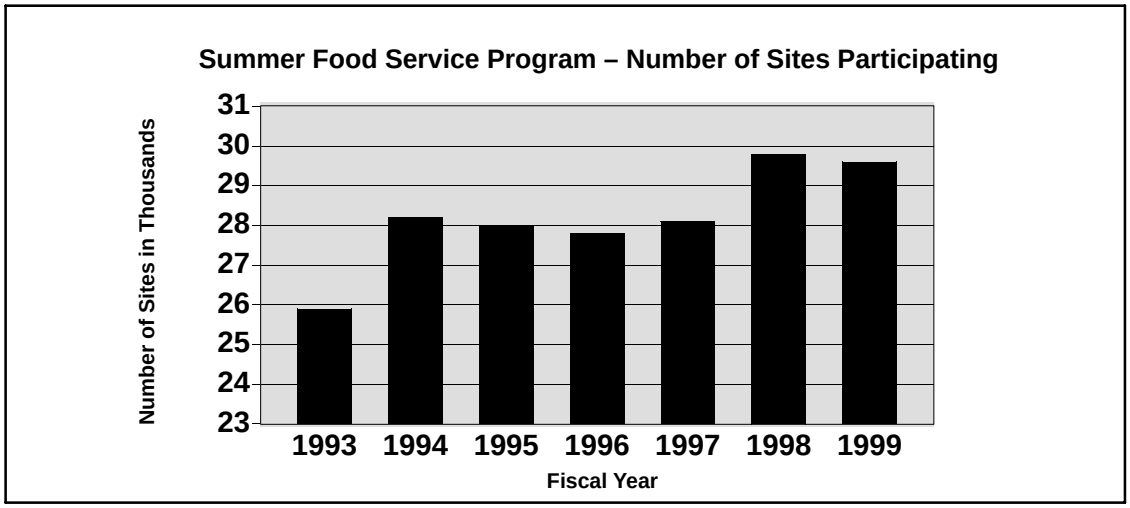
The Child and Adult Care Food Program ensures that children and adults in day care, and teenagers in after-school programs, in low-income areas receive healthy meals by reimbursing participating day care providers and after-school programs for their meal costs and providing them with USDA commodity food.

By Fiscal Year	Actual	
	1999	1998
Average Attendance per Day	2.6 million	2.6 million
Number of Meals Served	1.6 billion	1.6 billion
Total Program Costs	1.6 billion	1.6 billion

The Summer Food Service Program (SFSP) provides nutritionally balanced free meals to children in low-income areas during the summer months. Fewer than 20 percent of the children that regularly receive free lunches during the school year participate in SFSP because many communities do not sponsor the program.



The goal is to increase the number children participating in SFSP even though it has been difficult to reach more children in needy areas. An increased number of SFSP sponsors and sites would directly support the goal of reducing hunger by assuring low-income households access to adequate supplies of nutritious food.



In FY 1999, SFSP experienced an increase in program activity. States reported that 30,911 sites operated throughout the country, serving an average of 2.22 million children per day – an increase of 2.2 percent over FY 1998. The goal for FY 1999 was to have 3,900 sponsors operating 32,000 sites and serving an average of 2.42 million children per day.

The Special Supplemental Food Program for Women, Infants, and Children (WIC) is a grant program designed to improve the health of pregnant, postpartum, and breast-feeding women, as well as infants and children up to 5 years old by providing supplemental foods, nutrition education, and access to health care.

By Fiscal Year	Actual	
	1999	1998
Average Participation per Month	7.3 million	7.4 million
Average Food Cost Per Person	32.47	31.75
Total Program Costs	3.8 billion	3.8 billion

An ongoing goal in the WIC Program is to improve the efficiency and effectiveness of benefit dollars that are provided to State agencies. One measure that can be used to help measure program efficiency is the food cost per participant, which is available through monthly State reporting of participation and expenditures. One of FNS's FY 1999 performance goals was to stabilize the food cost per participant at the FY 1997 value, adjusted for inflation. The average food cost per person in 1997 was $31.67—which translates to $33.10 cost per person in FY 1999 after adjusting for inflation. The actual food cost per person in FY 1999 was $32.47—$.63 below the adjusted 1997 cost. Therefore, the target was met for stabilizing the food cost per participant in the WIC program.

The WIC Farmers' Market Nutrition Program (FMNP) which is funded under the Commodity Assistance Program provides many WIC participants with fresh fruits and vegetables while promoting awareness and use of farmers' markets. The FMNP is a practical way to educate participants, expand their choices for healthy foods, and improve their dietary intake. The goal was to increase to 39 the number of State agencies and tribal organizations participating in the program. In FY 1999, the target was met with 39 participants in the program, an increase of 5 from FY 1998.

2.2 Reduce the Incidence of Foodborne Illness and Ensure That Commercial Food Supplies Are Safe and Wholesome

Programs for Safe Food

Upon publication of the Hazard Analysis and Critical Control Point (HACCP) final rule on July 25, 1996, the Food Safety and Inspection Service (FSIS) established new requirements to improve food safety and began the long-awaited modernization of USDA's meat and poultry inspection system. To prevent food safety hazards, all slaughter and processing plants are required to adopt the system of process controls known as HACCP. The HACCP system targets pathogens that cause foodborne illness, strengthens industry responsibility to produce safe food, and focuses inspection and plant activities on prevention objectives. FSIS expects that the combination of HACCP-based process controls, microbial testing, pathogen reduction performance standards, and sanitation standard operating procedures will significantly reduce the contamination of meat and poultry due to harmful bacteria and reduce the risk of foodborne illness. This new food safety system enables USDA to

modernize its inspection program by focusing attention on the most significant food safety hazards and on ensuring that all plants have systems in place that are effectively preventing food safety problems.

By Fiscal Year	Actual	
	1999*	**1998**
Percentage of the Total Number of Federally Inspected Meat and Poultry Slaughter and Processing Plants Implementing the Basic HACCP Requirements	43.6%	4.8%
Percentage of FSIS Meat and Poultry Inspection Employees Trained in HACCP Tasks and Procedures (Cumulative)	92.3%	54.9%
Number of People Reached with Food Safety Information through Media Stories, Circulation Reports, Home Page Visits, and Hotline Calls**	83 million	132 million

* These are estimates. Actual data was not available at the time of publication.

** The actual value reflects a mid-year change in computing the distribution of food safety information to people. FSIS has adopted a uniform, conservative approach to estimating the number of people it reaches through various media and will continue to use this methodology for future year estimates.

ARS researches new foodborne illness testing technologies to reduce the time needed for testing and to improve the accuracy of results. In addition, ARS develops new technologies for preventing the introduction of pathogens such as E. coli and Salmonella into the food supply.

2.3 Promote Gleaning and Other Food Recovery Programs

Each year millions of pounds of good food go to waste in fields, commercial kitchens, markets, stores, and restaurants while millions of people go hungry. Allowing good food to go to waste is no longer acceptable. The Department has worked with nonprofit organizations, communities, businesses, and government agencies to reduce this waste through food recovery and gleaning programs. Food recovery and gleaning refer to programs that collect excess wholesome food that would otherwise be wasted from farms, orchards, food markets, retail grocery stores, restaurants, and cafeterias for delivery to hungry people.

2.4 Improve Dietary Practices and Promote a Healthy, Well Nourished Population Through Nutrition Education and Research

Programs for Improved Nutrition

The Center for Nutrition Policy and Promotion produces and disseminates up-to-date science-based guidance for a healthful diet including revision and production of the USDA and Health and Human Services' Food Guide Pyramid that serves the general population as the basis for making healthful food choices.

ARS develops nutritious plant and animal products for human consumption, determines requirements for nutrients and other food components, provides new measurement techniques and results of surveys, and disseminates effective nutrition intervention strategies.

2.5 Enhance World Food Security and Assist in the Reduction of World Hunger

American food exports have played a major role in improving world food security and reducing the number of chronically undernourished and malnourished people in foreign countries in the last four

decades. USDA carries out this goal by helping developing countries meet their food import needs and improves long-term food security through foreign food aid, technical assistance, research, and economic development activities.

Programs for Food Security and Hunger Reduction

FAS administers a number of foreign food assistance programs that reduce world hunger. FAS also administers technical assistance, training, and research programs that promote agricultural development in developing countries.

CCC administers Public Law 480 programs that provide agriculture assistance to countries that are at different levels of economic development to combat hunger and malnutrition; promote broad-based equitable and sustainable development, including agriculture development; expand international trade; develop and expand export markets for U.S. agricultural commodities; and foster and encourage the development of private enterprise and democratic participation.

CSREES facilitates research primarily through the land-grant university system to acquire, preserve, and enhance genetic resources and to develop new knowledge and technologies that increase the productive capacity and usefulness of plants, animals, and other organisms that contribute to world food security and assist in reducing hunger.

GOAL 3: Promote Sensible Management of Our Natural Resources

In support of its third goal, USDA has promoted sensible management of the Nation's natural resources by:

- Promoting sustainable production of food and fiber products while maintaining a quality environment and strong natural resource base.
- Promoting sustainable management of public lands, and protecting and restoring critical forest land, rangeland, wilderness, and aquatic ecosystems.

3.1 Promote Sustainable Production of Food and Fiber Products While Maintaining a Quality Environment and Strong Natural Resource Base

Conservation Programs

Natural Resources Conservation Service (NRCS) is the primary provider of assistance to private land managers in their efforts to ensure sustainable production of food and fiber products while maintaining a quality environment and strong natural resource base. Primary responsibility for the stewardship of the resources on private land rests with individual owners and operators. NRCS provides to rural and urban resource managers technical assistance in planning and applying conservation systems tailored to local conditions and individual needs. Effective conservation of natural resources requires action by local, State, and tribal governments as well as the federal government. NRCS helps to develop the capacity for action at the appropriate level by facilitating locally-led conservation decision-making and action. In addition, NRCS assists local, State, and tribal governments in ensuring healthy and sustainable communities by providing educational, technical, and financial assistance; resource information; and training. One outcome of these actions is a healthy and productive land that enhances the environment, improves the urban and rural landscape, and

sustains food and fiber production and useful watershed and other natural systems. Another outcome is individuals and their neighbors working together as effective and willing stewards of the natural resources on their property and in their communities.

The NRCS performance measures reported for FY 1999 are different from the measures previously reported because the NRCS reporting systems were in transition during FY 1998. Actual data for the new performance measures is not available for FY 1998.

Fiscal Year 1999	Target	Actual
Resource Management Systems Applied on Cropland	6 million acres	8.7 million acres
Cropland Protected Against Excessive Erosion	4 million acres	5.3 million acres
Resource Management Systems Applied on Grazing Land	5.8 million acres	7.9 million acres
Prescribed Grazing Applied	10 million acres	10.2 million acres
Nutrient Management Systems Applied	1.1 million acres	2.7 million acres
Waste Management Systems Installed	9,600	6,170
Annual Flood Prevention Benefits	$700 million	$914 million
Wetland Creation or Restoration Applied	230,000 acres	270,000 acres
Upland and Wetland Wildlife Habitat Management Applied	3 million acres	6.3 million acres
Customers Receiving Planning and Application Assistance	750,000	630,600

Sensible management of natural resources requires accurate information about the condition of the resources and practical, science-based management systems. NRCS is the primary provider of information on the Nation's soil resources, the condition of natural resources on nonfederal lands, and snowpacks and water supplies in the western states. NRCS makes this information available to potential users through a variety of media, emphasizing the use of electronic media to provide data that can be tailored to fit the needs of users. NRCS develops and supports conservation technology such as practice standards and technical guides that are used in federal programs and by other governmental units and the private sector.

Fiscal Year 1999	Target	Actual
Soil Surveys Available Electronically for Nonfederal Lands	350	366
Water Supply Forecasts Issued	6,335	6,835
New Plant Releases	12	22
Customers Accessing or Downloading Plant Science Information from Web Site	12 million	20 million

CCC's Conservation Reserve Program (CRP) is administered by FSA with technical assistance provided by NRCS under which CCC safeguards approximately 30.3 million acres of environmentally sensitive land to prevent soil erosion, increase wildlife habitat, and protect ground and surface water. This is accomplished by encouraging farmers to retire from production highly erodible croplands and other environmentally sensitive lands for a contract duration of 10 to 15 years during which a permanent protective vegetative cover is established. In return for planting a permanent protective cover of grass or trees on the vulnerable property, the owner receives a rental payment each year of the multiyear contract. The protective cover has reduced wind erosion as well as runoff and sedimentation, plus it has protected air and groundwater quality and helped improve countless lakes, rivers, streams, and other bodies of water. Cost-sharing payments are available to help establish permanent areas of grass, legumes, trees, windbreaks, or plants that improve water quality and give shelter and food to wildlife.

Actual enrolled acreage in CRP will vary from year to year due to program provisions that allow for the extension of existing contracts, regularly scheduled sign-up periods, early termination of contracts on less environmentally sensitive acreage, and a continuous sign-up for select environmental priority practice acreage. Maintaining high enrollment levels in CRP and implementing approved conservation practices on enrolled lands, restoring wetlands, and improving wildlife habitats protects the Nation's natural resources and assists agricultural producers in attaining a high level of stewardship on America's farmland and ranches.

By Fiscal Year (in millions)	Target		Actual*	
	1999	1998	1999	1998
Number of Acres Enrolled	31.1	32.2	30.3	30.3
Acres of Highly Erodible Land Retired	23.1	24.6	23.0	23.3
Restored Acres of Wetlands	1.4	1.3	1.4	1.3
Acres Planted with Trees	2.0	2.2	2.0	2.1
*Actual are estimates based on active contracts as of September 30 of the applicable fiscal year.				

Other Environmental and Natural Resource Programs

Many other USDA agencies collaborate to develop and transfer natural resource management technology and tools to individual landowners and communities, to sustain land productivity, and to conserve and enhance natural resources.

- ARS research is directed at managing and conserving the Nation's soil, water, and air resources for a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.
- APHIS administers a number of programs that protect natural resources, livestock, and the overall health of American agriculture. APHIS effectively manages plant and animal pests and diseases and wildlife damage that pose a risk to agriculture, natural resources, or public health and safety. APHIS facilitates the development of significant biotechnology derived products for the benefit of agricultural producers and consumers.
- NASS provides statistical data, and ERS provides economic and other analyses on natural resource issues. CSREES research and extension activities support the Department's conservation goals.

By Fiscal Year	Target		Actual	
	1999	1998	1999	1998
New Noxious Weed Infestations Detected/Assessed through the National Early Warning System	10	Not established	12	9
Number of New Crops Genetically Engineered	52	Not established	50	48
Number of New and Improved Wildlife Control Methods Tested by the National Wildlife Research Center	15	14	18	17

3.2 Promote Sustainable Management of Public Lands, and Protect and Restore Critical Forest Land, Rangeland, Wilderness, and Aquatic Ecosystems

National Forest System Programs

The Forest Service (FS) plays a key role in promoting sustainable management of public land, and protecting and restoring critical forest land, rangeland, wilderness, and aquatic ecosystems. The FS manages approximately 192 million acres of public land, about 8 percent of the land area of the United States, located in 44 States, Puerto Rico, and the Virgin Islands. This land, collectively known as the National Forest System (NFS), provides a variety of natural resource benefits including water, wildlife habitat, outdoor recreation opportunities, timber, minerals, and forage for livestock. The ecosystem approach to management of NFS integrates ecological, economic, and social factors to maintain and enhance the quality of the environment to meet the needs of current and future generations. Through implementation of land and resource management plans, the agency will ensure sustainable ecosystems while providing multiple benefits for people within the scope of the ecosystems on NFS land.

Restoration of NFS lakes and streams not only improves the aquatic and riparian ecosystems being restored, but it has a positive impact downstream.

By Fiscal Year	Target		Actual	
	1999	1998	1999	1998
Streams Restored or Enhanced				
Appropriated Funds	2,016 miles	1,784 miles	2,194 miles	1,843 miles
Knutson-Vandenberg (KV) Funds	*	*	147 miles	344 miles
Lakes Restored or Enhanced				
Appropriated Funds	13,184 acres	8,399 acres	16,346 acres	9,672 acres
KV Funds	*	*	682 acres	1,417 acres
Soil and Water Resource Improvements				
Appropriated Funds	20,000 acres	27,305 acres	35,562 acres	38,497 acres
KV Funds	*	*	2,547 acres	18,153 acres
Lands Restored by Reforestation				
Appropriated and KV Funds	269,443 acres	261,129 acres	267,013 acres	287,905 acres
Forest Lands Maintained or Enhanced by Timber Stand Improvements				
Appropriated and KV Funds	218,576 acres	287,958 acres	262,786 acres	296,951 acres
NFS Lands Treated for Fuels Management				
Appropriated and Brush Disposal Funds	1,487,100 acres	1,358,993 acres	1,521,177 acres	1,604,796 acres
Nonstructural Range Improvements				
Appropriated Funds	29,930 acres	30,124 acres	28,123 acres	23,817 acres
KV Funds	*	*	6,440 acres	8,641 acres
Timber Volume Offered – Million Cubic Feet				
Appropriated and Salvage Funds	701.0	740.0	436.6	645.8

* KV accomplishments are reported separately for this measure because targets were only established for appropriated funds.

Reforestation is one of many forest health-related activities that reduces soil erosion and stream contamination, provides cover for wildlife, and allows the ecosystem to recover more quickly.

Other Forest and Ecosystem Programs

Through cooperation with State, local, and tribal governments; other research agencies such as CSREES, APHIS, and ARS, and colleges and universities, FS provides the scientific foundation for sustainable forest management and the information and technology needed to assure the health, diversity, and productivity for forest and rangeland ecosystems.

APHIS provides federal leadership in managing problems related to interaction with wildlife.

By Fiscal Year	Target		Actual	
	1999	1998	1999	1998
Increase Passenger Safety by Reducing the Risk of Aircraft Striking Wildlife	10%	10%	75% reduction for 63% of projects	75% reduction for 63% of projects

MANAGEMENT INITIATIVE: Improved Financial Management and Reporting

One of USDA's management initiatives is improved financial management and reporting. The intent is to implement an integrated financial information system for the entire Department and produce financial statements which warrant an unqualified audit opinion. There are two automated systems being implemented that will improve USDA compliance with authoritative financial management requirements—the Foundation Financial Information System (FFIS) and the Financial Data Warehouse (FDW). Among other things, FFIS will help ensure compliance with financial management laws and regulations and the U.S. Standard General Ledger. FDW will be the integrated reporting system in compliance with OMB Circular A127, "Financial Management Systems."

On October 1, 1999, two agencies were successfully implemented into FFIS—FSIS and the remainder of FS—and expansion of FDW was begun. During FY 2000, three more USDA agencies will be implemented into FFIS and updates to FDW will be effected.

Ensure Systems Readiness for Year 2000 (Y2K)

Systems readiness for Y2K needed to be addressed because of the way dates have been computed in automated information systems. For the past several decades, systems have typically used two digits to represent the year, which results in the year 2000 being indistinguishable from the year 1900.

The potential impact of the Y2K problem extends beyond USDA's internal information systems because USDA depends on data provided by its business partners including foreign entities; other federal entities; State, local, and tribal governments; third parties; and vendors that provide USDA with goods and services. If the systems that support USDA cannot operate reliably into year 2000, the effects could be widespread because of the expansive impact of USDA's programs. If the Y2K problem is not properly resolved, the following are some of the consequences that could result.

- Payments to farmers, schools, and others could be delayed or incorrectly computed.
- The economy could be adversely affected if information critical to crop and livestock providers and investors is late, unavailable, or unreliable.
- The import and export of agricultural products could be delayed, thus increasing the likelihood that they will not reach their intended destinations before spoiling.
- Food distribution to schools and others could be delayed.
- Public health and safety could be at risk because of the lack of Y2K readiness of automated equipment that is used to detect bacteria, diseases, and unwholesome food.

USDA has been committed to promptly resolving the Y2K problem and ensuring that there will be no disruption to critical services. As only one example, USDA has actively participated in governmentwide efforts to coordinate Y2K matters with its business partners.

As of October 1, 1999, USDA had certified the Y2K readiness of all 344 of its mission critical systems. Nevertheless, USDA developed a Departmentwide Y2K business contingency plan to ensure the delivery of a minimally acceptable level of service in the event of any Y2K-induced interruption. The plan outlines Y2K-related risks and threats, mitigation strategies, and courses of action in the event the risk mitigation efforts are inadequate.

An estimated $184 million will have been spent by USDA through FY 2000 to resolve all of its Y2K problems. The estimate includes the cost of identifying needed changes, evaluating their cost effectiveness, making the changes, testing them, and preparing the contingency plan. The estimate excludes USDA's cost of system upgrades or replacements that would otherwise occur as a part of the normal systems life cycle and the federal share of the cost of those systems that support USDA programs.

Limitations Of The Financial Statements

The 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. 351(b).

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

The statements should be read with the realization that they are for a component of the U.S. Government, a sovereign entity. One implication of this is that liabilities cannot be liquidated without legislation that provides resources to do so.

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Principal Statements

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U.S. Department Of Agriculture
Consolidated Balance Sheet
As of September 30, 1999
(in millions)

Assets	
Assets for Use by Entity	
Federal	
Fund Balance with Treasury (Note 2)	$37,827
Investments (Note 4)	19
Accounts Receivable, Net (Note 5)	438
Other Assets (Note 6)	137
Total Federal	38,421
Non-Federal	
Investments (Note 4)	59
Accounts Receivable (Note 5)	1,415
Credit Program Receivables and Related Foreclosed Property, Net (Note 7)	70,723
Domestic Commodity Loans, Net (Note 7)	2,432
Other Foreign Receivables, Net (Note 7)	370
Cash and Other Monetary Assets (Note 3)	101
Inventory and Related Property, Net (Note 8)	453
General Property, Plant, and Equipment, Net (Note 9)	3,780
Other Assets (Note 6)	161
Total Assets for Use by Entity	117,915
Assets Not for Use by Entity	
Federal	
Fund Balance with Treasury (Note 2)	379
Accounts Receivable, Net (Note 5)	8
Other Assets (Note 6)	
Total Federal	387
Non-Federal	
Accounts Receivable, Net (Note 5)	88
Cash and Other Monetary Assets (Note 3)	38
Other Assets (Note 6)	6
Total Assets Not for Use by Entity	519
Total Assets	$118,434

Liabilities	
Liabilities Covered by Budgetary Resources	
Federal Liabilities	
Accounts Payable	$1,802
Debt (Note 10)	85,009
Resources Payable to Treasury (Note 1)	15,242
Other Liabilities (Note 12)	2,073
Total Federal	104,126
Non-Federal Liabilities	
Accounts Payable	2,713
Debt (Note 10)	266
Estimated Losses on Loan and Foreign Credit Guarantees (Note 7)	1,704
Other Liabilities (Note 12 and 13)	4,982
Total Liabilities Covered by Budgetary Resources	113,791
Liabilities not Covered by Budgetary Resources	
Federal	
Liabilities for Environmental Cleanup Costs (Note 11)	
Accrued Federal Employees Compensation Act Bills (Note 1)	6
Other Liabilities (Note 12)	165
Total Federal	171
Non-Federal	
Liabilities for Environmental Cleanup Costs (Note 11)	
Annual Leave	441
Federal Employees Compensation Act Liability (Note 1)	646
Other Liabilities (Note 12 and 13)	2,181
Total Liabilities Not Covered by Budgetary Resources	3,439
Total Liabilities	117,230
Net Position	
Unexpended Appropriations (Note 14)	30,616
Cumulative Results of Operations	(29,412)
Total Net Position	1,204
Total Liabilities and Net Position	$118,434

The accompanying notes are an integral part of these statements.

U.S. Department Of Agriculture
Consolidating Statement Of Net Cost
For the year ended September 30, 1999

(in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Service	Food Safety	Marketing and Regulatory Programs
Program Costs (Note 16)				
Federal	$1,331	$660	$178	$905
Non-Federal				
Grants and Transfers	19,905	32,010	44	84
Other Program Costs	4,152	154	541	766
Total Program Production Costs	25,388	32,824	763	1,755
Less Earned Revenues (Note 17)	2,275	64	97	457
Excess Production Costs Over Revenues	23,113	32,760	666	1,298
Non-Production Costs:				
Acquisition Cost of Stewardship Land	156			
Net Program Costs	23,269	32,760	666	1,298
Costs Not Assigned to Program	15	22	25	49
Less Other Earned Revenues Not Attributed to Program (Note 17)				
Net Cost of Operations	$23,284	$32,782	$691	$1,347

The accompanying notes are an integral part of these statements.

Natural Resources and Environment	Research, Education, and Economics	Rural Development	Other USDA Services	Intra-USDA Eliminations	1999
$378	$243	$4,308	$239	($1,171)	$7,071
	719	1,648			54,410
4,304	1,042	(931)	398		10,426
4,682	2,004	5,025	637	(1,171)	71,907
784	77	4,467	254	(293)	8,182
3,898	1,927	558	383	(878)	63,725
122					278
4,020	1,927	558	383	(878)	64,003
	5	20		(103)	33
$4,020	$1,932	$578	$383	($981)	$64,036

U.S. Department Of Agriculture
Consolidating Statement Of Changes In Net Position
For the year ended September 30, 1999

(in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Service	Food Safety	Marketing and Regulatory Programs
Net Cost of Operations (Note 16)	$23,284	$32,782	$691	$1,347
Financing Sources (Other Than Exchange Revenues)				
Appropriations Used	12,884	32,109	658	1,143
Taxes (and Other Non-Exchange Revenues)	62			
Donations (Non-Exchange Revenue)				
Imputed Financing	139	679	58	81
Transfers-In	18			
Transfers-Out	(2,728)			
Net Results of Operations	(12,909)	6	25	(123)
Net Results Not Affecting Net Position	(346)			
Prior Period Adjustments (Note 19)	(1,451)		(5)	(100)
Net Change in Cumulative Results of Operations	(14,706)	6	20	(223)
Increase (Decrease) in Unexpended Appropriations	824	(281)	(36)	(14)
Change in Net Position	(13,882)	(275)	(16)	(237)
Net Position-Beginning of Period	(15,104)	18,265	(107)	894
Net Position-End of Period	($28,986)	$17,990	($123)	$657

The accompanying notes are an integral part of these statements.

Natural Resources and Environment	Research, Education, and Economics	Rural Development	Other USDA Services	Intra-USDA Eliminations	1999
$4,020	$1,932	$578	$383	($981)	$64,036
4,276	1,760	2,481	323		55,634
					62
2					2
137	69	83	24	(981)	289
13				163	194
(159)		54			(2,833)
249	(103)	2,040	(36)	163	(10,688)
		(1,721)			(2,067)
604	(1)		(1)		(954)
853	(104)	319	(37)	163	(13,709)
(149)	301	214	98	(163)	794
704	197	533	61		(12,915)
4,694	1,421	3,916	140		14,119
$5,398	$1,618	$4,449	$201		$1,204

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U.S. Department Of Agriculture
Combined Statement Of Budgetary Resources
For the year ended September 30, 1999

(in millions)

Budgetary Resources:	
Budget Authority (Line 1)	$89,528
Unobligated Balances – Beginning of Period (Line 2)	25,635
Spending Authority From Offsetting Collections (Line 3)	24,411
Adjustments (Line 4–6)	(19,479)
Total Budgetary Resources (Line 7)	120,095
Status of Budgetary Resources:	
Obligations Incurred (Line 8)	96,339
Unobligated Balances–Available (Line 9)	7,097
Unobligated Balances–Not Available (Line 10)	16,659
Total, Status of Budgetary Resources (Line 11)	120,095
Outlays:	
Obligations Incurred (Line 8)	96,339
Less: Spending Authority From Offsetting Collections Collections and Adjustments (Lines 3A, B, D, & 4A)	25,563
Obligated Balance, Net – Beginning of Period (Line 12)	21,846
Less: Obligated Balance, Net – End of Period (Line 14)	26,636
Total Outlays (Line 15)	$65,986

** Line numbers refer to lines on the SF–133, Report on Budget Execution*
The accompanying notes are an integral part of these statements.

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U.S. Department Of Agriculture
Combined Statement Of Financing
For the year ended September 30, 1999

(in millions)

Resources Used to Finance Operations:	
Budget	
Budgetary Resources Obligated for Items To Be Received or Provided to Others	$96,339
Less: Offsetting Collections, Recoveries of Prior-Year Authority, and Changes in Unfilled Customer Orders	25,541
Net Budgetary Resources Used to Finance Operations	70,798
Non-Budgetary	
Property Received from Others Without Reimbursement	2
Property Given to Others Without Reimbursement	(149)
Costs Incurred by Others Without Reimbursement	289
Other Non-Budgetary Resources	(1,778)
Net Non-Budgetary Resources used to Finance Operations	(1,636)
Total Resources Used to Finance Operations	69,162
Resources Used to Fund Items Not Part of the Net Cost of Operations	
Increase or (Decrease) in Budgetary Resources Obligated to Order Goods or Services Not Yet Received or Benefits Not Yet Provided	2,054
Budgetary Offsetting Collections Not increasing Earned Revenue or Decreasing Expense	(12,671)
Adjustment Made to Compute Net Budgetary Not Affecting Net Cost Operations	4,499
Resources Funding Expenses Recognized in Prior Periods	754
Resources Financing the Acquisition of Assets or Liquidation of Liabilities	13,530
Other Resources Used to Fund items Not Part of the Net Cost	507
Total Resources Used to Fund Items Not Part of the Net Cost of Operations	8,673
Resources Used to Finance the Net Cost of Operations	60,489
Components of Net Cost of Operations Requiring or Generating Resources During the Reporting Period	
Expenses or Earned Revenue Related to the Disposition of Assets or Liabilities, or Allocation of Their Cost Over Time	644
Expenses Which Will Be Financed with Budgetary Resources Recognized in Future Periods	3,199
Other Net Cost Components Not Requiring or Generating Resources During the Reporting Period	(296)
Total Components of Net Cost of Operations Not Requiring or Generating Resources During the Reporting Period	3,547
Net Cost of Operations	$64,036

The accompanying notes are an integral part of these statements.

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Notes to the Principal Statements

Notes To Principal Financial Statements As Of September 30, 1999

Note 1. Significant Accounting Policies

Reporting Entity

The Department is comprised of various agencies, corporations, and offices through which it implements its programs. All USDA entities are referred to as agencies in the financial statements unless otherwise noted. As of the end of the fiscal year 1999, USDA employed over 97,000 full-time employees. In addition, it paid for the services of approximately 21,000 county office employees of the Farm Service Agency.

The USDA mission areas, agencies, and corporations are as follows:

- Alternative Agricultural Research and Commercialization Corporation (AARCC)
- Departmental Administration (DA)
- Departmental Offices
  - National Appeals Division (NAD)
  - Office of Budget and Program Analysis (OBPA)
  - Office of Communications (OC)
  - Office of the Chief Economist (OCE)
  - Office of the Chief Financial Officer (OCFO)
  - Office of the Chief Information Officer (OCIO)
  - Office of the General Counsel (OGC)
  - Office of the Inspector General (OIG)
- Farm and Foreign Agricultural Services (FFAS) mission area
  - 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) mission area
  - Center for Nutrition Policy and Promotion (CNPP)
  - Food and Nutrition Service (FNS)

- Food Safety mission area
  - Food Safety and Inspection Service (FSIS)
- Marketing and Regulatory Programs (MRP) mission area
  - Agricultural Marketing Service (AMS)
  - Animal and Plant Health Inspection Service (APHIS)
  - Grain Inspection, Packers and Stockyards Administration (GIPSA)
- Natural Resources and Environment (NRE) mission area
  - Forest Service (FS)
  - Natural Resources Conservation Service (NRCS)
- Research, Education, and Economics (REE) mission area
  - Agricultural Research Service (ARS)
  - Cooperative State Research, Education, and Extension Service (CSREES)
  - Economic Research Service (ERS)
  - National Agricultural Statistics Service (NASS)
- Rural Development (RD) mission area
  - Rural Business - Cooperative Service (RBS)
  - Rural Housing Service (RHS)
  - Rural Utilities Service (RUS)
    - Rural Telephone Bank (RTB)

Basis of Presentation

USDA consolidated and combined financial statements include data for all agencies previously described under the Reporting Entity section. Consolidated statements are presented net of material activity between USDA entities. The Statements of Net Cost and Changes in Net Position are presented in a consolidating manner by responsibility segment, with a total USDA column that presents information after eliminating intra-USDA transactions.

The Statements of Budgetary Resources and Financing are prepared on a combined basis because budgetary elimination entries are not reflected for intra-USDA transactions.

The statements have been prepared to report the financial position and results of operations of USDA, as required by the Chief Financial Officers (CFOs) Act of 1990. They have been prepared from the books and records of USDA agencies in accordance with the form and content of entity financial statements specified by the Office of Management and Budget (OMB) and modified by USDA's accounting policies, which are summarized in these notes. As a result of preparing the financial statements in accordance with the prescribed form and content, they differ from the reports that are used to monitor and control USDA's use of budgetary resources.

Basis of Accounting

The financial statements have been prepared pursuant to the requirements of the CFOs Act of 1990, and in accordance with a comprehensive basis of accounting that USDA financial managers have concluded is most appropriate for presenting significant assets, liabilities, net position, and results of operations. USDA's hierarchy of accounting policies is as follows:

1. Statements of Federal Financial Accounting Standards (SFFASs) agreed to by the Director of OMB, the Controller General, and the Secretary of the Treasury and published by OMB and the General Accounting Office.
2. Interpretations related to the SFFASs issued by OMB in accordance with OMB Circular A-134, "Financial Accounting Principles and Standards."
3. OMB Bulletin No. 97–01, "Form and Content of Agency Financial Statements", as amended; and
4. Accounting principles published by authoritative standard setting bodies and other authoritative sources (a) in the absence of other guidance in the first three parts of this hierarchy, and (b) if the use of such accounting standards improve the meaningfulness of the financial statements.

The accounting structure of federal government agencies is designed to reflect both accrual and budgetary accounting transactions. Under the accrual method, revenues are recognized when earned and expenses are recognized when a liability is incurred, without regard to receipt or payment of cash. The budgetary accounting principles, on the other hand, are designed to recognize the obligation of funds according to legal requirements, which in many cases is prior to the occurrence of an accrual-based transaction. The recognition of budgetary accounting transactions is essential for compliance with legal constraints and controls.

Other Accounting Policies:

Accrued Interest Payable

Accrued interest payable is primarily the interest due on borrowings from the Treasury and the Federal Financing Bank (FFB) at fiscal year-end and is included with accounts payable in the financial statements. USDA is required to make periodic interest payments to Treasury based on its debt to the Treasury.

Appropriations

USDA receives the majority of the funding needed to support its programs through appropriations. Appropriations are provided on an annual, multi-year, and no-year basis and are used to fund program and other operating expenses. Such expenses include personnel compensation and fringe benefits, rents, communications, utilities, and other administrative expenses. Appropriations are also used to fund capital investments. Additional funds are obtained through reimbursements for goods and services provided to other government and nongovernment entities.

Direct Loans and Loan Guarantees

In accordance with the Credit Reform Act of 1990, USDA records most direct loans and loan guarantees committed after September 30, 1991, based on the present value of net cash flows

estimated over the life of the loan or guarantee. Direct loans made prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the outstanding principal reduced by an allowance for uncollectible amounts when it is more likely than not that the loans will not be collected in full). Liabilities related to loan guarantees committed prior to October 1, 1991, may be recorded under the present value method or the allowance for loss method (the amount the agency estimates will more likely than not require a future cash outflow to pay default claims).

USDA's commodity loans are exempt from the Credit Reform Act. These loans differ from commercial (foreign) credit and credit guarantees because of the repayment terms. In the case of non-recourse commodity loans, producers have the option of either repaying the principal plus interest or, at maturity, forfeiting the collateral (commodity) in full satisfaction of the loan.

Interest income on loans is accrued at the contractual rate on the outstanding principal amount. Interest is not accrued on delinquent loans. Interest on delinquent loans is usually restored to loans receivable, with an offsetting credit to the allowance for loan losses, when borrowers enter troubled debt restructuring arrangements. Interest income recognition subsequent to the restructuring is generally limited to actual cash interest received from these borrowers. Various departmental lending programs provide for interest rates significantly less than the Treasury average interest rate.

In some instances, interest is not accrued on commodity loans because the amount and timing of interest payments to be received are uncertain. In these cases, the Department realizes interest income at the time interest payments are received.

Other sources of financing include long-term and interim borrowings from the Treasury, the FFB, and private lending agencies. Borrowings payable to the Treasury result from the Secretary of Agriculture's authority to make and issue notes for the purpose of discharging obligations for RD's insurance funds and CCC's unreimbursed realized losses and debt related to the foreign assistance programs.

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 7 provides additional information concerning direct loan and loan guarantee programs.

Exchange and Nonexchange Revenue

In accordance with federal government accounting guidance, USDA classifies revenue as either "exchange revenue" or "nonexchange revenue." Exchange revenue arises from transactions that occur when each party to the transaction sacrifices value and receives value in return. In most cases, USDA agencies are required to remit exchange revenue receipts to the U. S. Department of the Treasury (Treasury). Some agencies are authorized to use a portion of their exchange revenues for specific purposes. Nonexchange revenue is revenue the federal government is able to demand or receive due to its sovereign powers.

Full Cost

In accordance with federal government accounting guidance, USDA measures and reports the full costs of products and services generated from the consumption of resources. Full cost is the total

amount of resources used to produce a product or provide a service unless otherwise noted. For FY 1999, Treasury Judgment Fund costs not associated with a particular mission area (responsibility segment) are presented in an adjustment column on the Statement of Net Cost.

Imputed Pension and Other Retirement Benefits

In accordance with federal government accounting guidance, USDA recognizes the liability and associated expense for employee pensions and other retirement benefits (including health care and other postemployment benefits) at the time the employee's services are rendered.

Pension expense, retirement health benefits, and related liabilities are recorded at estimated actuarial present value of future benefits, less the estimated actuarial present value of normal cost contributions made by, and for covered employees. Other postemployment benefit expenses and related liabilities are recognized when the future outflow of resources is probable and measurable on the basis of events occurring on or before the reporting date.

Insurance Premium Revenue

Insurance premium revenue (including premium subsidies) relate to a crop's risk of loss incurred by FCIC. It is recognized as earned on a pro rata basis over each crop's growing season. The portion of premium (unearned premium) and premium subsidy not recognized during a fiscal year is classified as nonfederal unearned revenue and federal unearned revenue, respectively.

Liabilities for claims payable and related claims adjustment expenses are established using estimates based on historical experience adjusted for changes in crop growing conditions. As a result, the ultimate liabilities may differ significantly from the recorded estimates.

Liabilities

Liabilities represent the amount of monies or other resources that is likely to be paid by USDA as the result of a transaction or event that has already occurred; however, no liability can be paid by USDA absent an appropriation. Liabilities for which an appropriation has not been enacted are therefore classified as unfunded liabilities and there is no certainty that the appropriations will be enacted.

Related Party Transactions

CCC's domestic programs are carried out primarily through FSA personnel. CCC issues checks for many FSA programs which are funded through allocation transfers from FSA. During fiscal year 1999, FSA transferred to CCC $630 million to cover checks written by CCC in the approximate amount of $675 million.

The Corporation also provides and uses the services of other USDA agencies to carry out its authorities and responsibilities. AMS and the Food and Nutrition Service (FNS) fund the purchase of some commodities. In addition, AMS funds the purchase of commodities for the purpose of facilitating additional sales in world markets at competitive prices. As of September 30, 1999, the related deposit and trust liability for AMS and FNS was $364 million.

CCC donates commodities for use under domestic feeding programs administered by FNS. The value of commodities donated for these domestic purposes, including related transportation and storage costs, for the fiscal year ended September 30, 1999 was $28 million.

Under Credit Reform, CCC transferred $4 million to FAS and an additional $1 million to FSA during fiscal year 1999 for salaries and expenses of the foreign programs.

During fiscal year 1999, outlays under reimbursable agreements with other USDA agencies amounted to $32 million. Interagency accruals, reflecting probable outlays for expenses incurred but not yet paid as of September 30, 1999, on reimbursable agreements amounted to $7 million.

Amounts held on behalf of FSA and the Federal Crop Insurance Corporation for NAP and catastrophic insurance administrative fees collected totaled $1 million as of September 30, 1999.

During the fiscal year ended September 30, 1999, the Corporation transferred $143 million to the Animal and Plant Health Inspection Service (APHIS) for the eradication of animal and plant diseases. The related deposit and trust liability to cover payments for karnal bunt on behalf of APHIS was $3 million as of September 30, 1999.

In addition, CCC transferred $20 million to NRCS for the administration of Wildlife Habitat Incentives Program (WHIP) and $1 million to the Forest Service for emergency program activities.

CCC paid $1 million to the Risk Management Agency for the Dairy Options Pilot Program. In addition, CCC paid $27 million to NRCS for technical assistance for Conservation Reserve Program (CRP) and $33 million for technical assistance for Environmental Quality Incentives Program (EQIP).

Resources Payable to Treasury

Resources Payable to Treasury represents the net resources of pre-Credit Reform programs, payments due to Treasury for excess funds not being transferred to working capital, and payments of residual timber and grassland revenue after making required transfers to states and counties. The liability related to pre-Credit Reform programs' net resources is increased (or decreased) by net gains (or losses) incurred in these funds.

Retirement Benefits

USDA employees participate in either the Civil Service Retirement System (CSRS) or the Federal Employees Retirement System (FERS) that became effective on January 1, 1987. Most employees hired after December 31, 1983, are automatically covered by FERS and Social Security. Employees hired prior to January 1, 1984, could elect to either join FERS and Social Security or remain in CSRS.

USDA makes matching contributions to CSRS on behalf of CSRS employees. Employees covered by CSRS are not subject to Social Security taxes, nor are they entitled to accrue Social Security benefits for wages subject to CSRS.

Under the FERS plan, USDA contributes an amount equal to one percent of the employee's basic pay to the tax deferred thrift savings plan and matches employee contributions up to an additional four percent of pay. FERS employees can contribute 10 percent of their gross earnings to the plan. CSRS employees are limited to a contribution of five percent of their gross earnings and receive no matching contribution from USDA.

The Office of Personnel Management is responsible for reporting the assets, accumulated plan benefits, and unfunded liabilities, if any, applicable to CSRS participants and FERS employees governmentwide, including USDA employees.

Workers' Compensation Liability

The Federal Employees' Compensation Act (FECA) provides income and medical cost protection to federal civilian employees injured on the job, employees who have incurred a work-related

occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. Consequently, the Department recognizes a liability for this compensation that is comprised of two components: (1) an accrued liability which represents money owed for claims paid through the current fiscal year and (2) an actuarial liability which represents the expected liability for approved compensation cases beyond the current fiscal year. Claims incurred for benefits for the Department's employees under FECA are administered by the Department of Labor (DOL) and are ultimately paid by the Department of Agriculture.

Note 2. Fund Balance With Treasury

(U.S. dollars in millions)

	Appropriated Funds	Revolving Funds	Trust Funds	Other Funds	Total
Assets for Use by Entity					
Obligated	9,498	3,370	28	34	12,930
Unobligated – Available	5,943	2,458	443	414	9,258
Unobligated – Restricted	15,491	148			15,639
Total	30,932	5,976	471	448	37,827
Assets Not for Use by Entity					
Obligated	52			432	484
Unobligated – Available	5			(110)	(105)
Unobligated – Restricted					
Total	57			322	379

USDA, does not, for the most part, maintain cash in commercial bank accounts. Cash receipts and disbursements are processed by the Department of Treasury. Fund Balance with Treasury represents the appropriated, revolving, and trust funds that are available to pay current liabilities and finance authorized purchase commitments. Unobligated balances that are available may be used for new obligations. Unobligated balances that are restricted include expired budget authority of $15.7 billion which is available only to record or adjust previously incurred obligations.

Differences between the Fund Balance with Treasury as reported by Treasury versus reported in these financial statements are currently being investigated. USDA has established a project team at the National Finance Center to reconcile historic amounts of Fund Balance with Treasury, and to develop, document, and implement a sustainable cash reconciliation process for USDA. Differences have been identified as relating to mismatched schedules, errors in posting models, and timing delays in receiving account information from various sources. The scheduled project completion date for recording all required adjustments for all cash balances through FY 1999 is March 31, 2000.

Note 3. Cash and Other Monetary Assets

(U.S. dollars in millions)

	Assets for Use by Entity	*Assets Not for Use by Entity*
Cash	101	38

Forest Service has cash on deposit in a commercial bank for the New World Mine environment cleanup cost, as well as imprest funds.

Rural Housing Service collects escrow payments (i.e., insurance and taxes) from Single Family Housing borrowers. Existing Borrowers, which were delinquent and required servicing actions, must also submit these escrow payments. The escrow payments are deposited with the Trustee, Mercantile Bank corporation, who as Trustee is required to invest these funds and disburse them as stipulated in the Trust Agreement. The balance in this account as of September 30, 1999, was $37.9 million.

Commodity Credit Corporation reported collections in transit at September 30, 1999, of $78 million.

Note 4. Investments

(U.S. dollars in millions)

	Cost	**Amortization Method**	**Unamortized (Premium)/ Discount**	**Market Value**	**Investments**
Federal Securities					
Marketable	18	N/A	1	19	19
Subtotal	18		1	19	19
Non-Federal Securities		N/A			
Certificates of Deposit	59			59	59
Subtotal	59			59	59
Total	77		1	78	78

The Native American Institution Endowment authorized by Public Law 103–382 established an endowment fund for the 1994 land-grant institutions. Cooperative State Research, Education, and Extension Service (CSREE) is authorized to invest the funds of the Native American Institution Endowment in interest-bearing obligations of the United States.

The Agricultural Marketing Service (AMS) has the authority to invest in interest-bearing instruments. AMS invests its cash in excess of its short-term and mid-term needs in the fully-collateralized Certificates of Deposit in a variety of banks with maturities and rates negotiated daily.

Note 5. Accounts Receivable

(U.S. dollars in millions)

		Gross Accounts Receivable	Allowance for Uncollectible Accounts: Beginning Balance	Additions (Reductions)	Ending Balance	Net Accounts Receivable
Accounts Receivable for Use by Entity						
Federal						
FLP	Collections in Transit from CCC	11				11
FSA	Reimbursable Agreements	34				34
CCC	Treasury & Other Federal Agencies	182				182
RMA	Premium Discount Subsidy Receivable	430				430
FAS	A/R Federal	34				34
A/R Revenue, Refund, Reimbursements		247				247
Eliminations		(500)				(500)
Subtotal		438				438
Non-Federal						
FSA	Claims Receivable	1				1
CCC	Claims Originating in State Offices	78	60	1	61	17
CCC	Interest Receivable	41	40	(1)	39	2
CCC	Producer Overpayments & Other Claims	47	4	2	6	41
CCC	Other	18				18
CCC	Less Offset in Deferred Receivables	(39)				(39)
RMA	Reinsured Companies	831	3	3	6	825
RMA	Producers	1	1		1	
RMA	Other Receivable	2	12	(12)		2
A/R Revenue, Refund, Reimbursements		585	23	14	37	548
Subtotal		1,565	143	7	150	1,415
Total Accounts Receivable for Use by Entity		2,003	143	7	150	1,853
Accounts Receivable Not for Use by Entity						
Federal						
FAS	General Funds – FED	1				1
FAS	Reclassified Debit Bal in A/P	4				4
A/R Revenue, Refund, Reimbursements		3	1	(1)		3
Subtotal		8	1	(1)		8
Non-Federal						
FSA	Marketing Quota Penalties	36	35	(1)	34	2
OICD	General Funds – Non Fed	3				3
A/R Revenue, Refund, Reimbursements		108	30	(5)	25	83
Subtotal		147	65	(6)	59	88
Total Accounts Receivable Not for Use by Entity		155	66	(7)	59	96
Total Accounts Receivable		2,158	209		209	1,949

Accounts receivable are monies due from individuals, nonfederal parties, and other federal entities adjusted by an allowance for uncollectible amounts. The receivables result from reimbursable, revenue, and refund activities. Receivables related to direct or guaranteed loans are reported separately on the Balance Sheet and details are reported in Note 7.

Nonfederal receivables are adjusted by a valuation allowance, based on historical collection and write-off information, which reduces the receivables to their net realizable value.

Note 6. Other Assets

(U.S. dollars in millions)

Other Assets for Use by Entity	
Federal	
Internal USDA Agency Advances	367
Advances and Prepayments	21
NFC OPAC Suspense	116
Eliminations	(367)
Total	137
Non-Federal	
Investment and Loan Sale Asset Trust	55
Advances and Prepayments	92
Undistributed Expenditures	10
Other	4
Total	161
Non-Federal	
Forest Service Timber Security Deposits	6
Total	6

Other Assets at September 30, 1999, include advances to other Federal agencies as well as advances to individuals and other nonfederal parties. Agricultural Marketing Service and Food and Nutrition Services reported advances to the Farm Service Agency/Commodity Credit Corporation of $204 million and $159 million respectively. These are eliminated in consolidation.

Note 7. Credit Program Receivables and Related Foreclosed Property, Net

(U.S. dollars in millions)

Accounting Policy – Present Value (PV) Disclosure

Direct loan obligation or loan guarantee commitments made prior to FY 1992 and the resulting direct loans or loan guarantees are reported at net present value or net realizable value.

Direct loan obligations or loan guarantee commitments made after FY 1991 and the resulting direct loans or loan guarantees are governed by the Federal Credit Reform Act. 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.

Loans Subject to Credit Reform

Summary Schedule

	Loan/Credit Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Related Allowance	Program Receivable, Net
Agriculture Credit Insurance Fund (ACIF)	9,519	406	99	2,072	7,952
P.L. 480 Title I	10,657	107		7,360	3,404
Enterprise for the Americas	56			17	39
Food for Progress	508	11		329	190
Export Credit Guarantee Programs	6,891	58		3,949	3,000
Rural Housing Service	29,228	112	64	8,744	20,660
Rural Utilities Service	39,750	119		4,686	35,183
Rural Business & Coop Service	454	2		161	295
Total	97,063	815	163	27,318	70,723

Loan Programs Exempt from Credit Reform

	Gross, Receivable	Allowance	Net Receivable
Domestic	2,630	198	2,432
Foreign	417	47	370
Total Loans Receivable Exempt from Credit Reform	3,047	245	2,802

Sec. 502(1) of the Federal Credit Reform Act of 1990 (Public Law 101–508) states that direct loans do not include the price support loans of CCC.

The Department operates the following loan and/or loan guarantee programs:

The Agricultural Credit Insurance Fund (ACIF) provides loans for farm ownership, operations and emergencies.

The purpose of the Agricultural Resource Conservation Demonstration Program (ARCD) (Farms for the Future) is to assist states in financing a farmland protection effort to preserve our vital farmland resources for future generations. This purpose is achieved through guarantee of prompt payments and interest assistance on loans used to purchase development rights' easements and other types of easements on farmland, the purchase of farmland in fee simple, and related activities.

The Agricultural Trade Development and Assistance Act of 1954 (Public Law 480) provides foreign credit to promote agricultural trade, provides humanitarian relief, and aids in the economic advancement of developing countries. Direct credits are extended for P.L. 480 under Title I, the Enterprise for the Americas Initiative, and Russia Food from Progress program.

The Bureau of Reclamation Loan Fund (BRLF) is authorized by Section I of the 1977 Drought Emergency Act, to make loans to irrigators for the purpose of undertaking construction, management, conservation activities, or the acquisition and transportation of water, which can be expected to have an effect in mitigating losses and damages resulting from the 1976–1977 drought period.

The Export Credit Guarantee Program guarantees payment due U.S. exporters or their assignees from certain foreign banks on loans made for the purchase of agricultural commodities.

Direct Loans Obligated Prior to FY 1992

Loan Programs	Loan Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for CPR (PV)	Credit Program Receivable (NPV)
ACIF	6,064	348	95	903	5,604
P.L. 480 Title I	8,808				8,808
Rural Housing Service	18,322	80	52	6,078	12,376
Rural Utilities Service	30,247	78		3,565	26,760
Rural Business & Coop Service	76			30	46
Total	63,517	506	147	10,576	53,594

Direct Loans Obligated After FY 1991

Loan Programs	Loan Receivable, Gross	Interest Receivable, Gross	Foreclosed Property, Gross	Allowance for CPR (PV)	Credit Program Receivable (NPV)
ACIF	3,454	58	4	1,168	2,348
P.L. 480 Title I	1,849				1,849
Enterprise for the Americas	56				56
Food for Progress	508				508
Rural Housing Service	10,907	32	12	2,666	8,285
Rural Utilities Service	9,502	41		1,120	8,423
Rural Business & Coop Service	378	2		132	248
Total	26,654	133	16	5,086	21,717

Default on Pre-1992 Guaranteed Loans

Loan Guarantee Programs	Defaulted Guarantee Loans Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy Cost (PV)	Credit Program Receivable (NPV)
Export Credit Guarantee Programs	5,349	44	3,054	2,339
Total	5,349	44	3,054	2,339

Default on Post–1991 Guaranteed Loans

Loan Guarantee Programs	Defaulted Guarantee Loans Receivable, Gross	Interest Receivable, Gross	Allowance for Subsidy Cost (PV)	Credit Program Receivable (NPV)
Export Credit Guarantee Programs	1,542	14	895	661
Total	1,542	14	895	661

Guaranteed Loans Outstanding

Loan Programs	Outstanding Principal Guarantee Loans, Face Value	Amount of Outstanding Principal Guaranteed
ACIF Liquidating	567	545
ACIF Financing	6,817	6,234
ARCD Liquidating	24	24
Export Credit Guarantee Programs	3,740	3,655
Rural Housing Service	9,987	8,973
Rural Utilities Service	574	550
Rural Business & Coop Service	2,674	2,078
Total	24,383	22,059

Liability for Loans Guarantees

Loan Programs	Liability for Losses on Pre-1992 Guarantees	Liabilities for Post-1991 Loan Guarantee (PV)	Total Liabilities for Loan Guarantees
ACIF Liquidating	69		69
ACIF Financing		(25)	(25)
ARCD Liquidating		2	2
Export Credit Guarantee Programs		1,295	1,295
Rural Housing Service	3	213	216
Rural Utilities Service	22		22
Rural Business & Coop Service		125	125
Total	94	1,610	1,704

Subsidy Expense for Post-1991 Loans and Credit Receivables

Current Year's Direct Loans

Loan Programs	Interest Differential	Defaults	Fees	Other	Total
ACIF	49	88	(257)	262	142
P.L. Title I	90	238			328
RD					375
Total	139	326	(257)	262	845

Direct Loan Modifications and Re-estimates

Loan Programs	Re-estimates
ACIF	405
RD	71
Total	476

Total Direct Loan Subsidy Expenses

Loan Programs	Total
ACIF	547
P.L. Title I	473
RD	446
Total	1,466

Subsidy Expense for Post-1991 Loan Guarantees

Current Year's Loan Guarantees

Loan Programs	Defaults	Fees	Interest Supplement	Other	Total
ACIF	58	(23)	39	(2)	72
Export Credit Guarantee Programs	165	(12)			153
RD					16
Total	223	(35)	39	(2)	241

Loan Guarantee Modifications and Re-estimates

Loan Programs	Re-estimates
ACIF	2
Export Credit Guarantee Programs	221
Total	223

Total Loans Guarantee Subsidy Expenses

Loan Programs	Total
ACIF	75
Export Credit Guarantee Programs	374
RD	16
Total	465

Administrative Expense

Entity	Direct Loans and Loan Guarantees
ACIF	219
CCC	6
Total	225

Methodology for Accruing Interest Income

Interest income on loans is accrued at the contractual rate on the balance. Various departmental lending programs provide for interest rates significantly less than the U.S. Treasury average interest rate. RD estimated that the net cumulative effect of reporting the unamortized discount would cause an approximate $1.2 billion reduction in net loans receivable.

Nonperforming Loans

The unpaid principal balance of FSA, FLP loans, and RD loans in a non-performing status at fiscal year-end totaled $3.3 billion. If interest had been reported on these non-performing loans, instead of reported only to the extent of the collections received, interest income would have increased by $203.4 million, to a total of $4.9 billion during fiscal year 1999 and increased by $1.2 billion during the entire delinquency.

The principal balance of CCC direct credit and credit guarantee receivables in a non-peforming status at September 30, 1999, totaled $7.8 billion. If interest had been reported on these non-peforming receivables, instead of reported only to the extent of the collections received, direct credit and credit guarantee interest income would have increased by $228 million to a total of $790 million in fiscal year 1999. During the entire delinquency, if interest had been reported on these non-peforming receivables, instead of reported only to the extent of the collections received, interest income would have increased by $622 million.

Direct credit and credit guarantee receivables under rescheduling agreements as of September 30, 1999, were $16.2 billion. Foreign credit rescheduling results through negotiations conducted through the Paris Club.

Servicing Actions Available to Assist Financially Troubled Borrowers

As discussed in Note 1, ”Significant Accounting Policies,” all three lending agencies restructure loans in order to provide a reduction or deferral of interest and/or principal because of a deterioration in the financial position of the borrower. The principal amounts of these restructured loans as of September 30, 1999, for RD totaled $8.9 billion, and FSA, FLP totaled $227 million.

Note 8. Inventory and Related Property

(U.S. dollars in millions)

Goods Held Under Price Support and Stabilization Programs	*Amount*
Beginning Balance	531
Acquired During the Year	996
Disposals During the Year	
Sales	(135)
Donations	(691)
Other Additions and Deductions	13
Ending Balance	714
Related Allowance	(358)
Ending Balance	356
Amount Estimated to be Donated or Transferred During the Coming Period	246
Amount That May be Received as a Result of Collateral Related to Non-Recourse Loans Outstanding	5

Commodity loan forfeitures during the fiscal year ended September 30, 1999, were $204 million.

Restrictions on Commodity Inventory

In accordance with the Agricultural Act of 1970, as amended, USDA may establish, maintain, and dispose of a separate reserve of inventories for the purpose of alleviating distress caused by a natural disaster. These inventories may consist of feed grains, soybeans, and wheat. The reserve, which was initiated at 75 million bushels, has been depleted. The amount held in reserve cannot exceed 20 million bushels (P.L. 105–18). USDA maintains a required commodity reserve for use when domestic supplies are so limited that quantities cannot meet the availability criteria under P.L. 480. In addition, if commodities that meet unanticipated needs under Title II of P.L. 480 cannot be made available in a timely manner, the Secretary may release up to 500,000 metric tons of wheat or an equivalent value of eligible commodities, plus up to 500,000 metric tons of eligible commodities that could have been released, but were not released, under this authority in prior fiscal years. Commodities are to be used solely for emergency food assistance in developing countries. As a result of the Federal Agricultural Improvement and Reform Act of 1996, the reserve may include rice, corn, and sorghum, as well as wheat. The reserve is established at 4 million metric tons and is replenished through purchases or by designation of commodities owned by USDA. The authority to replenish the reserve expires at the end of fiscal year 2002.

Inventories	*Inventory Amount*
Inventory Held for Current sale	9
Operating Materials and Supplies	*Amount*
Items Held for Use	88

Valuation Methods: The majority of operating supplies and materials inventories are valued based on the weighted average method. The operating supplies and materials inventory maintained for emergency fire fighting are valued at GSA catalog prices as of January 1, 1999. This valuation method may approximate historical costs, depending on the extent that the emergency fire fighting inventory stock is depleted each year because of the severity of the fire season.

Allowances: Management has established no allowance against these balances because operating material and supplies that are not usable due to spoilage, obsolescence, damage, etc., are considered to be immaterial.

Note 9. General Property, Plant and Equipment

(U.S. dollars in millions)

Existing General Property, Plant and Equipment

Classes	Cost	Accumulated Depreciation	Book Value	Estimated Useful Life**	Method of Depreciation*
Personal Property					
ADP Hardware	491	252	239	various	SL
Equipment	1,505	963	542	various	SL
Vehicles	179	110	69	1 – 5	SL
Other	55	17	38	4 –15	SL
Real Property					
Buildings	1,121	467	654	>20	SL
Dam Systems					
Developed Sites					
Land	168		168		
Roads and Bridges	2,987	1,480	1,507	>20	SL
Other	2,598	2,035	563	various	SL
Subtotal	9,104	5,324	3,780		
Total General Property, Plant, and Equipment	9,104	5,324	3,780		

*Depreciation Methods	**Range of Service Life	
SL – Straight Line	1 – 5	1 to 5 years
DD – Double-Declining Balance	6 – 10	6 to 10 years
SY – Sum of the Years' Digits	11 – 20	11 to 20 years
IN – Interest (sinking fund)	>20	over 20 years
PR – Other (describe)		

Property, plant, and equipment are recorded at acquisition cost plus any expenditures, such as freight, installation or testing, related to placing the asset into service. Purchases of property, plant, or equipment valued at $5,000 or more, including stewardship assets, with a useful life greater than 2 years, are capitalized. All other purchases or property, plant, or equipment are fully expensed in the year of acquisition.

USDA manages approximately 192 million acres of public land known as the National Forest System. In accordance with federal government accounting guidance for stewardship assets, USDA assigns no value to the public land it administers. The required supplemental stewardship information provides additional information concerning public land.

Note 10. Debt

(U.S. dollars in millions)

	Beginning Balance	Net Borrowing	Ending Balance
Agency Debt			
Held by the Public	821	(555)	266
Total Agency Debt	821	(555)	266
Other Debt			
Debt to the Treasury	41,881	14,109	55,990
Financing Bank	31,941	(2,922)	29,019
Total Other Debt	73,822	11,187	85,009
Total Debt	74,643	10,632	85,275
Classification of Debt			
Federal Debt		85,009	
Non-Federal Debt		266	
Total Debt		85,275	

The Secretary of Agriculture is authorized under Title 7, U.S.C., to make and issue notes to the Secretary of the Treasury for the purposes of obtaining funds necessary for discharging obligations of the crop insurance fund, unrealized losses and debt related to the foreign assistance programs.

Interest on permanent indefinite borrowing authority from Treasury is paid at a rate based upon the average interest rate of all outstanding marketable obligations (of comparable maturity date) of the United States as of the preceding month. Monthly interest rates ranged from 4.25 percent to 5.125 percent during fiscal year 1999. Interest expense incurred on these borrowings was $623 million for fiscal year 1999.

The fiscal year 1999 interest rate on long–term borrowings under the permanent indefinite borrowing authority for the foreign assistance programs was 5.81 percent. This is the annual weighted average interest rate computed by OMB and used uniformly by all government entities, unless specific exemptions apply. A quarterly rate is determined by OMB and then a weighted average rate is calculated at year–end and applied retroactively to all borrowings from October 1 of the preceding year.

During fiscal year 1999, the terms for borrowings made for the export credit guarantee programs were at least 10 years, while the repayment terms for the P.L. 480 program were 30 years. Interest expense incurred on borrowings associated with the these programs amounted to $115 million for fiscal year 1999.

Note 11. Liabilities For Environmental Cleanup Costs

Under the provisions of the Comprehensive Environmental Response, Compensation and Liability Act (CERLA), the Clean Water Act (CWA), and the Resource Conservation and Recovery Act (RCRA), the Forest Service anticipates cleaning up hazardous materials on Forest Service lands. The Forest Service estimates that clean-up costs for sites on National Forest System lands are $2 billion. Of this amount approximately $1.5 billion relates to abandoned mine lands and $100 million relates to landfills and miscellaneous sites. The remaining $400 million is attributed to costs relating to RCRA.

These estimates are tentative and sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and the estimates of related clean-up costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to clean-up cost by responsible parties because the amounts are highly speculative. There is a reasonable possibility, however that parties other than the Forest Service will pay some of the clean-up costs.

Note 12. Other Liabilities

(U.S. dollars in millions)

Other Liabilities Covered by Budgetary Resources

	Non-Current	Current	Total
Federal			
CCC – Treasury Gen Receipts Fund		1,661	1,661
CCC – Deposit & Trust Liabilities		434	434
RMA – Unearned Revenue		249	249
Other		96	96
Eliminations		(367)	(367)
Total		2,073	2,073
Non-Federal			
CCC – Deposit & Trust Liabilities		545	545
CCC – Accrued Program Liabilities		549	549
RMA – Reserve for Reinsurance Losses		422	422
RMA – Estimated Losses on Insurance Claims		1,195	1,195
RMA – Unearned Revenue		169	169
RD – Stock Payable to RTB Borrowers	1,006		1,006
Accrued Funded Payroll & Benefits	22	118	140
Other	92	864	956
Total	1,120	3,862	4,982

Other Liabilities Not Covered by Budgetary Resources

Federal			
Accrued Funded Payroll & Benefits		34	34
Custodial Liability	27		27
FECA		14	14
Other	2	88	90
Total	29	136	165
Non-Federal			
CCC – Accrued Program Liabilities		1,477	1,477
Custodial Liabilities		51	51
FLP Contingent Liabilities		600	600
Other		53	53
Total		2,181	2,181

Other Liabilities include accrued liabilities for payroll and benefits, contingent liabilities, and other accrued liabilities. Other Liabilities covered by budgetary resources include Rural Development's reported amount of $1 billion in stock payable to Rural Telephone Bank Borrowers. Other Liabilities not covered by budgetary resources include amounts associated with the Federal Employees

Compensation Act (FECA). Claims incurred for benefits for USDA employees are administered by the Department of Labor and are ultimately paid by USDA. USDA recorded an estimated actual lialliability of $582 million for claims incurred as of September 30, 1999.

Note 13. Lease Liabilities

(U.S. dollars in millions)

Entity as Lessee

Operating Leases

Description of Lease Arrangements

Future Payments Due

	Asset Category		
Fiscal Year	(1)	(2)	Totals
2000	101	8	109
2001	105	6	111
2002	213	7	220
2003	423	5	428
2004	428	5	433
After 5 Years	2,681	8	2,689
Total Future Lease Payments	3,951	39	3,990

Projected liabilities for operating leases relate primarily to leased space. USDA agencies rent space from the General Services Administration (GSA) which charges rates that are intended to approximate commercial rental rates. GSA space can be canceled in 120 days. Forest Service rents commercial buildings and office space for terms that range from one to fifteen years. Total future lease payments for land and buildings are projected to be $2.7 billion. USDA agencies have no capital leases.

Note 14. Unexpended Appropriations

(U.S. dollars in millions)

Unexpended Appropriations	
Unobligated	
Available	4,299
Unavailable	17,842
Undelivered Orders	8,638
Eliminations and Adjustment	(163)
Total	30,616

USDA's Net Position consists of Unexpended Appropriations and Cumulative Results of Operations. Unexpended Appropriations are appropriated spending authority that is unobligated and has not been withdrawn by Treasury, and obligations that have not yet been paid. Cumulative Results of Operations are the excess of financing sources over expenses for a budget account since its inception.

Note 15. Contingencies And Commitments

Contingencies

Most legal actions that affect USDA and involve an amount in excess of $2,500 fall under the Federal Tort Claims Act and are paid from the Claims and Judgments Fund maintained by the Department of Treasury. USDA is not required to reimburse this Fund for payments made on its behalf. Pursuant to the guidance contained in SFFAS Number 5, USDA recognizes an expense and liability for all contingent liabilities determined to be probable. Those contingent liabilities that meet the requirements for disclosure, but not recognition are disclosed below. Once the claim is settled or court judgment is assessed against USDA and the Judgment Fund is determined to be the appropriate source for payment of claims, USDA records an imputed other financing source. During FY 1999, approximately $24 million was paid from the Fund to settle actions against USDA.

Commodity Credit Corporation (CCC)

The Federal Agricultural Improvement and Reform Act of 1996 replaced acreage reduction programs with production flexibility contract payments. These payments are made on a fixed payment schedule over 7 years. CCC paid $5 billion during fiscal year 1999, with $13 billion remaining to be paid over the next 3 years.

Under Wetlands Reserve Program (WRP), CCC purchases easements, based on agricultural value, to restore wetlands that have previously been drained and converted to agricultural uses, to protect the wetlands, or to enhance wetlands on the property. WRP also provides an opportunity for landowners to receive cost share payments to restore, protect, or enhance a wetland without selling an easement. Program expenses for the fiscal year ended September 30, 1999, were $156 million. At September 30, 1999, CCC's estimated future liabilities were $150 million.

The Noninsured Assistance Program (NAP) was authorized as a CCC program under the 1996 Act and is a standing crop disaster aid program for crops that are not covered by catastrophic risk protection crop insurance. Program expenses for the fiscal year ended September 30, 1999, were $54 million. It is estimated that CCC's annual payments for this program could range from $90 million to $140 million.

Commitments to acquire commodities represent the contract value of commodities not yet delivered under CCC purchase contracts. Commodity contracts amounted to $291 million at September 30, 1999.

The Dairy Export Incentive Program is authorized under the Food Security Act of 1985 to facilitate export of U.S. dairy products. Under this program, CCC pays the exporter a bonus when necessary to enable an exporter to sell the product at a competitive world price. Program expenses were approximately $69 million for fiscal year 1999. The accrued liability for FY 1998 was $59 million. On September 30, 1999, CCC estimated its future liabilities to be $69 million, of which $1 million was due in payable.

The Corporation formerly operated approximately 4,500 grain storage facilities in the United States. To date, at approximately 120 of these facilities, carbon tetrachloride (a fumigant commonly used at grain storage facilities during that time) was discovered in ground water. As of September 30, 1999, the Environmental Protection Agency has designated CCC as the potentially responsible party for ground water contamination near 4 of the former 120 CCC grain storage locations. CCC is undertaking site investigations at these and other former locations. USDA roughly estimates the total cost of this effort (including site inspection and cleanup, as well as operations and maintenance) to be $34 million for the fiscal years 2000 through 2003. Of this amount, the Department is expected to provide funding of $14 million under the ongoing department-wide hazardous waste management program. However, this amount is contingent on the amount actually appropriated to the USDA Hazardous Waste Fund and subsequently allotted to CCC. Potential costs are extremely difficult to estimate until site investigations are completed. CCC intends to monitor the cost estimate and make revisions as necessary.

The Market Access Program was authorized by the Agriculture Trade Act of 1978, as amended, to encourage the development, maintenance, and expansion of commercial export markets for agricultural commodities through cost-share assistance to eligible trade organizations that implement a foreign market development program. CCC makes funds available to reimburse program participants for authorized promotional expenses. Program expenses for the fiscal year ended September 30, 1999, were $114 million. At September 30, 1999, CCC estimated its future liabilities could range up to $150 million.

Farm Service Agency (FSA)

Timothy Pigford, et al. v. Dan Glickman, is a class action brought by African-American farmers who filed administrative discrimination complaints with USDA between 1983 and February 21, 1997, alleging race discrimination in Farmers Home Administration/FSA farm programs. This matter has been settled. The consent decree provides a system under which plaintiffs will have their claims heard by a third party who will direct the relief to be provided.

Cecil C. Brewington, et al. v. Dan Glickman is a case closely related to Timothy Pigford et al. v. Dan Glickman, where a class action was brought by African-American farmers who filed administrative discrimination complaints with USDA, between 1983 and February 21, 1997, alleging race discrimination in FSA farm programs. This matter has been settled. The consent decree provides a system under which plaintiffs will have their claims heard by a third party who will direct the relief to be provided.

Federal Crop Insurance Corporation (FCIC)

FCIC is a defendant in various litigation cases arising in the normal course of business. Management has recorded a liability in the financial statements for the estimated settlement amount of these cases based on its best estimate at the time of financial statement preparations. Furthermore, in order to defend its policies and procedures, FCIC may, in some instances, pay litigation expenses and judgments over and above indemnities found to be due under the Standard Reinsurance Act for reinsured companies. For this reason, FCIC is consulted with and approves significant decisions in the litigation process. In exchange for FCIC consideration, the reinsurance companies reimburse the FCIC an amount equal to 50% of the expense reimbursement due the reinsured companies on such policies.

Food and Nutrition Service (FNS)

FNS is a party in various administrative proceedings, legal actions, and claims brought by or against it. In the opinion of FNS management and the Department of Agriculture's legal counsel; the ultimate resolution of these proceedings, actions, and claims will not materially affect FNS' assets, liabilities, net cost of operations, changes in net position or budgetary resources for the current fiscal year.

Forest Service (FS)

FS is a party to various administrative proceedings, legal actions, and claims. As of September 30, 1999, the following claims with amounts, individually or in aggregate, of $10 million or more are pending resolution. There are two claims concerning the cancellation of special use permits. In the first claim, counsel considers an adverse decision probable and estimates approximately $28.4 million plus interest. In the second claim, counsel considers an adverse decision reasonably possible and estimates approximately $10.1 million plus interest. In actions related to the alleged wrongful termination or suspension of timber sales contracts, counsel considers most of these claims impossible to measure liability at this time. In one case, however, counsel states that if the plaintiff were to succeed, the estimated liability would be over $13 million.

Commitments

Contracts Under Conservation Reserve Program (CRP)

Through CRP, participants sign 10–15 year contracts to remove land from production in exchange for an annual rental payment. The participants also receive a one-time payment of 50 percent of the eligible costs of establishing vegetative cover on the reserve acreage. CCC estimates that the future liability for CRP annual rental payments through year 2010 is $19 billion. This estimate is based on current program levels with the assumption that expiring lands are re-enrolled or replaced with lands of equal value. At September 30, 1999, accrued payments totaled $1.5 billion.

Hazardous Waste Cleanup

Under the provisions of the Comprehensive Environment Response, Compensation, and Liability Act (CERCLA), the Clean Water Act (CWA), and the Resource Conservation and Recovery Act (RCRA), the Forest Service anticipates cleaning up hazardous materials on Forest Service land. The Forest Service estimates the cleanup costs for sites on National Forest System lands are $2 billion. Of this amount, approximately $1.5 billion relates to abandoned mine lands and $100 million relates to landfills and miscellaneous sites. The remaining $400 million is attributed to costs relating to RCRA. These estimates are very tentative and sensitive to changes in remedy standards and new technology. The site discovery and assessment process will continue for several more years. The actual number of sites discovered and cleanup costs will continually change as the process continues. This estimate also does not reflect anticipated cost recovery from or contribution to cleanup costs by responsible parties because the amounts are highly speculative. There is a reasonable possibility, however, that some of the cleanup cost will be paid by parties other than the FS.

Program Continuance

FCIC Program Continuance: Since the enactment of the Federal Crop Insurance Act of 1980, FCIC has incurred significant losses from operations which have accumulated to approximately $3.9 billion

at September 30, 1999. FCIC has relied on additional funding from CCC and borrowing from the U.S. Treasury to meet its obligations. Without significant changes in insurance program operations, FCIC will likely continue to suffer losses and require additional assistance from CCC or other sources of congressional funding.

Operating Leases

The following is a schedule of future minimum rental payments required under FSA operating leases for which CCC is directly liable. The leases can be canceled after a period not to exceed 120 days.

Fiscal Year Ended September 30:

	U.S. Dollars in Millions
2000	2
2001	1
2002 and thereafter	*
Total	3

** Less than $500 thousand*

Allocated rent expense net of reimbursements received on these leases was $60 million for Fiscal Year 1999.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Farm and Foreign Agricultural Services

	Farm Income Support	Conservation Reserve	Commodity Program	Farm Loan Program	Crop Insurance	International Operations	Other Programs	Intra-USDA Eliminations	Total
Program Costs									
Federal	628	78	680	452	15	267	375	(1,164)	1,331
Non-Federal									
Grants and Transfers									
Grants and Payments	12,242	1,385		2		1,227	2,984		17,840
Indemnities					1,981				1.981
Loan Subsidy Costs				(104)		(1,040)			(1,144)
Commodity Inventory Costs	30		1,198						1,228
Other Program Costs	1,553	71	198	897	546	547	340		4,152
Total Program Production Costs	14,453	1,534	2,076	1,247	2,542	1.001	3,699	(1,164)	25,388
Less Earned Revenues	45		739	640	759	657	309	(874)	2,275
Excess Production Costs Over Revenues	14,408	1,534	1,337	607	1,783	344	3,390	(290)	23,113
Non-Production Costs									
Acquisition Cost of Heritage Assets									
Acquisition Cost of Stewardship Land							156		156
(Gain) or Loss on Disposition of Assets									
Other Non-Production Costs									
Net Program Costs	14,408	1,534	1,337	607	1,783	344	3,546	(290)	23,269
Costs Not Assigned to Program									15
Net Cost of Operations									23,284

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present themajor programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Food, Nutrition, and Consumer Service

	Commodity Assistance	Child Nutrition Program	Food Stamp Program	Women, Infants, and Children Program	Other Programs	Total
Program Costs						
Federal	1	12	22	4	621	660
Non-Federal						
Grants and Transfers						
Grants and Payments	62	8,728	18,803	3,791	135	31,519
Indemnities						
Loan Subsidy Costs						
Commodity Inventory Costs	66	283	136	1	5	491
Other Program Costs	1	25	107	17	4	154
Total Program Production Costs	130	9,048	19,068	3,813	765	32,824
Less Earned Revenues			64			64
Excess Production Costs Over Revenues	130	9,048	19,004	3,813	765	32,760
Non-Production Costs						
Acquisition Cost of Heritage Assets						
Acquisition Cost of Stewardship Land						
(Gain) or Loss on Disposition of Assets						
Other Non-Production Costs						
Net Program Costs	130	9,048	19,004	3,813	765	32,760
Costs Not Assigned to Program						22
Net Cost of Operations						32,782

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Food Safety

	FSIS
Program Costs	
Federal	178
Non-Federal	
Grants and Transfers	
Grants and Payments	44
Indemnities	
Loan Subsidy Costs	
Commodity Inventory Costs	
Other Program Costs	541
Total Program Production Costs	763
Less Earned Revenues	97
Excess Production Costs Over Revenues	666
Non-Production Costs	
Acquisition Cost of Heritage Assets	
Acquisition Cost of Stewardship Land	
(Gain) or Loss on Disposition of Assets	
Other Non-Production Costs	
Net Program Costs	666
Costs Not Assigned to Program	25
Net Cost of Operations	691

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Marketing and Regulatory Programs

	Improved Marketing	Animal & Plant Health Inspection Service	MRP Eliminations	Total
Program Costs				
Federal	794	118	(7)	905
Non-Federal				
Grants and Transfers				
Grants and Payments	1	26		27
Indemnities		57		57
Loan Subsidy Costs				
Commodity Inventory Costs				
Other Program Costs	228	538		766
Total Program Production Costs	1,023	739	(7)	1,755
Less Earned Revenues	195	269	(7)	457
Excess Production Costs Over Revenues	828	470		1,298
Non-Production Costs				
Acquisition Cost of Heritage Assets				
Acquisition Cost of Stewardship Land				
(Gain) or Loss on Disposition of Assets				
Other Non-Production Costs				
Net Program Costs	828	470		1,298
Costs Not Assigned to Program				49
Net Cost of Operations				1,347

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Natural Resources and Environment

	Management of National Forests and Grasslands	State and Private Forestry	Forest Research	Other Programs	NRCS Programs	Total
Program Costs						
Federal	185	45	11	70	67	378
Non-Federal						
Grants and Transfers						
Grants and Payments						
Indemnities						
Loan Subsidy Costs						
Commodity Inventory Costs						
Other Program Costs	1,937	906	197	160	1,104	4,304
Total Program Production Costs	2,122	951	208	230	1,171	4,682
Less Earned Revenues	509	74	13	5	183	784
Excess Production Costs Over Revenues	1,613	877	195	225	988	3,898
Non-Production Costs						
Acquisition Cost of Heritage Assets						
Acquisition Cost of Stewardship Land	122					122
(Gain) or Loss on Disposition of Assets						
Other Non-Production Costs						
Net Program Costs	1,735	877	195	225	988	4,020
Costs Not Assigned to Program						
Net Cost of Operations						

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Research, Education, and Economics

	ARS	ERS	NASS	CSREES	Total
Program Costs					
Federal	135	25	51	32	243
Non-Federal					
Grants and Transfers					
Grants and Payments	10	1		708	719
Indemnities					
Loan Subsidy Costs					
Commodity Inventory Costs					
Other Program Costs	777	44	71	150	1,042
Total Program Production Costs	922	70	122	890	2,004
Less Earned Revenues	59		(5)	23	77
Excess Production Costs Over Revenues	863	70	127	867	1,927
Non-Production Costs					
Acquisition Cost of Heritage Assets					
Acquisition Cost of Stewardship Land					
(Gain) or Loss on Disposition of Assets					
Other Non-Production Costs					
Net Program Costs	863	70	127	867	1,927
Costs Not Assigned to Program					5
Net Cost of Operations					1,932

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U.S. dollars in millions)

Rural Development

	Rural Housing	Rural Utilities Service	Rural Business Cooperative Service	Intra-USDA Eliminations	Total
Program Costs					
Federal	1,970	1,789	999	(450)	4,308
Non-Federal					
Grants and Transfers					
Grants and Payments	638		547		1,185
Indemnities	1				1
Loan Subsidy Costs	203	123	136		462
Commodity Inventory Costs					
Other Program Costs	(806)	(457)	332		(931)
Total Program Production Costs	2,006	1,455	2,014	(450)	5,025
Less Earned Revenues	1,869	1,940	1,108	(450)	4,467
Excess Production Costs Over Revenues	137	(485)	906		558
Non-Production Costs					
Acquisition Cost of Heritage Assets					
Acquisition Cost of Stewardship Land					
(Gain) or Loss on Disposition of Assets					
Other Non-Production Costs					
Net Program Costs	137	(485)	906		558
Costs Not Assigned to Program					20
Net Cost of Operations					578

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 16. Supporting Schedules for the Statement of Net Cost

(U. S. dollars in millions)

Other USDA Services

	Department Working Capital Fund	Departmental Offices and Programs	Intra-USDA Eliminations	Total
Program Costs				
Federal	55	188	(4)	239
Non-Federal				
Grants and Transfers				
Grants and Payments				
Indemnities				
Loan Subsidy Costs				
Commodity Inventory Costs				
Other Program Costs	195	203		398
Total Program Production Costs	250	391	(4)	637
Less Earned Revenues	249	9	(4)	254
Excess Production Costs Over Revenues	1	382		383
Non-Production Costs				
Acquisition Cost of Heritage Assets				
Acquisition Cost of Stewardship Land				
(Gain) or Loss on Disposition of Assets				
Other Non-Production Costs				
Net Program Costs	1	382		383
Costs Not Assigned to Program				
Net Cost of Operations				

USDA reports costs and earned revenue for its seven mission areas and Other USDA Services in the Statement of Net Cost. These are the Department's responsibility segments for which strategic plans are prepared and monitored. These schedules present the major programs of each of the USDA responsibility segments, reporting the full cost of products and services generated from the consumption of resources, the net program costs, and the net cost of operations for the responsiblity segment as a whole. Transactions between major programs in each responsibility segment are eliminated.

Note 17. Earned Revenue

(U.S. dollars in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Service	Food Safety	Marketing and Regulatory Programs	Natural Resources and Environment	Research, Education, and Economics	Rural Development	Other USDA Services	Eliminations	Total
Earned Revenues from Non-Federal Parties										
Loan Program Interest Revenue	1,082						4,163			5,245
Other Program Revenues	903	64	99	397	553	(5)	6	110		2,127
Total Earned Revenues from Non-Federal Parties	1,985	64	99	397	553	(5)	4,169	110		7,372
Earned Revenues from Federal Entities	290		(2)	60	231	82	298	144	(293)	810
Total Earned Revenues Attributed to Programs	2,275	64	97	457	784	77	4,467	254	(293)	8,182

Loan Program Interest Revenue

The amount of subsidy expense in the Rural Development mission area on post-1991 Credit Reform direct loans equals the present value of estimated cash outflows over the life of the loan less the present value of cash inflows, discounted at the interest rate of marketable Treasury securities with a similar maturity term. A major component of subsidy expense is the interest subsidy cost/interest differential. This is defined as the excess of the amount of direct loans disbursed over the present value of the interest and principal payments required by the loan contracts, discounted at the applicable Treasury rate. One of the components of interest subsidy cost/interest differential is interest revenue. This interest revenue is earned from both federal and nonfederal sources and is recorded as earned revenue. Interest revenue also included interest earned on non-Credit Reform Loans and interest on invested (not yet loaned) funds at Treasury for both Rural Development and Farm Agriculture mission areas.

Other Earned Revenue

Premium revenue in the Farm and Foreign Agriculture mission area is recognized as earned on a pro rata basis over each crop's growing season and is stated net of the underwriting gains which will be returned to reinsured companies. The portion of premium not recognized during a fiscal year (unearned premium) is classified as unearned revenue, nonfederal in the Balance Sheet. The portion of the premium subsidy not recognized is classified as federal unearned revenue in the Balance Sheet. The FCIC's risk of loss commences when the crop is planted and continues through the growing season until the crop is harvested, destroyed, or otherwise removed from the field. Premiums are generally collected at the end of the growing season when the crops are harvested. Under the Standard Reinsurance Act (SRA), the collection of producer premiums is the responsibility of the reinsured company. With respect to catastrophic policies the premium is fully subsidized by the federal government and only a nominal administrative fee is collected from the farmer.

Forest Service in the Natural Resources Environment mission area assesses fees for grazing, land uses, mineral leases, recreation use, recreation special uses, and sales of timber and timber by-products. Most fees are based on full cost, except some land use fees that are established based on market value.

Agricultural Marketing Service in the Marketing and Regulatory Programs mission area charges fees for services rendered and goods sold. These services include inspection, grading and classing of food

and non-food agricultural commodities, the licensing of dealers in perishable agricultural commodities, the oversight of agricultural research and promotion activities funded by industry assessments, and the granting of Plant Variety Protection certificates. The Farm Bill of 1990 authorized the Secretary of Agriculture to assess user fees for agricultural quarantine and inspection services provided for the arrival of international passengers, commercial aircraft, vessels, trucks, and railroads cars.

Note 18. Total Cost and Earned Revenue by Budget Functional Classification

(U.S. dollars in millions)

Function Classification	Cost	Elimination	Total Cost	Earned Revenue	Elimination	Total Revenue	Net Cost
151	1,188		1,188	174		174	1,014
271	1,455	74	1,381	1,940	33	1,907	(526)
301	229		229	16		16	213
302	4,367	126	4,241	739	124	615	3,626
303	160		160	24		24	136
304	734	4	730	242		242	488
351	25,150	1,319	23,831	2,924	881	2,043	21,788
352	3,138	79	3,059	612	156	456	2,603
371	1,410	392	1,018	1,869	409	1,460	(442)
451	20		20				20
452	2,031	38	1,993	1,108	24	1,084	909
453	40		40				40
554	760	9	751	94		94	657
604	581		581				581
605	33,579	665	32,914	65	1	64	32,850
806	82		82	3		3	79
Internal USDA Imputed Costs	193	193					
Total	75,117	2,899	72,218	9,810	1,628	8,182	64,036

The U.S. Federal Government reports its operating costs and earned revenue by budget functional classification as established by the Office of Management and Budget, rather than by major program within responsibility segments as presented in USDA's financial statements. This footnote recasts USDA's statement of Net Cost total costs and earned revenue by budget functional classification to support preparation of the U.S. Federal Government financial statements.

Note 19. Disclosures Related to the Statement of Changes in Net Position

(U.S. dollars in millions)

Prior Period Adjustments	
Other Adjustments	
Property, Plant, & Equipment Ledger Adjustment	450
Capitalized Previously Expensed Road Prism Costs	52
Expensed Stewardship Land	109
FECA 4th Quarter FY 1998 Expense	15
Receivable from Appropriations	(1,451)
Other	(129)
Total Prior Period Adjustments	(954)

Prior Period Adjustments

Consistent with federal accounting guidance in the Intragovernmental Fiduciary Transactions Accounting Guide, dated September 9, 1999, the accrued unfunded Federal Employees' Compensation Act (FECA) liability and related expenses were calculated as of September 30, 1999. According to the accounting guide, the Fiscal Year 1998 accrued FECA liability should have been a 27 month accrual, rather than the 24 month accrual that was used. The adjustment for fourth quarter FY 1998 FECA liability was approximately $15 million.

Forest Service has undertaken an aggressive agency-wide project to verify its property, plant, and equipment (PP&E), inventory balances and asset valuation. As a result of this project , and so that the general ledger would be supported by subsidiary asset systems, adjustments were made to general PP&E and stewardship land of $449 million and $109 million respectively. In addition, after consultation with Department, GAO, and FASAB staff Forest Service determined $52 million of previously expensed road prism costs should be capitalized.

Statement of Federal Financial Accounting Standards Number 7, "Accounting for Revenue and Other Financing Sources," indicates that appropriation which will be realized in a subsequent year should not be accrued as a receivable. Credit Reform programs received appropriation in the year following that for which subsidy expense was reestimated resulting in increased expense. In FY 1998 $1.5 billion was improperly accrued as a receivable related to subsidy expense re-estimate.

Note 20. Disclosures Related to the Statement of Budgetary Resources

(U.S. dollars in millions)

Budgetary Resources Obligated for Undelivered Orders, End of Period	16,470
Available Borrowing and Contract Authority, End of Period	10,188
Adjustments to Budgetary Resources Available at the Beginning of the Year	
Reimbursements – Collected	444
Recoveries of Prior Year obligations	924
Redemption of Debt	(16,984)
Not Available Pursuant to Public Law	(100)
Cancellations of Expired Accounts	(3,006)
Other Authority Withdrawn	(367)
Other	229
Total Adjustments	(18,860)

Repayment Requirements, Financing Sources for Repayment, and Other Terms of Borrowing

USDA has a permanent indefinite borrowing authority, as defined by OMB Circular A–11, Preparation and Submission of Budget Estimates. 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 unreimbursed realized losses and debt related to foreign assistance programs.

The permanent indefinite borrowing authority includes both interest bearing and non-interest 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 credit reform, 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) and private investors in the form of certificates of beneficial ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBOs outstanding with the FFB and private investors are generally secured by unpaid loan principal balances. CBOs outstanding are related to pre-credit reform loans and no longer used for program financing.

FFB CBOs are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related

group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

Prepayments can be made on Treasury borrowings without a penalty; however, they cannot be made on FFB CBOs without a penalty.

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

Net Adjustments During the Reporting Period to Budgetary Resources Available at the Beginning of the Reporting Period

The majority of the $19,070 adjustments results from redemption of debt or the amount of principal repayments paid to the Treasury on CCC's outstanding borrowings. Redemption of debt is the amount of principal repayments paid to the Treasury or the Federal Financing Bank on outstanding borrowings. It does not include interest payments, which are shown as an obligation and an outlay.

Actual recoveries of prior year obligations are cancellations or downward adjustments of obligations incurred in prior fiscal years that did not result in an outlay. For expired accounts, these recoveries are available for upward adjustments of valid obligations that were incurred during the unexpired period but not recorded.

Cancellations of expired accounts are the amount of appropriation authority which is canceled five years after the expiration of an annual or multi-year appropriation.

Other authority withdrawn represents the withdrawal of unobligated balances of indefinite budget authority realized in no-year or multiple year accounts through downward adjustments of prior year obligations.

Existence, Purpose, and Availability of Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, and 3) certain costs associated with Forest Service 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 Forest Service (FS) programs are used to fund Pacific Yew, Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsey Owl, Restoration of Forest Lands and Improvements, Roads and Trails for State, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operation, Maintenance of Quarters, Construction, National Forest System, Research, and State and

Private. Monies received are appropriated and made available until expended by the FS to fund the costs associated with their appropriate purpose. Federal law (16 U.S.C. Section 556d) provides that the FS may advance money from any FS appropriation to the fire fighting appropriation for the purpose of fighting fires.

Legal Arrangements Affecting the Use of Unobligated Balances of Budget Authority

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 21. Disclosures Not Related to a Specific Statement

(U.S. dollars in millions)

Custodial Activity	
Sources of Collections	
National Forest Service Receipts	95
National Grasslands Receipts	12
General Fund Miscellaneous Receipts	21
FNCS Accrual	5
Total Revenue Collected	133
Disposition of Collections	
Amounts Transferred to Treasury	21
Amounts Retained by Agencies	112
Total Disposition of Revenue	133
Net Custodial Activity	

National Forest Fund receipts are revenue from the sale of timber and other forest products, twenty-five percent of which is paid to states and the balance returned to Treasury. Forest Service plans to disburse to the states in December, 1999, and the remaining portion payable to Treasury is estimated to be $95 million. National Grasslands Receipts are revenue from the use of national

grasslands, twenty-five percent of which is paid to counties and the balance returned to Treasury. Forest Service plans to disburse to counties in March, 2000, and the remaining portion payable to Treasury is estimated to be $12 million.

The balance of custodial collections represent miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and retailer and wholesaler fines and penalties. USDA transfers these types of collections to the Department of Treasury. USDA custodial collection activities are considered immaterial and incidental to the mission of the USDA.

Required Supplementary Stewardship Information

Required Supplementary Stewardship Information

Stewardship Assets And Investments

USDA has stewardship responsibility for certain resources entrusted to it that do not meet the criteria for assets and liabilities required to be reported in the financial statements. Information about these resources are important to understanding USDA's mission, operations, and financial condition at the date of the financial statements and in subsequent periods. Costs of these stewardship-type resources are treated as expenses in the Statement of Net Cost in the year the costs are incurred; however, the costs and resultant resources are intended to provide long-term benefits to the public and are reported to highlight USDA's accountability over them.

The two general types of stewardship resources are investments in physical capital and investments in other than physical capital. Investments in physical capital include stewardship land, the solid part of the surface of the earth (i.e., excluding natural depletable or renewable resources) not acquired for or in connection with items of general property, plant, and equipment (PP&E). USDA's stewardship land consists of national forests and grasslands, and easements acquired for conservation purposes. These are reported in acres of land rather than dollar amounts.

USDA's stewardship investments in other than physical capital include nonfederal physical property, where title to the property is held by State or local governments; investments in human capital for education and training; and research and development. These stewardship investments are made for the benefit of the Nation. They are reported as expenses in the Statement of Net Cost in the year incurred, but they are also reported as supplemental stewardship information because USDA has been entrusted with and made accountable for the resources.

Stewardship Land

Description	FY 1998 Balance	Additions	Withdrawals	FY 1999 Balance	Condition Assessment
Forest Service					
National Forest System (in acres)					
National Forests	187,485,759	180,744	1,051	187,665,452	Varies
National Forest Purposes	144,093,072	167,858		144,260,930	Excellent
National Forest Wilderness Areas	34,739,900	10,997		34,750,897	Varies
National Wild and Scenic River Areas	944,774	79		944,853	Varies
National Forest Primitive Areas	173,762			173,762	Varies
National Recreation Areas	2,739,803	56		2,739,859	Varies
National Scenic Areas	127,180	1,742		128,922	Varies
National Scenic – Research Areas	6,618	12		6,630	Varies
National Game Refuges and Wildlife Preserve Areas	1,218,990			1,218,990	Varies
National Monument Areas	3,267,693			3,267,693	Varies
National Monument Volcanic Areas	167,427		1,051	166,376	
National Historic Areas	6,540			6,540	Varies
National Grasslands	3,831,207	164		3,831,371	Varies
Purchase Units	347,316	5,576		352,892	Varies
Land Utilization Projects	1,876			1,876	Varies
Research & Experiment Areas	64,871			64,871	Varies
Other Areas	124,703	5,507		130,210	Varies
Total National Forest System Acreage	191,855,732	191,991	1,051	192,046,672	Varies
Roads and Trails (in miles)					
Roads	383,518	23,138		406,656	Varies
Trails	133,087			133,087	Poor
Commodity Credit Corporation					
Wetlands Reserve Program (in acres)	244,232	119,608		363,840	
Natural Resources Conservation Service					
NRCS Easements (in acres)					
Emergency Watershed Protection Programs	3,727	32,354		36,081	
Emergency Wetlands Reserve Program	84,840	7,319		92,159	
Total NRCS Easements	88,567	39,673		128,240	

National Forest System

The Forest Service manages 155 national forests and 20 grasslands on over 192 million acres of public land.

National Forests – A unit formally established and permanently set aside and reserved for National Forest purposes. The following categories of National Forest System land have been set-aside for specific purposes in designated areas:

- Wilderness Areas – Areas designated by Congress as a part of the National Wilderness Preservation System.

- Primitive Areas – Areas designated by the Chief of the Forest Service as primitive areas. They are administered in the same manner as wilderness areas, pending studies to determine suitability as a component of the National Wilderness Preservation System.
- Wild and Scenic River Areas – Areas designated by Congress as part of the National Wild and Scenic River System.
- Recreation Areas – Areas established by Congress for the purpose of assuring and implementing the protection and management of public outdoor recreation opportunities.
- Scenic-Research Areas – Areas established by Congress to provide use and enjoyment of certain ocean headlands and to insure protection and encourage the study of the area for research and scientific purposes.
- Game Refuges and Wildlife Preserve Areas – Areas designated by Presidential Proclamation or by Congress for the protection of wildlife.
- Monument Areas – Areas including historic landmarks, historic and prehistoric structures, and other objects of historic or scientific interest, declared by Proclamation or by Congress.

National Grasslands – A unit designated by the Secretary of Agriculture and permanently held by the Department of Agriculture under Title III of the Bankhead-Jones Tenant Act.

Purchase Units – A unit of land designated by the Secretary of Agriculture or previously approved by the National Forest Reservation Commission for purposes of Weeks Law acquisition.

Land Utilization Projects – A unit reserved and dedicated by the Secretary of Agriculture for forest and range research and experimentation.

Other Areas – Areas administered by the Forest Service that are not included in one of the above groups.

Conservation Easements

Wetlands Reserve Program (WRP)

The Wetlands Reserve Program (WRP), administered by NRCS and funded by CCC, is a voluntary program established to restore, protect, and enhance wetlands on agricultural land. Participants in the program may sell a conservation easement or enter into a cost-share restoration agreement with USDA in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership. The program provides many benefits for the entire community, such as better water quality, enhanced habitat for wildlife, reduced soil erosion, reduced flooding, and better water supply.

To be eligible for WRP, land must be restorable and be suitable for wildlife benefits. Once land is enrolled in the program, the landowner continues to control access to the land—and may lease the land—for hunting, fishing, and other undeveloped recreational activities. Once enrolled, the land is monitored to ensure compliance with contract requirements. At any time, a landowner may request that additional activities (such as cutting hay, grazing livestock, or harvesting wood products) be evaluated to determine if they are compatible uses for the site. Compatible uses are allowed if they are fully consistent with the protection and enhancement of the wetland. The condition of the land is immaterial as long as the easement on the land meets the eligibility requirements of the program.

Easements purchased under this program meet the definition of stewardship land. CCC records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements can be either permanent or 30-year duration. In exchange for establishing a permanent easement, the landowner receives payment up to the agricultural value of the land and 100 percent of the restoration costs for restoring the wetlands. The 30-year easement payment is 75 percent of what would be provided for a permanent easement on the same site and 75 percent of the restoration cost.

Withdrawals from the program are rare. The Secretary of Agriculture has the authority to terminate contracts, with agreement from the landowner, after an assessment of the effect on public interest, and following a 90-day notification period of the House and Senate agriculture committees.

The change in acres covered by these easements for the fiscal year ended September 30, 1999, is as follows:

Acres Purchased, as of September 30, 1998	244,232
Additions	119,608
Withdrawals	0
Acres Purchased, as of September 30, 1999	363,840

Emergency Watershed Protection Program (EWP)

The Emergency Watershed Protection Program (EWP) Floodplain Easements is administered by NRCS. A floodplain easement is purchased on flood prone lands to provide a more permanent solution to repetitive disaster assistance payments and to achieve greater environmental benefits where the situation warrants and the affected landowner is willing to participate in the easement approach. The easement is to restore, protect, manage, maintain and enhance the functions of wetlands, riparian areas, conservation buffer strips, and other lands.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of the installation and maintenance of land treatment measures deemed necessary and desirable to effectively achieve the purposes of the easement. The easements provide permanent restoration of the natural floodplain hydrology as an alternative to traditional attempts to restore damaged levees, lands, and structures. There are no provisions in the easement to terminate the purchase.

The change in acres covered by these easements for the period ended September 30, 1999 is as follows:

Acres Purchased, as of September 30, 1998	3,727
Additions	32,354
Withdrawals	0
Acres Purchased, as of September 30, 1999	36,081

Emergency Wetlands Reserve Program (EWRP)

The Emergency Wetlands Reserve Program (EWRP) administered by NRCS was established as part of the emergency restoration package following the flooding of the Mississippi River and its tributaries in 1993. EWRP provides landowners an alternative to bringing back into agricultural production lands that had been wetlands at one time. The program is patterned after the Wetlands Reserve Program. Participants in the program sell a conservation easement to USDA in order to restore and protect wetlands. The landowner voluntarily limits the future use of the land, yet retains private ownership.

To be eligible, the land must have been damaged by a natural disaster and be restorable as a wetland. Once the land is enrolled in the program, the landowner continues to control access to the land. The land is monitored to ensure if the wetland is in compliance with contract requirements, including compatible uses; such as recreational activities or grazing livestock.

Easements purchased under this program meet the definition of stewardship land. NRCS records an expense for the acquisition cost of purchasing easements plus any additional costs such as closing, survey, and restoration costs. Easements purchased under EWRP are permanent duration. In exchange for establishing a permanent easement, the landowner receives payment based on agricultural value of the land, a geographic land payment cap, or the landowner offer. Easement values are assessed on pre-disaster conditions. The landowner may receive up to 100 percent of restoring the wetland. There are no provisions in the easement to terminate the purchase.

The change in acres covered by these easements for the period ended September 30, 1999 is as follows:

Acres Purchased, as of September 30, 1998	84,840
Additions	7,319
Withdrawals	0
Acres Purchased, as of September 30, 1999	92,159

Stewardship Investment In Non-Federal Property

Program	FY 1999 Expense* (U.S. dollars in millions)	FY 1998 Expense* (U.S. dollars in millions)	USDA Agency
Buildings and Facilities	0	4 1/	Cooperative State Research, Education, and Extension Service (CSREES)
Extension 1890's Facilities Program	9	4 1/	CSREES
Food Stamp Program ADP Equipment and Systems	52	58	Food and Nutrition Service (FNS)
Total USDA Expense	61	66	

** Obligations used as an estimate of expense for CSREES programs.*

1/ This represents total amount obligated rather than administrative costs inadvertently reported last year.

Cooperative State Research, Education, and Extension Service Programs

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. In fiscal year 1999, 16 grants were awarded to support this program.

Food Stamp Program

FNS'S non-federal physical property consist of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Food Stamp Program. Additionally, FNS has 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 (WIC), however, this data is not available.

Stewardship Investment In Human Capital

Program	FY 1999 Expense* (U.S. dollars in millions)	FY 1998 Expense* (U.S. dollars in millions)	USDA Agency
National Agricultural Library	20		Agricultural Research Service
Higher Education and Extension Programs	458	447 1/	Cooperative State Research, Education, and Extension Service (CSREES)
Food Stamp Program	125	125	Food Nutrition Service (FNS)
Child Nutrition Program	2	4	FNS
Job Corps	88	91	Forest Service
Risk Management Education	1	5	Risk Management Agency (RMA)
Total USDA Expense	694	672	

** Obligations used as an estimate of expense for ARS and CSREES programs.*

1/ This represents total amount obligated rather than administrative costs inadvertently reported last year.

Cooperative State Research, Education, and Extension Service Programs

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, and a capacity building program at the 1890 institutions. In Fiscal Year 1999, approximately 180 Higher Education grants were awarded to more than 120 institutions of higher education. 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.

Food Nutrition Service Programs

FNS's human capital consists of employment and training (E&T) for the Food Stamp Program. The E&T program requires recipients of food stamp benefits to participate in an employment and training program as a condition to food stamp eligibility. Additionally, FNS's human capital consists of nutrition education and training for the Child Nutrition Program. The nutrition education and training program provides training for school food service personnel in food service management, instructing teachers in nutrition education and teaching children about the relationship of nutrition to health in order to assist them in making wise food choices.

Job Corps Program

The Forest Service, in partnership with the Department of Labor, operates 18 Job Corps civilian conservation centers. Job Corps is the only Federal residential, educational, and training program for the Nation's disadvantaged youth between the ages of 16-24 years old. The purpose of the program is to provide the skills necessary to obtain and hold a good job at a living wage. The program is carried out in a structured residential environment that provides education, vocation, and social skills training, counseling, social development, medical care, placement assistance, and an allowance.

Job Corps enrollees learn trades such as basic forestry, urban forestry, heavy equipment operation and maintenance, cement and brick masonry, auto mechanics, carpentry, welding, culinary arts, plastering, painting, business occupation skills, dispensing optician, health services, and security guard services.

During FY 1999 there were 8,623 participants with 5,274 placements.

Risk Management Education

During fiscal year 1999, the RME worked toward these goals by funding nearly 1,000 local training activities. Most of these activities targeted producers directly. The number of producers reached through these sessions totaled more than 45,000. In addition to reaching producers, some training sessions helped those who work with producers, such as lender, agricultural educators, and crop insurance agents, better understand those areas of risk management with which they may be unfamiliar. Total RMS costs incurred by the FCIC were $1.02 million for fiscal year 1999.

Stewardship Investment In Research And Development

Program	FY 1999 Expense* (U.S. dollars in millions)	FY 1998 Expense* (U.S. dollars in millions)
Agricultural Research Service		
Soil and Water Conservation	82	87
Plant Sciences	295	260
Animal Sciences	119	123
Commodity Conservation and Delivery	156	151
Human Nutrition	67	72
Integration of Agricultural Systems	30	29
Collaborative Research Program	2	
Total ARS R&D Expenses	751	722
Cooperative State Research, Education and Extension Service		
Land-Grant University System Research	457	402 1/
Economic Research Service		
Economic and Social Science Research	65	77
Forest Service		
Forest Service Research and Development	198	183
National Agricultural Statistics Service		
Statistical Research and Service	4	
Total USDA Expense	1,475	1,384

** Obligations used as an estimate of expense for ARS, CSREES, ERS, and NASS programs.*
1/ This represents total amount obligated rather than administrative costs inadvertently reported last year.

Agricultural Research Service Programs

The Agricultural Research Service (ARS) is the principal in-house research agency of the U.S. Department of Agriculture. The ARS mission is to conduct research to develop the following program activities.

Soil, Water, and Air Sciences – The research program is directed at managing and conserving the Nation's soil, water, and air resources for a stable and productive agriculture. The research focuses on developing technologies and systems to conserve water and protect its quality, enhance soil quality and reduce erosion, and improve air quality. The effects of global change are also researched.

Plant Sciences – The research emphasis is on increasing the productivity and quality of crop plants, and improving the competitiveness of agricultural products in domestic and world markets. The research involves developing improved production practices, and improved methods for reducing crop losses caused by weeds, diseases, insects, and other pests. The research also includes broadening the germplasm resources of plants and beneficial organisms to ensure genetic diversity for improved productivity.

Animal Sciences – The research program places primary emphasis on increasing the productivity of animals and the quality of animal products. The research involves increasing the genetic capacity of

animals for production, improving the efficiency of reproduction, improving animal nutrition and feed efficiency, and controlling or preventing losses from pathogens, diseases, parasites, and insect pests. In addition, the research includes the development of systems and technologies to better manage and utilize animal wastes.

Commodity Conversion and Delivery – This research program focuses on maximizing the use of agricultural products and domestic and international markets. New agricultural products and processes are developed. Also, technologies for reducing or eliminating postharvest losses caused by pests, spoilage, and physical and environmental damage are developed. In addition, research is conducted on food safety to reduce pathogens, naturally-occurring toxicant, mycotoxin, and chemical residues in the food supply.

Human Nutrition – The research program emphasizes promoting optimum human health and well-being through improved nutrition. Research is directed at defining the nutrient requirements of humans at all stages in the life cycle. The research also focuses on determining the nutrient content of agricultural products and processed foods as eaten, and establishing the bioavailability of their nutrients.

Integration of Agricultural Systems – The research integrates scientific knowledge of agricultural production, processing, and marketing into systems that optimize resources management and facilitate the transfer of technology to users.

Cooperative State Research, Education, and Extension Service Program

The Cooperative State Research, Education, and Extension Service participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and the U.S. Department of Agriculture. 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.

Economic Research Service Programs

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.

Forest Service Programs

Forest Service Research and Development is responsible for providing reliable science-based information to be incorporated into natural resource decision-making. Efforts consist of developing new technology, and then adapting and transferring this technology to facilitate more effective resource management. Major research:

- Vegetation Management & Protection
- Wildlife, Fish, Watershed, and Air
- Resource Valuation and Use Research
- Forest Resources Inventory and Monitoring

The research staff is involved in all areas of the Forest Service in supporting goals by providing more efficient and effective methods where applicable. A representative summary of FY 1999 accomplishments include:

- estimated 85 new interagency agreements and contracts established
- estimated 59 interagency agreements and contracts continued
- estimated 1,050 articles published in journals
- 2,505 articles published in all other publications
- 9 patents granted
- 8 rights to inventions established

National Agricultural Statistics Service Programs

Statistical Research and Service is conducted to improve the statistical methods and related technologies used in developing U.S. agricultural statistics. The highest priority of the research agenda is to aid the NASS estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. In addition, new products for data users are being developed with the use of technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

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Required Supplementary Information

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U.S. Department Of Agriculture
Combining Statement Of Budgetary Resources
For the year ended September 30, 1999

(in millions)

	Farm and Foreign Agricultural Services	Food, Nutrition, and Consumer Srevice	Food Safety
Budgetary Resources:			
Budget Authority (Line 1)	$36,651	$34,826	$621
Unobligated Balances – Beginning of Period (Line 2)	4,922	17,430	16
Spending Authority From Offsetting Collections (Line 3)	15,369	275	93
Adjustments (Line 4–6)	(12,438)	(2,259)	(7)
Total Budgetary Resources (Line 7)	44,504	50,272	723
Status of Budgetary Resources:			
Obligations Incurred (Line 8)	41,110	33,301	717
Unobligated Balances–Available (Line 9)	2,839	2,064	(11)
Unobligated Balances–Not Available (Line 10)	555	14,907	17
Total, Status of Budgetary Resources (Line 11)	44,504	50,272	723
Outlays:			
Obligations Incurred (Line 8)	41,110	33,301	717
Less: Spending Authority From Offsetting Collections Collections and Adjustments (Lines 3A, B, D, & 4A)	15,579	802	94
Obligated Balance, Net – Beginning of Period (Line 12)	3,877	2,420	33
Less: Obligated Balance, Net – End of Period (Line 14)	6,900	2,703	57
Total Outlays (Line 15)	$22,508	$32,216	$599

Marketing and Regulatory Programs	Natural Resources and Environment	Research, Education, and Economics	Rural Development	Other USDA Services	1999
$1,441	$4,370	$2,092	$9,095	$432	$89,528
426	1,543	263	942	93	25,635
148	492	86	7,675	273	24,411
(5)	70	(1)	(4,836)	(3)	(19,479)
2,010	6,475	2,440	12,876	795	120,095
1,716	5,050	2,095	11,681	669	96,339
258	1,252	324	263	108	7,097
36	173	21	932	18	16,659
2,010	6,475	2,440	12,876	795	120,095
1,716	5,050	2,095	11,681	669	96,339
151	487	91	8,076	283	25,563
146	1,220	1,084	13,003	63	21,846
94	1,464	1,189	14,167	62	26,636
$1,617	$4,319	$1,899	$2,441	$387	$65,986

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Segment Information

USDA Working Capital Fund

USDA's Working Capital Fund (WCF), an intragovernmental support revolving fund, is not separately reported in the consolidated financial statements. The following condensed information summarizes the results of WCF activity during the FY 1999 reporting period.

Condensed Information About Assets, Liabilities, and Net Position
(U.S. dollars in millions)

	Amount
Fund Balance	41
Accounts Receivable	27
Inventory	1
Property, Plant, and Equipment	50
Other Assets	0
Liabilities Due and Payable for Goods and Services Received	42
Deferred Revenues	0
Other Liabilities	25
Cumulative Results of Operations	52

Services Provided by the Fund

Twenty activity centers performed operations, and four modernization initiatives were administered under WCF authority and provided the following services in FY 1999.

Office of the Executive Secretariat is responsible for analyzing, managing and tracking mail in fulfilling its responsibilities to control executive correspondence, ensuring the timely and accurate response to inquiries made to the Department, providing information to Department officials in a timely manner, and establishing Department-wide procedures and policies for handling executive records and documents.

Office of Communications is responsible for managing the activities of two activity centers. The Video and Teleconferencing Center provides video production services to USDA agencies, and studio and production facilities for teleconferences in which USDA agencies participate. The Design Center provides USDA agencies with exhibit design and visitor center support services.

Departmental Administration is responsible for managing 10 activity centers that provide a wide range of administrative services, including: acquisition, receipt, storage, issuance, packaging, and shipment of supplies; forms warehousing, distribution, and transportation services; receipt, rehabilitation, and distribution of personal property; mail processing and delivery; maintenance, update, and generation services for automated mailing lists; short-order and walk-up reproduction services; custom duplicating, binding, addressing, and mailing services; imprest fund management; procurement document preparation support; and processing services for incoming and outgoing shipments of parcels. In addition to the activity centers, three modernization projects were administered, including: the Procurement Modernization Team (PMT) effort, the Purchase Card Management System (PCMS) initiative, and the time and attendance pilot project. These initiatives

are the product of the Modernization of Administrative Processes (MAP) project. The MAP Project Office was closed as an organizational entity in October 1997, with responsibility for the management of continuing modernization efforts being returned to process owners. Costs for these initiatives are managed as a reimbursement between process owners managing the projects and the WCF.

Office of the Chief Information Officer manages information technology services under six activity centers, as well as one modernization initiative. Services provided by activity centers include: mainframe computing services, ADP training, and other ADP services to USDA agencies and non-USDA entities; systems and software development services to USDA agencies and non-USDA users; Department-wide telecommunications management support services; an integrated information system for inventory management, FTS2000 and FTS2001 billing, reporting, and validation; Telecommunications Network Stabilization and Migration Program (TNSMP) forecasting and Telecommunications Accounting and Operations Services (TAOS); Internet Access Network management; optimization of Wide Area Network solutions for security and operations; telecommunications research and development, test and evaluation; engineering and streamlining the Department-wide telecommunications network environment through the identification and facilitation of the implementation of shared opportunities; ensuring agency telecommunications network solutions are compliant with Departmental program goals and objectives; planning, acquisition, implementation, and management of information technology resources for the Office of Secretary and Office of Chief Information Officer; ensuring compliance with information resources management standards and polices; providing economies and efficiencies in the use of information technology through elimination of duplication and consolidation of resource sharing; maintenance and administration of USDA telecommunications equipment and services inventory in the D.C. Buildings Complex; publication of the USDA telephone directory and provision of automated telephone directory employee locator services, management and coordination of the Departmental voice mail system service implementation and operation; technical and operations assistance on data networking telecommunications systems, design, installation, operation, and management of value-added, common shared services provided on Departmental Headquarters networks and platforms; participation in the design, engineering, provisioning, and operations management of the Enterprise Network; and, responsible for the USDA Telecommunications Security program. One modernization initiative was administered—the Telecommunications Online Billing and Inventory (TOBI) project. TOBI combines a revised administrative process with an automated management information system to address problems in current administrative processes, procedures, and automated information systems used for ordering, billing, and inventory. There are no funds included with the FY 2000 operating estimates so as to allow the OCIO time to evaluate project results to date and develop a strategy for achieving the project's objectives.

Office of the Chief Financial Officer administers one activity. The National Finance Center provides financial and administrative management services to USDA agencies and more than 30 non-USDA entities that include: central accounting, payroll processing, administrative and program billings and collections, travel, and property management. Also, the National Finance Center serves as record keeping office and loan operations center in support of the Thrift Savings Plan under the Thrift Investment Board/Federal Employees Retirement System. The Foundation Financial Information System (FFIS) Project Office administers development, implementation, and data warehousing aspects of the FFIS project. The objective of this initiative is to replace the current accounting system at the NFC and implement improved financial and accounting processes at USDA.

The WCF activity centers and modernization initiatives are located in Washington, D.C. (13 centers and four modernization initiatives); Landover, Maryland (three centers); Fort Collins, Colorado (two centers); Kansas City, Missouri (one center); and New Orleans, Louisiana (one center).

Major Customers

In 1999, the WCF had two major customers that comprised more than 15 percent of the fund's revenue. USDA's Forest Service provided revenue in the amount of $41,179,000. The Thrift Investment Board (Thrift Savings Plan) provided revenue in the amount of $40,853,000.

Summary of Costs and Revenue by WCF Activity Center
(U.S. dollars in millions)

Activity Center	Related Exchange Revenue	Cost of Goods and Services Provided	Excess of Cost Over Revenue
National Finance Center	163	164	1
Office of the Chief Financial Officer	163	164	1
Video & Teleconferencing Center	3	3	0
Design Center	2	2	0
Office of Communications	5	5	0
National Information Technology Ctr. Mainframe	40	40	0
Telecommunication Business Services	5	5	0
Applications Services	6	6	0
Telecommunications Customer Service Ctr.	2	2	0
Network Services	4	4	0
Computer Services Unit	1	1	0
Office of the Chief Information Officer	58	58	0
Central Supply Stores	3	3	0
Consol. Forms & Publ. Distribution Ctr.	4	4	0
Central Excess Property Operations	3	3	0
Central Shipping & Receiving	1	1	0
Central Imprest Fund	0	0	0
Mail Distribution Unit	5	5	0
Duplication Unit	1	1	0
Copier Service	5	5	0
Departmental Mailing List Service	0	0	0
Office of Operations	22	22	0
Agriculture Contract Automation System	0	0	0
Office of Procurement & Property Mgmt	0	0	0
Office of the Executive Secretariat	1	1	0
TOTAL Working Capital Fund	249	250	1

Forest Service Working Capital Fund

The U.S. Forest Service's (FS) Working Capital fund (WCF) is not separately reported in the consolidated financial statements. The following condensed information summarizes the results of FS's WCF activity during the FY 1999 reporting period.

Condensed Information About Assets, Liabilities, and Net Position
(U.S. dollars in millions)

Fund Balance	232
Accounts Receivable	7
Inventory	25
Property, Plant, and Equipment	483
Other Assets	0
Liabilities Due and Payable for Goods and Services Received	57
Deferred Revenues	0
Other Liabilities	0
Cumulative Results of Operations	690

Services Provided by the Fund

The National Forest System provides for the protection, management and utilization of approximately 192 million acres of national forests and grassland located in 44 states, Puerto Rico, and the Virgin Islands for a wide variety of purposes and values. Programs run the spectrum from preservation of wilderness areas to intensive resource utilization such as developed recreation, grazing and timber harvest.

Research and Development is focused around four broad areas: Vegetation Management, Wildlife, Fish, Watershed, and Air Research, Resource Valuation, and Forest Resources Inventory and Monitoring. Each day field foresters, land managers, farmers, ranchers, urban foresters, public interest groups and many others apply the knowledge and information technology developed by Forest Service scientists and cooperators in academia and industry. Long-term scientific research provides many tools used to furnish early warnings and solutions for potential problems.

The goal of State and Private Forestry is to maintain and improve, through collaborative stewardship, the health and productivity of the Nation's urban and rural forests and related economies. State and Private Forestry programs provide technical and cost-sharing assistance to help assure sound stewardship and use of the vast state and private forest land. State and Private Forestry helps state, local, and tribal governments and small nonindustrial private forest landowners manage forest resources to meet economic, social, and environmental goals. State and Private Forestry funds are leveraged through cost-sharing to provide increased on-the-ground project funding.

Major customers

Major customers include state and local Governments, forest industries, private landowners, and other nations and organizations that foster global natural resource conservation and sustainable development of the world's forest resources, as well as the American public's growing need for outdoor recreation.

Summary of Costs and Revenue
(U.S. dollars in millions)

Line of Business	Costs of Goods and Service Provided	Related Exchange Revenue	Excess of Costs Over Revenue
National Forest System	28	87	(59)
Forest Research	3	10	(7)
State and Private Forestry	3	9	(6)
Other	20	63	(43)

Deferred Maintenance

Deferred maintenance is maintenance that was not performed when it should have been or was scheduled to be performed but was delayed until a future period. It represents a cost that the 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 services and achieves its expected life. It excludes activities aimed at expanding the capacity of an asset or otherwise upgrading it to service needs different from, or significantly greater than, those originally intended. Deferred maintenance is reported for general property, plant, and equipment (PP&E) and stewardship assets, and is also reported separately for critical and noncritical amounts of maintenance needed to return each major class of asset to its acceptable operating condition.

Summary of Costs and Revenue
(U.S. dollars in millions)

Asset Class	Overall Condition	Cost to Return to Acceptable Condition	Critical Maintenance	Non-Critical Maintenance
Forest Service				
General Property, Plant, and Equipment	1/			
Roads	Varies	6,771	3,093	3,677
Bridges and Major Culverts	Varies	202	35	167
Buildings	Varies	617	167	450
Recreation	Fair	624	291	333
Dam Systems	Fair/Poor	33	15	18
Range	Varies	386	382	4
Wildlife and Fish Structures	Varies	37	25	12
Total Deferred Maintenance for General PP&E		8,670	4,008	4,661
Stewardship Land				
Trails 2/	Fair	36	12	24
Heritage Assets				
Historic Structures	Varies	59	59	0
Total Deferred Maintenance		8,765	4,079	4,685
Add 19% Overhead*		1,665	775	890
Total Deferred Maintenance and Overhead		10,430	4,854	5,575

**Agency average as supplied by CFO/Budget Staff.*

1/ Condition of these major classes of property range from poor to good depending on location, age, and type of property. There is currently no comprehensive national assessment of property in the Forest Service. The current deferred maintenance estimates were based on statistical and random sampling. The Forest Service is working on long range plans to conduct condition assessments on all major classes of property.

2/ Trails deferred maintenance is reflected under Recreation.

- Critical Need. A requirement that addresses a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.
- Noncritical Need. A requirement that addresses potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations); or potential adverse consequences to natural resources or mission accomplishment.

The Forest Service used condition surveys to estimate deferred maintenance on all major classes of Property, Plant, and Equipment. There is no deferred maintenance on equipment because the Forest Service has their fleet vehicles and computer equipment in a working capital fund. The Fleet vehicles are each maintained according to schedule. The Forest Service treats the remaining equipment as expensed, therefore there is no deferred maintenance on general equipment.

Condition of administrative facilities:

- 22% of buildings are obsolete, over 50 years old
- 27% of buildings are in Poor condition needing major alterations and renovations
- 24% of buildings are in Fair condition needing minor alterations and renovations
- 27% of buildings are in Good condition needing routine maintenance and repairs

Condition of Dams:

The average condition of dams is below acceptable. The condition is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public, or that need to be corrected to restore functional use, correct unsightly conditions, or prevent more costly damage.

Condition of NFS Land:

The average condition is considered good because important wildlife habitat and watershed protection functions are provided. In some areas watershed health is deteriorating. Methodologies for assessing condition are being explored in concert with the Department of Interior's Bureau of Land Management.

The standards for acceptable operating condition for different classes of general PP&E are as follows:

Buildings

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.

Roads and Bridges

Conditions of the National Forest Development Road system are measured by various standards including applicable regulations for the Highway Safety Act developed by the National Highway Transportation Safety Administration, best management practices for road construction and maintenance developed by the Environmental Protection Agency to implement the Clean Water Act, and Forest Service manuals and handbooks.

Developed Recreation Sites

This is a wide category that includes campgrounds, trail heads, wastewater facilities, interpretive facilities, and visitor centers. All developed sites are managed in accordance with federal laws and

regulations (CFR 36). Detailed management guidelines are contained in the Forest Service Manual (FSM 2330) and regional and forest level user guides. Standards of quality for developed recreation sites were developed under the meaningful measures system and established for the following categories: health and cleanliness, setting, safety and security, responsiveness, and condition of facility.

Range Structures

The condition assessment was based on: 1) a determination by knowledgeable Range Specialists or other district personnel whether the improvement was performing the originally intended function; or 2) a determination through the use of a protocol system to assess conditions based on age. A long range methodology is being developed to gather this data.

Watershed Structures

Field Hydrologists and Forest Service personnel used their professional judgement in determining deferred maintenance. Deferred maintenance was considered critical if resource damage would likely occur if maintenance was deferred much longer.

Dams

Comply with Forest Service Manual 7500 – Water Storage and Transmission, and Forest Service Handbook – Dams Management Handbook as determined by condition surveys.

Wildlife, Fish, and Threatened and Endangered Species Structures

Field Biologists at the forest used their professional judgment in determining deferred maintenance. Deferred maintenance was considered to be upkeep that had not occurred on a regular basis, and the amount was deemed critical if resource damage or species endangerment would likely occur if maintenance was deferred much longer.

Trails

Trails are managed according to federal law and regulations (CFR 36). More specific direction is contained in the Forest Service Manual (FSM 2350) and the Forest Service Trails Management Handbook (FSH 2309.18). Standards of quality for trails have been developed under the meaningful measures system. Standards have been established for the following categories: Health and cleanliness, setting, safety and security, and condition of the trail.

Heritage Assets

These assets include archeological sites that require determinations of National register of Historic Places status; National Historic Landmarks; National Register of Historic Places; significant historic properties. Some heritage assets may have historical significance, but their primary function within the agency is as visitation or recreation sites and therefore might not fall under the management responsibility of the heritage program.

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Intragovernmental Amounts

Intragovernmental amounts represent transactions between the USDA and other federal departments. The USDA reported the following intragovernmental balances as of September 30, 1999:

USDA Intragovernmental Assets
(U.S. dollars in millions)

Department Outside USDA	Investments in Other Agencies Securities	Accounts Receivable	Other Assets
Department of Interior		2	
Agency for International Development			4
Department of Energy		2	
Department of Treasury	18		
Total	18	4	4

USDA Intragovernmental Liabilities
(U.S. dollars in millions)

Department Outside USDA	Accounts Payable	Debt to Other Departments	Resources Payable to Treasury	FECA Accrued Liability	Other Liabilities
Department of Interior	9				
Department of Labor				135	
Department of Treasury	1,393	84,423	12,580		3,850
Department of Transportation	3				
General Services Administration	1				
Office of Personnel Management					21
Total	1,406	84,423	12,580	135	3,871

USDA Intragovernmental Revenue and Related Costs
(U.S. dollars in millions)

Budget Function Code	Budget Function Name	Earned Revenue	Total Cost to Generate Revenue
151	International development and humanitarian assistance	14	
271	Energy supply	75	1,721
302	Conservation and land management	10	10
351	Farm income stabilization	186	223
371	Mortgage credit	84	1,413
452	Area and regional development	117	971
Total		486	4,338

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