USDA

United States Department of Agriculture

Agency Financial Report

Fiscal Year 2013





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

About This Report

The U.S. Department of Agriculture (USDA) has chosen to produce both an Agency Financial Report (AFR) and an Annual Performance Report (APR). USDA will include its Fiscal Year (FY) 2013 APR with its Congressional Budget Justification and will post it on the Department's Web site at USDA Performance when published.

Historically, USDA published consolidated financial and performance management reporting via the Performance and Accountability Report (PAR). Starting in FY 2012, the Department began publishing an AFR.

This AFR provides financial and high-level performance information to the President, the Congress, and the American people. USDA's end-of-fiscal-year financial position includes, but is not limited to, financial statements, notes to the financial statements, and a report of the independent auditors.

The APR is a detailed report on USDA's progress toward achieving the goals and objectives described in the agency's Strategic Plan and Annual Performance Plan, including progress on the strategic objectives, performance goals, and Agency Priority Goals. The report will be delivered to Congress with the budget.

This report is to be posted on these Web sites: Performance.gov and USDA Performance. Previous reports are posted as well.

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Message from the Secretary

In fulfillment of our duty to the people, the President, and Congress, the U.S. Department of Agriculture (USDA) respectfully submits the *Fiscal Year 2013 Agency Financial Report*.

This year has marked another period of historic accomplishments at USDA. We have innovated and collaborated with partners across the Nation to continue our support for a strong American agricultural sector; expand agricultural trade; support our rural communities; ensure a safe food supply; and provide critical nutrition assistance to American families in need.

USDA has accomplished these results in a time of significant uncertainty. Federal budget reductions have challenged USDA leaders and employees alike to find new strategies for delivering modern, efficient service. In fact, USDA's discretionary budget that funds our operations was a full $1 billion less than it was when President Barack Obama took office—requiring again that we take steps to deliver service in new and cost-effective ways.

This year, USDA continued efforts to proactively achieve cost savings and efficiencies in our operations through the "Blueprint for Stronger Service" originally announced in January 2012. This important effort aims to modernize the Department, reduce red tape, improve the experience of USDA customers, and help bring the Department's operating costs within the budget and staffing constraints predicated by decreasing congressional appropriations. Since the initial Blueprint effort began in 2012, USDA has identified and achieved more than $920 million in cost avoidances. Notably, to date, this has allowed the Department to avoid staff layoffs, as the Federal Government implements across-the-board spending reductions under the Sequester.

The fact that we were able to continue accomplishing admirable results across all areas of the Department is a testament to nearly 100,000 USDA employees stationed in Washington, D.C., across the Nation, and around the world. Often, Americans do not have a chance to work directly with these dedicated public servants—but the impact of their work is felt from our smallest towns to our biggest cities.

At the same time, ongoing lack of a comprehensive, multiyear Food, Farm, and Jobs Bill added uncertainty to a wide range of USDA programs. While some programs authorized under the Food, Conservation, and Energy Act of 2008 ("2008 Farm Bill") were extended on January 2, 2013, authorization of those programs expired at the end of fiscal year (FY) 2013. A new, long-term Food, Farm, and Jobs Bill will be critically important to continue USDA's record achievements over recent years, while ensuring a strong and secure U.S. agricultural sector.

In 2013, notwithstanding the lack of long-term Farm Bill programs, USDA took a multitude of steps to provide innovative assistance for America's farmers and ranchers. For example, USDA's Farm Service Agency—recognizing that the complexity of the existing loan application process served as a barrier to participation by small and non-traditional growers—developed a microloan program that was implemented in January 2013. The microloan program features an abbreviated application process, less paperwork, and more flexibility in business planning and training and experience requirements. In only eight months of operation, over 3,700 microloans have been made.

USDA's Risk Management Agency added new insurance coverage or offered improved coverage for a wide range of specialty crops, while expanding organic crop insurance to provide a wide range of safety net options for producers.

We continued our strong support for agricultural trade. U.S. agricultural exports are forecast to reach a record $141 billion in FY 2013, supporting nearly one million jobs. USDA's Foreign Agricultural Service administered $256 million in export promotion programs that built demand for U.S. products and addressed market access issues. Working with over 70 industry groups, these programs leveraged significant industry contributions, bringing total investments to over $500 million. And, working across the Federal Government, we continued efforts that have, since 2009, broken down hundreds of unfair barriers to trade.

In FY 2013, USDA has continued supporting farmers' conservation work through technical assistance and conservation programs—applying the most effective programs in the best places to achieve the best possible result. This year, USDA continued to work with more than 500,000 landowners around the United States, providing additional opportunities for producers to enter into contracts under the Conservation Reserve Program while expanding the program to more than 14 million acres and strengthening landscape-scale conservation initiatives across the Nation. Meanwhile, in America's national forests and grasslands, USDA is hard at work reducing the risk of devastating wildfire and improving soil and water quality.

USDA continued its record level of investment in rural America and the rural communities that millions call home by investing in community facilities, providing loans for rural small business, helping rural families buy or repair a home, and helping to ensure communities have access to critical infrastructure. Since 2009, for example, USDA has provided more than 15,000 rural business loans to aid more than 65,000 businesses in expanding opportunity and creating jobs. In addition, we have helped more than 740,000 families achieve the dream of homeownership.

The Department is leading the way for renewable energy, supporting the infrastructure we will need in a new energy economy. This year, new awards under the Rural Energy for America Program helped USDA to reach a milestone of more than 7,500 projects around the country that are helping producers and rural businesses save energy and grow their bottom line. Meanwhile, we took new steps in 2013 to support biobased product manufacturing that promises to create new jobs across rural America—including adding new categories of certified biobased products for Federal procurement.

The Department ensures a safe food supply through its network of Federal inspectors in more than 6,000 locations nationwide. In the past year, USDA has implemented a number of actions to further protect the food supply. For example, producers are now required to hold a product until it has passed the Food Safety and Inspection Service (FSIS) testing for adulterants, and USDA has directed companies that produce ground and comminuted poultry products to reassess their food safety plans to ensure that they appropriately address the problem of *Salmonella* contamination. USDA has also begun sampling comminuted poultry products for *Salmonella* and will use the results of this sampling to set performance standards. USDA and the Food and Drug Administration (FDA) conducted a risk assessment to better understand the risk of *Listeria monocytogenes* in retail delicatessens and made recommendations for improving food safety at retail establishments. USDA also proposed labeling for mechanically tenderized beef.

In February 2011, the Government Accountability Office (GAO) reported in its High-Risk Series Update that food safety agencies have not developed a governmentwide performance plan that includes results-oriented performance measures, which would be a leap forward with regard to measuring our progress in preventing foodborne illness from meat, poultry, and processed egg products. In February 2013, the GAO reported in its High-Risk Series Update that while food safety agencies have not developed a governmentwide performance plan that includes results-oriented goals and performance measures, there are some encouraging actions.

Specifically, GAO noted that through the President's Food Safety Working Group, USDA and FDA have taken steps designed to increase collaboration in some areas that cross regulatory jurisdictions—in particular, improving produce safety, reducing *Salmonella* contamination, and developing food safety performance measures. USDA's FSIS strategic plan for FY2011-2016, published in September 2011, includes results-oriented performance measures.

For example, FSIS has estimated the total number of illnesses from meat, poultry, and processed egg products and developed a key corporate performance measure of our progress toward preventing these illnesses. FSIS' strategic plan includes 30 distinct, quantifiable performance measures that support eight larger goals. In support of this strategic plan and the core principles of the President's Food Safety Working Group, USDA-FSIS has announced several new measures to prevent foodborne illness, empower people, and strengthen infrastructure, as well as to better understand and influence the farm-to-table continuum.

USDA continued delivering critical nutrition assistance to millions of Americans who are working hard but struggling to put food on the table, including meals to over 30 million children each school day. We continued to work with schools across the Nation to implement new, healthier meals standards authorized under the Healthy, Hunger-Free Kids Act of 2010. We implemented new steps to ensure that snack foods are healthier during the school day—supporting the efforts of parents and teachers to improve children's eating habits. And, we placed a special focus on expanding access to meals for low-income children in the summer, when school meals are not widely available.

In addition, USDA continues to lead the way in America's agricultural research. USDA researchers have partnered with others, including universities and private industry, across the country to develop the next generation of renewable energy and find solutions to some of America's greatest scientific challenges.

The Department's Office of the Chief Financial Officer completed implementation of the Financial Management Modernization Initiative (FMMI), a Web-based system to replace the mainframe-based legacy Foundation Financial Information System (FFIS). The Food and Nutrition Service will implement FMMI, which will replace its Integrated Program Accounting System, by the end of fiscal year 2015.

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

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

While every year brings unique challenges and 2013 was no different, I am truly proud of USDA employees across the Nation. They have stepped up to get the job done on behalf of Americans, and in so doing they continue to grow our economy and create new jobs in rural communities. I know that together, we can continue to deliver efficient service while finding more ways to serve as efficient stewards of taxpayer dollars.

Thank you for your interest in the Department.

Thomas J. Vilsack
Secretary of Agriculture
December 12, 2013

Section 1: Management's Discussion and Analysis

USDA Overview

The U.S. Department of Agriculture (USDA) was founded by President Abraham Lincoln in 1862, when more than half of the Nation's population lived and worked on farms. The population has increased approximately tenfold and now exceeds 314 million people, the vast majority of whom do not live on farms or in rural areas.

Today, USDA improves the Nation's economy and quality of life by touching the lives of almost every person in America, every day. Nearly 100,000 employees deliver more than $159 billion in public services through the Department's more than 300 programs worldwide.

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

Mission Statement

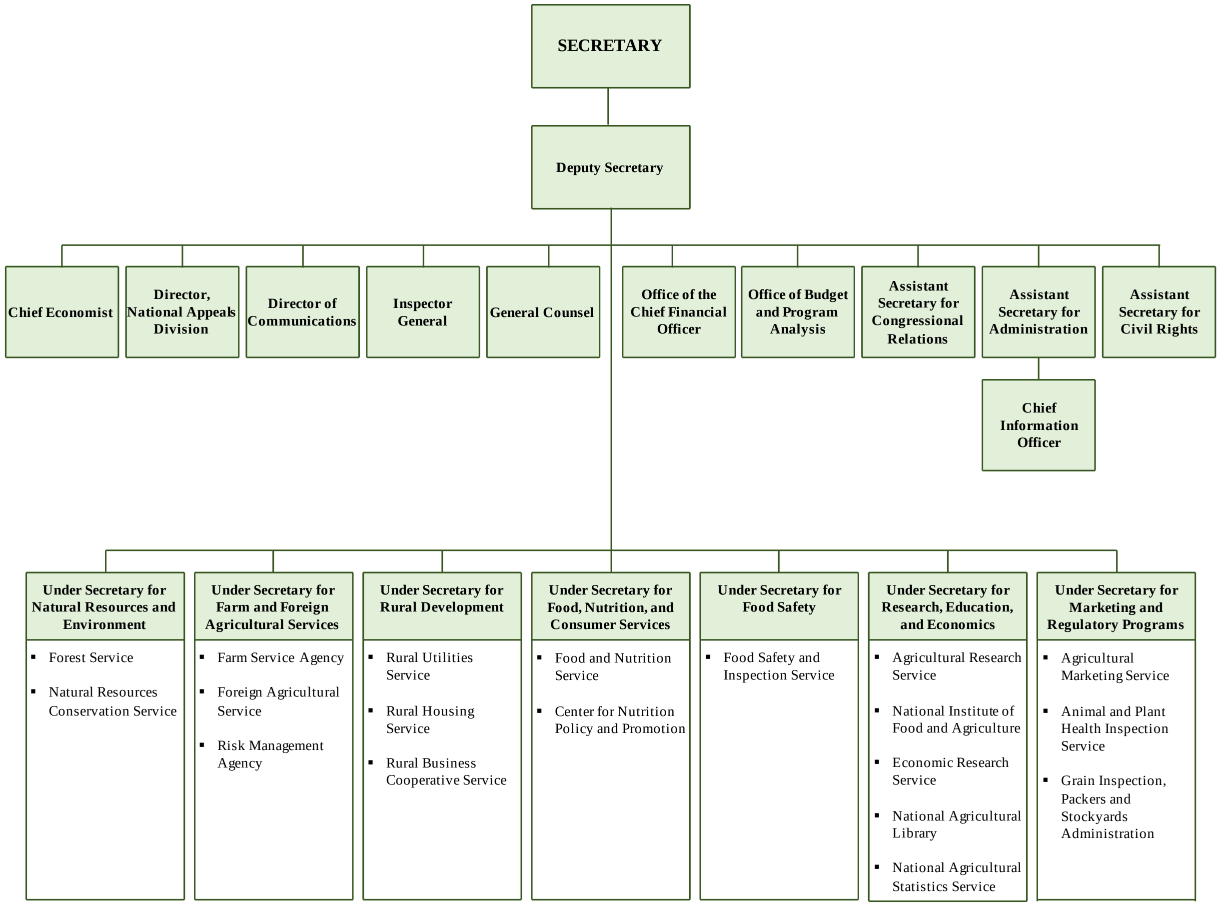
We provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.

Vision Statement

To expand economic opportunity through innovation, helping rural America to thrive; to promote agriculture production sustainability that better nourishes Americans while also helping feed others throughout the world; and to preserve and conserve our Nation's natural resources through restored forests, improved watersheds, and healthy private working lands.

USDA Organization Chart

Exhibit 1: Organization Chart



Source: USDA's Web site, November 25, 2013

This image displays the U.S. Department of Agriculture's (USDA) Headquarters Organization, including the Secretary, Chief Officers, Under Secretaries, and Assistant Secretaries for various agencies within USDA. In addition to its Headquarters Organization, USDA has a network of offices, facilities, and laboratories across the country and overseas.

Mission Areas and Departmental Management

The U.S. Department of Agriculture's (USDA) work is organized by mission areas, which are collections of agencies that work together to achieve USDA's strategic goals. Descriptions of USDA's seven mission areas and Departmental Management follow.

Farm and Foreign Agricultural Services

The Farm and Foreign Agricultural Services (FFAS) mission area does the following: 1) supports a strong financial safety net including providing access to credit for farmers and ranchers who are temporarily unable to obtain commercial credit; 2) promotes the vitality of rural America by improving access to international markets, thereby providing credit guarantees for U.S. farm exports; and 3) supports industry efforts to develop new markets. Also, in support of ensuring private working lands are preserved, the FFAS area protects watershed health to ensure clean and abundant water; and enhances soil quality to maintain productive working cropland. Finally, in support of agricultural production, FFAS promotes the international acceptance of new technologies, and promotes sustainable, productive agricultural systems and trade in developing countries to enhance global food security.

This mission area is comprised of the Farm Service Agency (FSA), the Foreign Agricultural Service (FAS), and the Risk Management Agency (RMA). FSA ensures the well-being of American agriculture, the environment, and the American public through the administration of farm commodity programs, farm ownership, farm operating and emergency loans; conservation and environmental programs; emergency and disaster assistance; and domestic and international food assistance. FSA programs are delivered and serviced through an extensive network of field offices in approximately 2,200 USDA FSA County Office Service Centers and 51 State Offices. FSA also provides administrative support for the Commodity Credit Corporation (CCC). The CCC is a Government-owned entity that provides funding for commodity programs administered by FSA and many Farm Bill programs such as the conservation programs administered by FSA and the Natural Resources Conservation Service (NRCS), and export programs administered by FAS. FAS works to improve international market access for U.S. products, build new markets, improve the competitive position of domestic agriculture in the global marketplace, and provide food aid and technical assistance to other countries. RMA helps producers manage their business risks through effective, market-based, risk-management solutions. In addition, RMA manages the Federal Crop Insurance Corporation to improve the economic stability of agriculture through a sound system of crop insurance.

Food, Nutrition and Consumer Services

The Food, Nutrition, and Consumer Services (FNCS) mission area works to harness the Nation's agricultural abundance to reduce hunger and improve health in the United States.

FNCS is comprised of the Food and Nutrition Service (FNS) and the Center for Nutrition Policy and Promotion (CNPP). FNS administers USDA's domestic nutrition assistance programs. The mission of FNS is to increase food security and reduce hunger, working in partnership with State agencies and other cooperating organizations, to help ensure children and low-income people have access to food, a healthful diet, and nutrition education in a manner that supports American agriculture and inspires public confidence. In addition to providing access to nutritious food, FNS works to empower program participants with the knowledge to eat healthy diets and engage in physical activity. The mission of CNPP is to improve the health of Americans by developing and promoting dietary guidance that links the best evidence-based, scientific research to the nutrition needs of Americans.

Food Safety

The Food Safety mission area is the public health mission area of USDA that is responsible for ensuring that the Nation's commercial supply of meat, poultry and processed egg products is safe, wholesome, and properly labeled and packaged. This includes products produced domestically in Federally inspected establishments, as well as products imported from foreign countries. It also plays a key role in the President's Food Safety Working Group, a coordinated governmentwide initiative to ensure a safe food supply for the American people for the 21st century. USDA's partners in the working group include the U.S. Department of Health and Human Services, the U.S. Environmental Protection Agency, and a number of other Government agencies. The Food Safety mission area is comprised of a single agency, the Food Safety and Inspection Service, which provides Federal inspection of meat, poultry, and processed egg products establishments; support for similar establishments under State inspection programs; development and implementation of the Public Health Information System to enhance science-based, data-driven inspections; and determination of international equivalence of foreign systems.

Marketing and Regulatory Programs

The mission of Marketing and Regulatory Programs (MRP) is to facilitate and expand the domestic and international marketing of U.S. agricultural products, to help protect the agricultural sector from plant and animal health threats, and to ensure humane care and treatment of certain animals. MRP conducts oversight activities to protect producers from unfair competition and unfair business practices, and partners with the Department of Justice to help prevent anti-competitive behaviors for regulated entities. MRP also assists producers in management and marketing by providing market trend analysis and business and marketing tools.

MRP is made up of the Animal and Plant Health Inspection Service (APHIS), the Agricultural Marketing Service (AMS), and the Grain Inspection, Packers, and Stockyards Administration (GIPSA). APHIS is responsible for protecting and promoting U.S. agricultural health, regulating genetically engineered organisms, administering the Animal Welfare Act, and carrying out wildlife damage management activities. APHIS works cooperatively with State and local agencies, private groups, and foreign governments to protect the safety of the Nation's agriculture. AMS strives to facilitate the competitive and efficient marketing of agricultural products in domestic and international markets, while ensuring fair trading practices. AMS programs benefit producers, traders, and consumers of U.S. food and fiber products by promoting a strategic marketing perspective that adapts product and marketing decisions to consumer demands, changing domestic and international marketing practices, and new technology. GIPSA helps USDA enhance international competitiveness of American agriculture and the economic viability and sustainability of rural and farm economies. GIPSA establishes the official U.S. standards and quality assessment methods for grain and related products, regulates handling practices to ensure compliance with the U.S. Grain Standards Act and Agricultural Marketing Act of 1946, and manages a network of Federal, State, and private laboratories that provide impartial, user-fee funded official inspection and weighing services.

Natural Resources and Environment

The Natural Resources and Environment (NRE) mission area promotes the conservation and sustainable use of natural resources on the Nation's private lands and sustains production of all the goods and services that the public demands of the national forests and grasslands. The NRE mission area, primarily through the Natural Resources Conservation Service (NRCS), also has responsibility for implementing most of the Conservation Title of the 2008 Farm Bill.

The mission area includes two agencies: NRCS and the Forest Service (FS). NRCS and FS continue to expand public access to Federal and private lands for hunting, fishing, and other outdoor recreational opportunities. This is accomplished through a variety of programs aimed at preserving and restoring our public and private lands, mitigating the effects of climate change, and making the landscape more resilient to wildfire. Both NRE agencies excel in delivering site-specific and landscape-scale solutions and accelerate their efforts through partnering with Tribal, Federal, State, and local Governments, and community-related groups to protect soils, watersheds, and ecosystems. NRCS partners with private landowners to provide technical and financial assistance to help protect farm and ranchlands and private forestland. FS partners with State and local government agencies to oversee the management of the National Forest System.

Research, Education, and Economics

The Research, Education, and Economics (REE) mission area provides Federal leadership for the discovery, application, and dissemination of information and technologies spanning the biological, physical, and social sciences through agricultural research, education, and extension activities and economic research and statistics.

REE is comprised of the Agricultural Research Service (ARS), the Economic Research Service (ERS), the National Agricultural Statistics Service (NASS), and the National Institute of Food and Agriculture (NIFA). ARS conducts intramural research in the area of natural and biological sciences. ARS includes the National Agricultural Library, which is the Nation's major information resource on food, agriculture, and natural resource sciences. ERS performs intramural economic and social science research. NASS conducts the Census of Agriculture and provides the official, current statistics on agricultural production and indicators of the economic and environmental welfare of the farm sector. NIFA partners with land grant and non-land grant colleges and universities in carrying out extramural research, higher education, and extension activities.

Rural Development

USDA, as a leading advocate for rural America, is at the forefront of developing the technology and tools necessary to transform rural America to take advantage of new opportunities. The mission of Rural Development (RD) programs is to assist rural communities to create prosperity by providing financial and technical assistance to rural residents, businesses, and private and public entities for a broad range of purposes that bring prosperity and better living to Rural America. These programs are grouped within three agencies: (1) the Rural Business-Cooperative Service (RBS), which provides assistance for the development of business and industry, including small businesses, and renewable energy and energy improvement projects; (2) the Rural Utilities Service (RUS), which provides assistance for water and waste disposal, rural electricity and telecommunications, including broadband access; and (3) the Rural Housing Service (RHS), which provides assistance for homeownership, multi-family housing, and essential community facilities such as health and public safety infrastructure.

Departmental Offices

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

Performance Goals, Objectives, and Results

Agency Priority Goals

USDA has been pursuing three Agency Priority Goals in fiscal years (FY) 2012 and 2013. Goal performance data will be available at the end of the calendar year and published in the Annual Performance Report, which will be released in February 2014. A synopsis of the goals is provided below.

Agency Priority Goal 1: Further improve payment accuracy in the Supplemental Nutrition Assistance Program (SNAP).

SNAP puts healthy food on the table for millions of low-income people in America every month. The program supplements their budgets by providing benefits via an electronic benefit card, which is used like a debit card at most food retailers. Through nutrition education partners, the program helps clients learn how to make healthy eating and active lifestyle choices. SNAP also provides a significant boost to local economies. For every dollar in new SNAP benefit spending, $1.80 is generated in total economic activity.

Payment accuracy has reached a record high of 96.58 percent. This combined rate reflects 2.77 percent in overpayments and 0.65 percent in underpayments for a total of 3.42 percent in erroneous payments. USDA's Food and Nutrition Service (FNS) has continued to work to improve payment accuracy through partnerships with States and by rewarding exemplary performance while holding low-performing States accountable. FNS uses an early detection system to target States that may be experiencing a higher incidence of payment errors. FNS then intervenes to address situations identified in individual States. FNS provides technical assistance and knowledge to State agencies to improve payment accuracy and shares best practices among States.

Agency Priority Goal 2: Expand U.S. agricultural exports to at least $150 billion by September 2013, up from a level of $137.4 billion in FY 2011.

Agricultural exports reached $140.9 billion. For every $1 billion of agricultural exports, an estimated 6,800 jobs are created and an additional $1.29 billion in economic activity is generated.

USDA continued to use all available resources to increase exports and adjust market development and maintenance efforts based on changes in the global economic environment. The Department supported trade agreement negotiations; monitoring and enforcing of existing trade agreements; capacity building in emerging trading partners; and promotion of U.S. products overseas. USDA supported access to international markets through market development programs and trade shows, which leads to direct sales by connecting exporters with foreign buyers. USDA also resolved technical barriers to trade and unjustified sanitary and phytosanitary measures.

Agency Priority Goal 3: Accelerate the protection of clean, abundant water resources by advancing USDA's capacity to measure the effectiveness of conservation investments in addressing water resource concerns.

The availability and protection of clean water is critical to the country's drinking water supply and crop production capacity. The Environmental Protection Agency recently released an assessment indicating that 23 percent of the Nation's rivers and streams were rated as fair condition, and 55 percent rated as poor condition. USDA could positively impact 87 percent of America's surface supply of drinking water by assisting with conservation on lands upstream. If conservation treatment methods and locations are carefully selected, the investments in USDA conservation programs have an even stronger positive impact on the Nation's water quality.

Policymakers and conservationists increasingly recognize that broadly implementing conservation practices is not adequate to target water quality improvement. To make informed decisions with public funding to target water quality improvements, the focus must be on assessing water quality, with a scientific connection to the effectiveness of conservation and management actions. This combination offers the potential to achieve more economical and sustainable solutions to protect and increase clean water.

Building on years of advances by USDA conservation and science agencies, USDA is providing results-based, landscape-scale conservation investment that will protect water resources more efficiently and effectively, and encourage innovations that attract private capital and create non-regulatory incentives for a variety of stakeholders to invest in sustainable water resource management practices.

To this end, USDA implemented two project watersheds, the St. Joseph River Watershed Project in Indiana, and the Cienega Creek Watershed Project in Arizona. The research from these projects demonstrates why both condition and effectiveness frameworks consisting of monitoring and modeling are needed to assess and evaluate water-quality improvements. These approaches will enable USDA agencies and their partners to build performance measures into their programs and use the results to improve their work and guide future investments so as to more efficiently and effectively achieve the Nation's water goals.

USDA continued to track a secondary goal: implementing high-impact targeted practices to improve water quality on 4 million acres within critical and/or impaired watersheds by the end of this fiscal year. USDA estimates achieving 90 percent (3.6) of the 4 million-acre goal.

Strategic Goals, Objectives, and Annual Performance Goals

The Performance Summary information in Exhibit 2, organized by the U.S. Department of Agriculture's strategic goals and objectives, provides a summary of the Department's performance results. Of the 43 performance measures contained in USDA's *FY 2013 Annual Performance Plan,* 40 were met or exceeded, 2 were unmet, and 1 was deferred. The Department's Annual Performance Report to be released with the budget will contain additional analysis of these results, including the historical performance trend data. Published performance information with a comprehensive picture of a program's performance history is available at Performance.gov and USDA Performance.

Agency Strategic Goals

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

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

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

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

The following exhibit is a summary of the Department's performance results.

Exhibit 2: Performance Summary

Performance Summary for FY 2013			
Strategic Objectives		**Annual Performance Goals**	**Result**
Strategic Goal 1: Assist Rural Communities to Create Prosperity So They are Self-Sustaining, Repopulating, and Economically Thriving			
1.1	Enhance Rural Prosperity	1.1.1 Number of jobs created or saved through USDA financing of businesses	Exceeded
		1.1.2 Number of borrowers/subscribers receiving new or improved telecommunication services (millions)	Exceeded
1.2	Create Thriving Communities	1.2.1 Number of population receiving new or improved service from agency-funded water facility (millions)	Met
		1.2.2 Homeownership opportunities provided	Met
		1.2.3 Percentage of customers who are provided access to new and/or improved essential community facilities Note: Some facility types serve more than one purpose	
		▪ Health Facilities	Met
		▪ Safety Facilities	Exceeded
		▪ Educational Facilities	Exceeded
		1.2.4 Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	Met
1.3	Support a Sustainable and Competitive Agricultural System	1.3.1 Percentage direct and guaranteed lending to Socially Disadvantaged Farmers (SDA)	Met
		1.3.2 Maintain or increase percentage of FSA program delivery applications at USDA Service Centers that are Web-enabled	Met
		1.3.3 Percentage direct and guaranteed lending to beginning Farmers	Exceeded
		1.3.4 Value of trade preserved through resolution of foreign market access issues such as U.S. export detainment, restrictive Sanitary/Phytosanitary and Technical Barriers to Trade issues, and trade regulations ($billions)	Exceeded
		1.3.5 Value of agricultural exports resulting from participation in foreign food and agricultural trade shows ($billions)	Exceeded
		1.3.6 Value of Federal Crop Insurance Corporation (FCIC) risk protection coverage provided through FCIC-sponsored insurance ($billions)	Exceeded
		1.3.7 Normalized value of FCIC risk protection coverage provided through FCIC-sponsored insurance ($billions)	Exceeded
		1.3.8 Percent of industry compliance with the Packers and Stockyards Act	Met
Strategic Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources			
2.1	Restore and Conserve the Nation's Forests, Farms,	2.1.1 Conservation Reserve Program: Restored wetland acreage (millions of acres)	Met

Performance Summary for FY 2013			
Strategic Objectives		**Annual Performance Goals**	**Result**
	Ranches, and Grasslands	2.1.2 Conservation Technical Assistance: Cropland with conservation applied to improve soil quality (millions of acres)	Met
		2.1.3 Environmental Quality Incentives Program: Cropland with conservation applied to improve soil quality (millions of acres)	Met
		2.1.4 Conservation Technical Assistance: Grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres)	Met
		2.1.5 Environmental Quality Incentives Program: Grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres)	Exceeded
		2.1.6 Farm and Ranch Lands Protection Program: Prime, unique, or important farmland protected from conversion to non-agricultural uses by conservation easements (thousands of acres)	Exceeded
		2.1.7 Wildlife Habitat Incentive Program: Non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres)	Met
		2.1.8 Environmental Quality Incentives Program: Non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres)	Met
		2.1.9 Number of communities with urban and community forestry programs resulting from Forest Service assistance (number of communities) * Fourth-quarter data are not available. Results will be reported in the Annual Performance Report to be issued with the budget.	*Deferred
		2.1.10 Annual acres of public and private forest lands restored or enhanced (millions of acres)	Met
		2.1.11 Volume of timber sold (million board feet)	Met
2.2	Lead Efforts to Mitigate and Adapt to Climate Change		
2.3	Protect and Enhance America's Water Resources	2.3.1 Conservation Technical Assistance: Land with conservation applied to improve water quality (millions of acres)	Met
		2.3.2 Environmental Quality Incentives Program: Land with conservation applied to improve water quality (millions of acres)	Met
		2.3.3 Wetlands Reserve Program: Wetlands created, restored or enhanced (thousands of acres)	Met
2.4	Reduce Risk from Catastrophic Wildfire and Restore Fire to its Appropriate Place on the Landscape	2.4.1 Acres of Wildland Urban Interface fuels treated to reduce the risk of catastrophic fire (millions of acres)	Met
		2.4.2 Percentage of acres treated in the Wildland Urban Interface that have been identified in Community Wildfire Protection Plans	Met
Strategic Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security			
3.1	Ensure U.S. Agricultural Resources Contribute to Enhanced Global Food Security		
3.2	Enhance America's Ability to Develop and Trade Agricultural Products Derived from New Technologies	3.2.1 Cumulative number of genetically engineered plant lines reviewed by the U.S. Department of Agriculture and found safe for use in the environment	Exceeded

Performance Summary for FY 2013			
Strategic Objectives		**Annual Performance Goals**	**Result**
3.3	Support Sustainable Agriculture Production in Food-Insecure Nations		
Strategic Goal 4: Ensure That All of America's Children Have Access to Safe, Nutritious, and Balanced Meals			
4.1	Increase Access to Nutritious Foods	4.1.1 Participation rates for the major Federal nutrition assistance programs (millions per month): Supplemental Nutrition Assistance Program	Met
		4.1.2 SNAP payment accuracy rate (percent)	Exceeded
		4.1.3 Participation levels for the major Federal nutrition assistance programs (millions per day):	
		▪ National School Lunch Program	Met
		▪ School Breakfast Program	Met
		4.1.4 Participation levels for the major Federal nutrition assistance programs (millions per month): The Special Supplemental Nutrition Program for Women, Infants and Children (average)	Met
4.2	Promote Healthy Diet and Physical Activity Behavior	4.2.1 Application and usage level of nutrition guidance tools (billions of pieces of nutrition guidance distributed)	Exceeded
4.3	Protect Public Health by Ensuring Food is Safe	4.3.1 Percent of broiler plants passing the carcass *Salmonella* Verification Testing Standard[1]	Unmet
		4.3.2 Total illnesses from all Food Safety and Inspection Service products[2]	Unmet
		4.3.3 Percent of establishments with a functional food defense plan[3]	Exceeded
		[1] Revised from FY 2012's measure of "overall public exposure to *Salmonella* from boiler carcasses as FSIS implemented a new, stricter *Salmonella* performance standard for broilers and turkeys on July 1, 2011. [2] Recalculated in FY 2011 to reflect newly published illness estimates from the CDC, new, national Healthy People 2020 goals, and methodological changes. [3] Functional food defense plans are voluntary written procedures that food processing establishments should follow to protect the food supply from intentional contamination with chemicals, biological agents or other harmful substances.	
4.4	Protect Agricultural Health by Minimizing Major Diseases and Pests, Ensuring Access to Safe, Plentiful, and Nutritious Food	4.4.1 Value of damage prevented and mitigated annually as a result of selected plant and animal health monitoring and surveillance efforts ($billions)	Met

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

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

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

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

- Weather-related hardships, including disasters related to the increasing intensity and duration of extreme weather and climate change, both domestically and abroad;
- The risk of catastrophic fire, depending on weather, drought conditions, and the expanding number of communities in the wildland-urban interface.
- Non weather-related hardships and other uncontrollable events, both domestically and abroad;
- Domestic and international macroeconomic factors, including consumer purchasing power, the strength of the U.S. dollar, and political changes abroad that could impact domestic and global markets greatly at any time;
- Sharp fluctuations in farm prices, interest rates, and unemployment that could impact the ability of farmers, other rural residents, communities, and businesses to qualify for credit and manage their debts;
- The impact of future economic conditions and actions by a variety of Federal, State, and local Governments that could influence the sustainability of rural infrastructure;
- The increased movement of people and goods, which provides the opportunity for crop and animal pests and diseases to move quickly across domestic and international boundaries; and
- Potential exposure to hazardous substances, which may threaten human health and the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts.

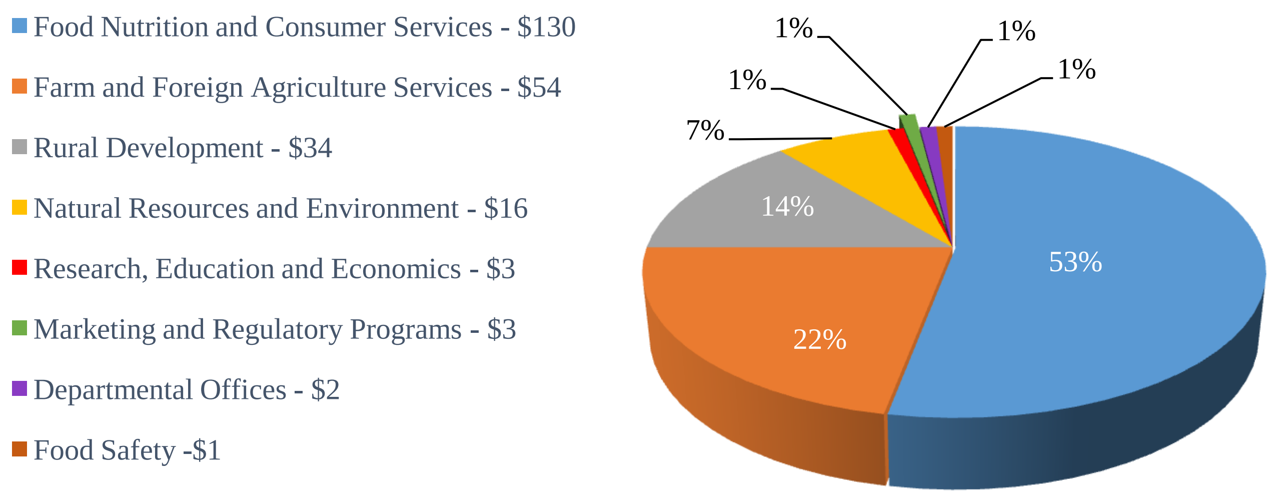
Analysis of Financial Information and Highlights

Financial Statement Highlights

Budgetary Resources

The U.S. Department of Agriculture (USDA) receives most of its funding from appropriations authorized by Congress and administered by the U.S. Department of the Treasury. Total budgetary resources consist of the balance at the beginning of the year, appropriations received during the year, spending authority from offsetting collections, and other budgetary resources. The following exhibit presents fiscal year (FY) 2013 total budgetary resources by mission area.

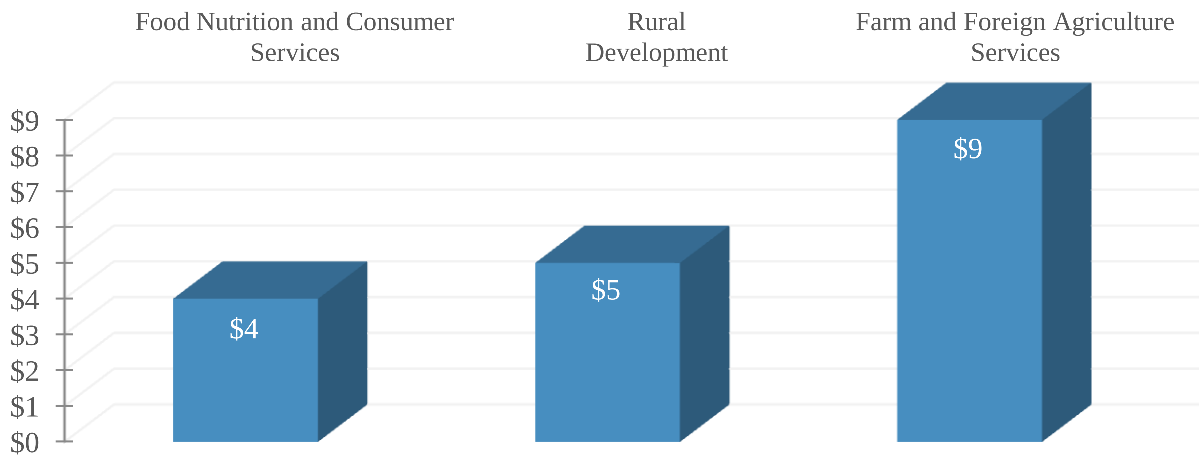
Exhibit 3: FY 2013 Total Budgetary Resources by Mission Area ($billions)



Total budgetary resources were $243 billion for FY 2013 compared to $225 billion in FY 2012, an increase of $18 billion, or 8 percent.

The following exhibit presents significant changes in total budgetary resources by mission area.

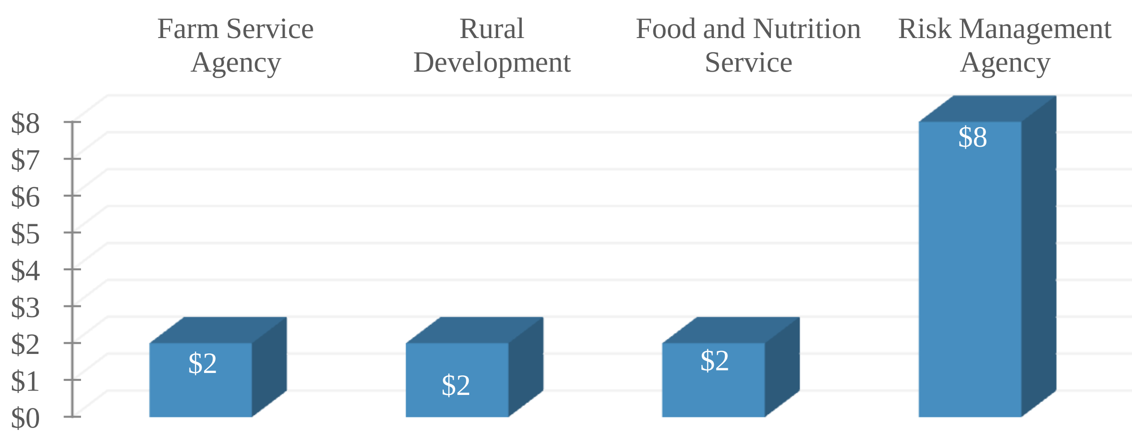
Exhibit 4: Significant Changes in Total Budgetary Resources by Mission Area ($billions)



Obligations Incurred

Obligations incurred were $201 billion for FY 2013, compared to $187 billion in FY 2012, an increase of $14 billion, or 7 percent. The following exhibit presents significant changes in obligations incurred.

Exhibit 5: Significant Changes in Obligations Incurred ($billions)

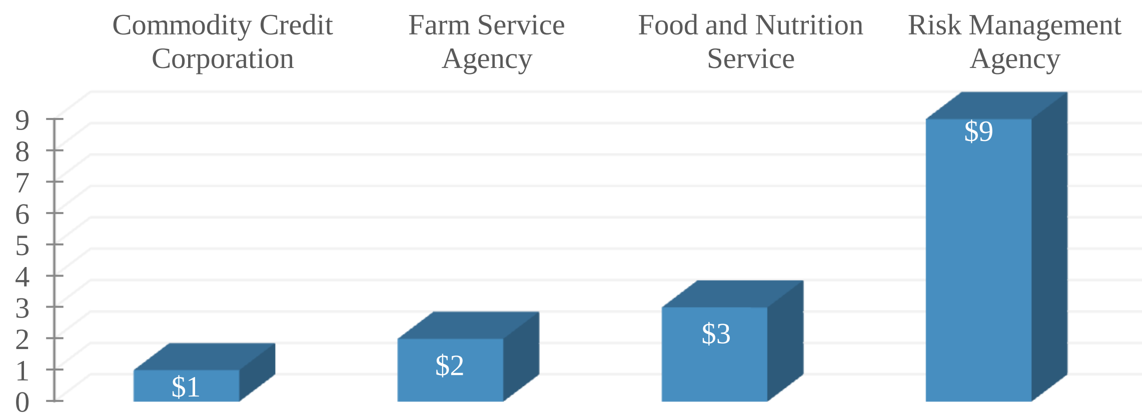


There were increases at Risk Management Agency (RMA) for Crop Insurance; at Food and Nutrition Service (FNS) for the Supplemental Nutrition Assistance (SNAP); at Rural Development (RD) for the Rural Electric and Telecommunications Program and at Farm Service Agency (FSA) for Disaster Relief Trust and Pigford II.

Net Outlays

Net Outlays were $159 billion for FY 2013, compared to $144 billion in FY 2012, an increase of $15 billion or 10 percent. The following exhibit presents significant changes in net outlays.

Exhibit 6: Significant Changes in Net Outlays ($billions)



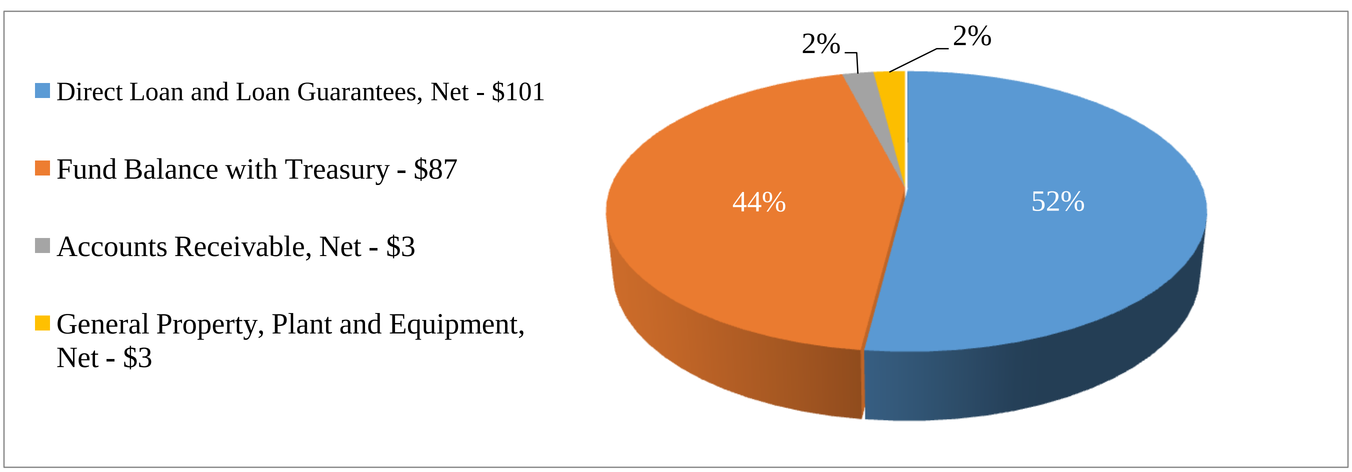
There were increases at RMA for Crop Insurance; at FNS for SNAP; at FSA for Pigford II and at CCC for Direct and Counter Cyclical Payments.

Balance Sheet

Total Assets

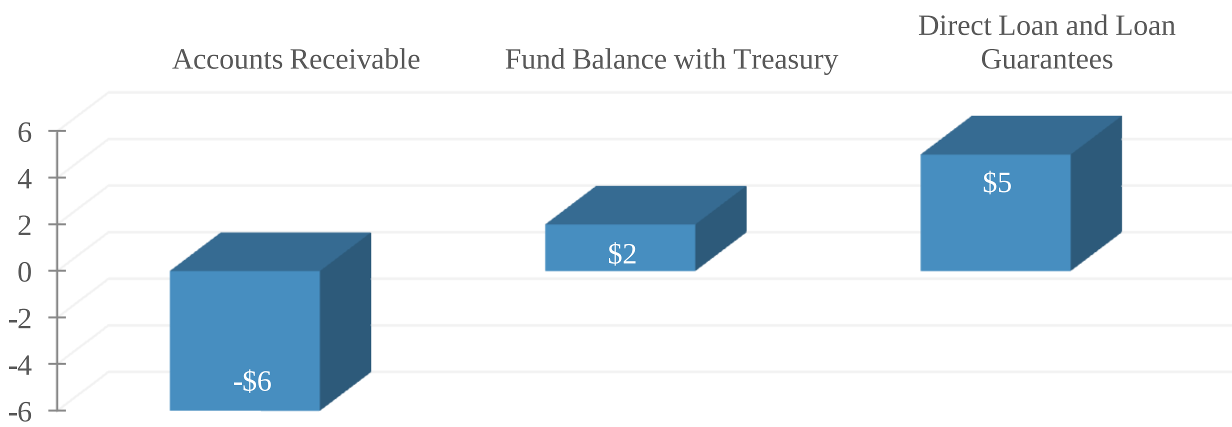
Total assets for FY 2013 were $194 billion as of September 30, 2013, compared to $193 billion for FY 2012, an increase of $1 billion, or 1 percent. The following exhibit presents FY 2013 total assets.

Exhibit 7: Total Assets ($billions)



Direct Loan and Loan Guarantees, Net, is the single largest asset on the USDA Balance Sheet. RD offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These products represent 89 percent of the total Department loan programs. Loan programs administered by FSA represent 7 percent of the total. FSA supports farmers who are temporarily unable to obtain private, commercial credit. The remaining 4 percent represents commodity loans and credit programs administered by the CCC. Their loans are used to improve economic stability and provide an adequate supply of agricultural commodities. CCC credit programs provide international food assistance, expand international markets, and provide domestic low-cost financing to protect farm income and prices. The following exhibit presents significant changes in total assets.

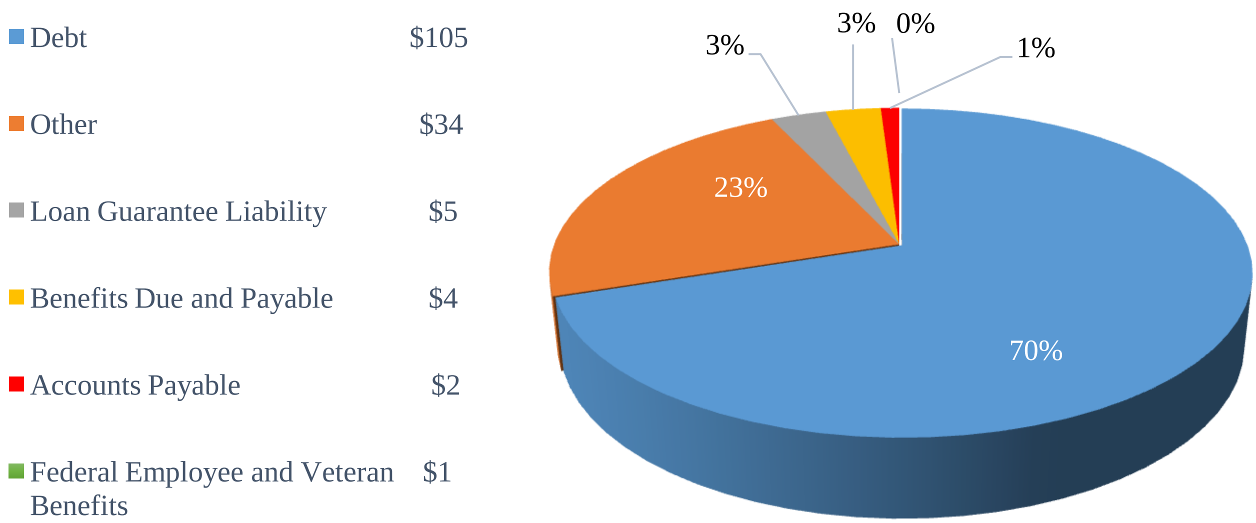
Exhibit 8: Significant Changes in Assets ($billions)



Total Liabilities

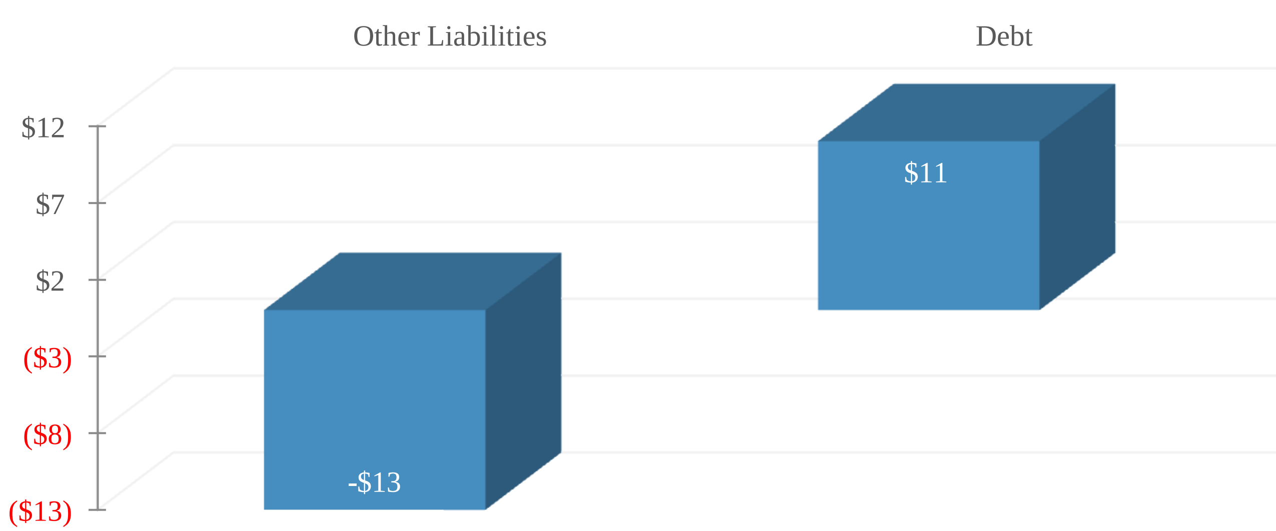
Total liabilities for FY 2013 were $151 billion as of September 30, 2013, compared to $153 billion for FY 2012, a decrease of $2 billion, or -1 percent. The following exhibit presents total liabilities.

Exhibit 9: Total Liabilities ($billions)



Debt is the single largest liability on USDA's balance sheet. It represents amounts owed primarily to Treasury by CCC and RD. For CCC, the debt primarily represents financing to support direct and counter-cyclical, crop disaster, and loan deficiency programs. For RD, the debt primarily represents financing to support electric and housing loan programs. The following exhibit presents significant changes in total liabilities.

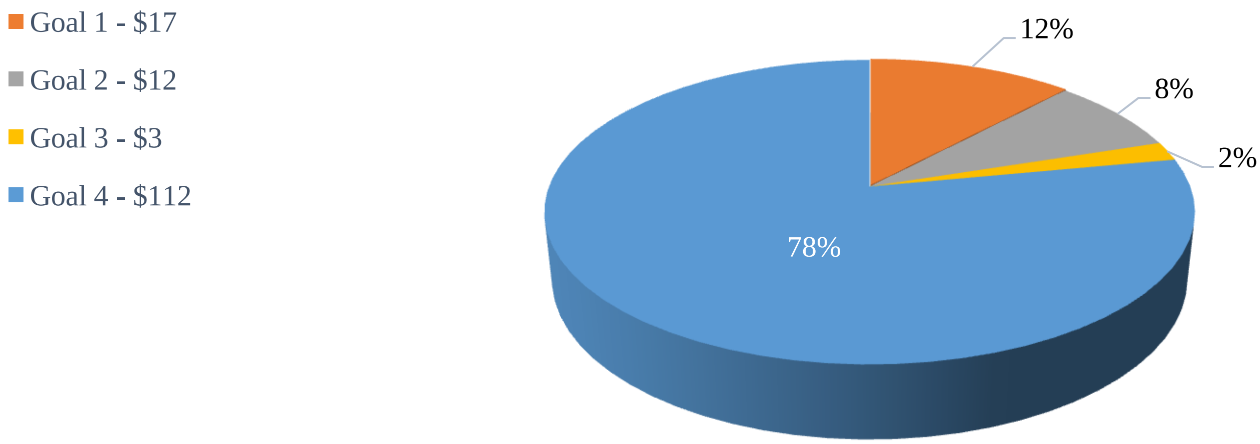
Exhibit 10: Significant Changes in Total Liabilities ($billions)



Net Cost of Operations

Net cost of operations for FY 2013 was $144 billion as of September 30, 2013, compared to $151 billion for FY 2012, a decrease of $7 billion, or -5 percent. The following exhibit presents net cost of operations by strategic goal.

Exhibit 11: FY 2013 Net Cost of Operations by Strategic Goals ($billions)



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

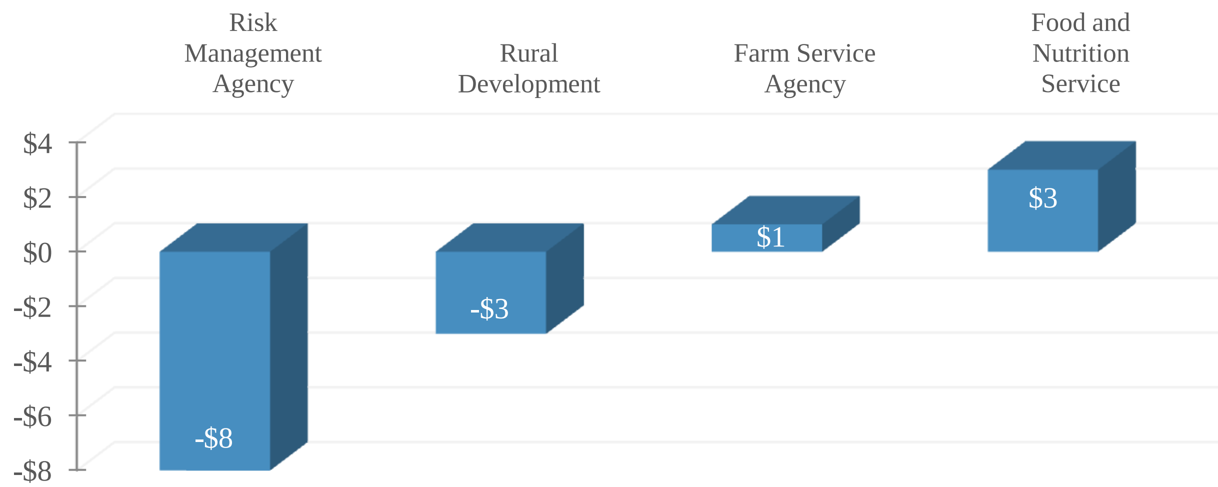
Goal 2: Ensure Our National Forests and Private Working Lands are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources.

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

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

The following exhibit presents significant changes in net cost of operations by strategic goal.

Exhibit 12: Significant Changes in FY 2013 Net Cost of Operations by Strategic Goals ($billions)

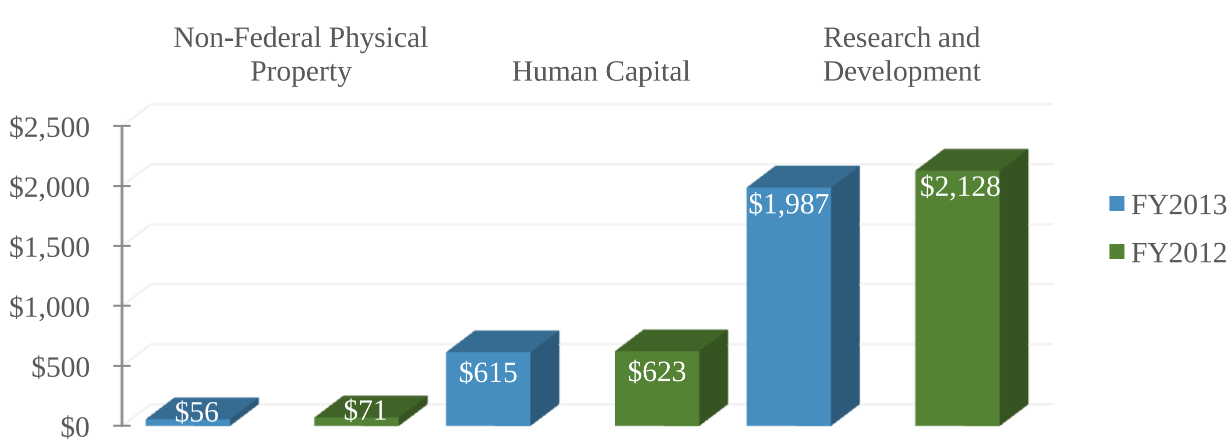


There were increases at FNS for SNAP and at FSA for Disaster Relief Trust; these increases were offset by a decrease at RD for Multi Family Housing and at RMA for Crop Insurance.

Stewardship Investments

Stewardship investments are substantial investments made by the Federal Government for the benefit of the Nation but are not physical assets owned by the Federal Government. When incurred, they are treated as expenses in determining the net cost of operations. However, these items merit special treatment so that users of Federal financial reports know the extent of investments that are made for long-term benefit. Such investments are measured in terms of expenses incurred for non-Federal physical property, human capital, and research and development. The following exhibit presents a comparison of stewardship investments.

Exhibit 13: Comparison of Stewardship Investments ($millions)



Analysis of Systems, Controls, and Legal Compliance

Management Assurances

Statement of Assurance

The U.S. Department of Agriculture (USDA) is providing qualified assurance that USDA's systems of internal control comply with the Federal Managers' Financial Integrity Act (FMFIA) objectives. USDA's systems of internal control meet the objectives of the FMFIA and the Federal Financial Management Improvement Act (FFMIA), with the exception of two material weaknesses in internal control, one financial system non-conformance, and three noncompliances with laws and regulations. Management is providing reasonable assurance that the internal controls over operations are effective. The details of the exceptions are provided in the FMFIA, FFMIA, and Summary of Financial Statement Audit and Management Assurances sections of this report.

USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013, and financial reporting as of June 30, 2013. The assessment included the safeguarding of assets and compliance with applicable laws and regulations, in accordance with the requirements of Office of Management and Budget Circular No. A-123, "Management's Responsibility for Internal Control."

The Forest Service (FS) identified an Antideficiency Act (ADA) violation under 31 U.S.C. §1517(a). The Energy Policy Act of 2005, Public Law 109-58, required the Secretary of the Interior to create a pilot project to improve Federal permit coordination. The Bureau of Land Management (BLM) transferred funds to FS to participate in the pilot. FS reported obligations/expenditures in excess of the balance of the fund transferred from the BLM as of December 31, 2012. FS spent $6,781.90 in excess of the $72,000 carried over from FY 2012. Although several actions had transpired to obtain the funding needed for FY 2013, the warrant with additional funding was not received by FS until January 31, 2013. The ADA violation is in the process of being reported to Congress and the President.

In October 2013, the Commodity Credit Corporation (CCC), which is a wholly-owned government corporation within USDA, identified that a violation of the ADA may have occurred in September 2013 in the Feedstock Flexibility Program. However, CCC has not completed its investigation to determine whether a violation has occurred or not.

No other material weaknesses were found in the design or operation of the internal control over (1) the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2013, and (2) financial reporting as of June 30, 2013.

Thomas J. Vilsack
Secretary of Agriculture
December 12, 2013

Federal Managers' Financial Integrity Act Report on Management Control

Background

The Federal Managers' Financial Integrity Act (FMFIA) requires ongoing evaluations of internal controls and financial management systems. These evaluations lead to an annual statement of assurance that:

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

The U.S. Department of Agriculture (USDA) annually evaluates its internal controls over financial reporting in accordance with Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control," Appendix A, "Internal Control over Financial Reporting" (OMB Circular No. A-123, Appendix A).

The Department operates a comprehensive internal control program. This program ensures compliance with the requirements of FMFIA and other laws, and OMB Circular No. A-123, Appendices A and D. All USDA managers must ensure that their programs operate efficiently and effectively, and comply with relevant laws. They must also ensure that financial management systems conform to applicable laws, standards, principles, and related requirements. In conjunction with the Office of Inspector General and the Government Accountability Office, USDA's management works aggressively to determine the root causes of its material weaknesses so that it can direct resources to focus on their remediation.

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

Fiscal Year 2013 Results

The Department has one existing material weakness in internal controls over financial reporting for Information Technology, and one existing system non-conformance in Funds Control Management. Also, a new material weakness for Estimated Losses on Insurance Claims Calculations in the Risk Management Agency/Federal Crop Insurance Corporation (RMA/FCIC) is being reported for the first time. Remediation activities are continuing for the Commodity Credit Corporation (CCC) and the Natural Resources Conservation Service (NRCS) to resolve the non-conformance in FY 2014. The Forest Service is noncompliant with laws and regulations related to its grants management program. The Food and Nutrition Service, the Farm Service Agency, the Risk Management Agency, and the Natural Resources Conservation Service are noncompliant with laws and regulations related to the Improper Payments Information Act of 2002, and the Improper Payments Elimination and Recovery Act of 2010. FS identified an Antideficiency Act violation under 31 US.C. §1517(a) (ADA) related to funds provided by BLM to improve Federal permit coordination. The ADA violation is in the process of being reported to Congress and the President. Thus, the Secretary's Statement of Assurance provides qualified assurance that USDA's system of internal controls complies with FMFIA objectives. For additional details on the results reported in USDA's Consolidated Financial Statements Audit Report, see the Summary of Financial Statement Audit and Management Assurances section of this report.

Summary of Outstanding Material Weakness

The following exhibit provides FY 2013 accomplishments and FY 2014 planned actions toward resolving the Department's outstanding material weakness.

Exhibit 14: Summary of Outstanding Material Weakness

<table>
<tr><th rowspan="2">Material Weakness Existing</th><th>1. USDA Information Technology (IT)</th><th>Overall Estimated Completion Date</th><th>FY 2014</th></tr>
<tr><td colspan="3">Pervasive internal control design and operating effectiveness deficiencies occurred in two areas: logical access controls/personnel security and configuration management. These deficiencies represent an overall IT material weakness. (Department)</td></tr>
</table>

<table>
<tr><th>FY 2013 Accomplishments:</th><th>FY 2014 Planned Actions:</th></tr>
<tr><td>Office of the Chief Information Officer (OCIO):
▪ Revised an existing Departmental Regulation to reflect National Institute of Standards and Technology (NIST) SP800-37 and the current USDA process for the Risk Management Framework;
▪ Revised and published NIST-compliant IT Security policies;
▪ Continued implementation of ICAM/HSPD-12 and use of the personal identity verification card for logical and physical access enterprisewide;
▪ Developed a continuous monitoring program plan that automates the risk assessment at the enterprise level for more timely and actionable information; and
▪ Implemented the Cyber Security Assessment and Management tool, to enhance monitoring and reporting capabilities of Departmental control failures.</td><td>OCIO will:
▪ Implement the Operational Security Assessment project to analyze component agencies' information architecture and related processes to develop a threat profile. Additionally, the assessment will examine and evaluate the agency's operational security policies, procedures, and systems through the performance of technological reviews;
▪ Complete necessary application changes to fully support the eAuth 2.0 transition and decommissioning of the eAuth 1.0 environment;
▪ Achieve 80 percent utilization of the PIV/HSPD-12 credential for logical access to all USDA systems; and
▪ Monitor security controls in the following areas:
• vulnerability management;
• configuration management;
• patch management;
• malware detection; and
• asset management.</td></tr>
</table>

Summary of New Material Weakness

During the audit of the estimated losses on insurance claims calculation, Risk Management Agency/ Federal Crop Insurance Corporation (RMA/FCIC) noted an error in the calculation impacting the liability balance in the September 30, 2013 financial statements. RMA/FCIC management implemented newly enhanced indemnity projection models in 2013. RMA/FCIC has several control procedures in place to ensure that the liability with respect to estimated losses on insurance claims reported on the financial statements is free of material misstatements. However, management's control procedures were not able to prevent this error from occurring and impacting the draft financial statements.

The error impacted multiple financial statement line items; the Statement of Net Costs, Statement of Changes in Net Position and notably the Estimated Losses on Insurance Claims line in the liability section of the balance sheet. The absolute value of the cumulative differences as a result of this error on the balance sheet was $626 million; the net effect of the error in the balance sheet was $366 million. Management recalculated the liability on estimated losses on insurance claims and produced revised and corrected financial statements. The root cause of the material misstatement on the financial statement was a manual coding error in the indemnity projection model that was not detected through FCIC/RMA's internal control procedures.

The following exhibit provides FY 2014 planned actions toward resolving the Department's new material weakness.

Exhibit 15: Summary of New Material Weakness

New Material Weakness	2. Estimated Losses on Insurance Claims Calculation	Overall Estimated Completion Date	FY 2014
	A coding error in the indemnity projection model that was not detected by RMA/FCIC caused an error in the calculation for estimated losses on insurance claims reported in the draft financial statements.		

FY 2014 Planned Actions:

RMA/FCIC will:

- Implement procedures to ensure that manual processes of the indemnity projection model are performed and subsequently reviewed by FCIC/RMA management;
- Ensure review process over the calculation is adequate and limits the risk of material misstatements in the liability for estimated losses on insurance claims at year end; and
- Ensure that documentation over the review process is adequately maintained and reviewed.

Summary of Outstanding System Non-conformance

The funds control management non-conformance is reported as a system noncompliance, and included in the FFMIA Report on Financial Management Systems (Exhibit 19). The weakness involves component agency-specific deficiencies for CCC and NRCS.

The following exhibit provides FY 2013 accomplishments and FY 2014 planned actions toward resolving the Department's outstanding system non-conformances.

Exhibit 16: Summary of Outstanding System Non-conformance

<table>
<tr><th rowspan="2">System Non-Conformance Existing</th><th>1. Funds Control Management</th><th>Overall Estimated Completion Date</th><th>FY 2014</th></tr>
<tr><td colspan="3">System improvements needed in recording obligations at the transactions level. (Commodity Credit Corporation (CCC))
Noncompliance with Federal Financial Management Improvement Act of 1996. (CCC and NRCS)</td></tr>
<tr><th colspan="2">FY 2013 Accomplishments:</th><th colspan="2">FY 2014 Planned Actions:</th></tr>
<tr><td colspan="2">CCC:
▪ Identified program and financial applications that are not system compliant;
▪ Collaborated with Information Technology Services Division and Deputy Administrator for Farm Programs to develop and execute a project plan to complete software modifications for the identified program applications to send obligations to eFMS at the transaction level;
▪ Developed and implemented reconciliation policies and procedures to ensure: (1) budget authority in CCC's Core Accounting System (CORE) agrees with budget authority in eFMS, Standard Form No. 132. Apportionment and Reapportionment Schedules and CCC/Farm Service Agency's Apportionment Control Log; and (2) unliquidated obligations (ULOs) in CORE agree with ULOs in eFMS;
▪ Modified the existing quarterly review and certification of the unliquidated obligations process;
▪ Performed clean-up of existing unliquidated obligations;
▪ Developed a report that summarizes the amounts allotted and obligated by fund and by program; and
▪ Developed and executed a training plan on the policy and procedures for reconciliation and account analysis.</td><td colspan="2">CCC will:
▪ Complete software modifications to ensure all program applications (Farm Programs, Foreign Programs, etc.) are in full compliance with the Funds Control/Obligation Requirements (e.g., business events, such as establishments, liquidations, adjustments, etc.) related to obligations at the transaction level;
▪ Continue to collaborate with Information Technology Services Division (ITSD) and Deputy Administrator Farm Programs (DAFP) to make software modifications for the identified program applications to send obligation transactions, including establishments, liquidations, and adjustments to eFMS at the transaction level;
▪ Implement a reconciliation process to ensure obligation transactions are timely and accurately recorded in the general ledger system;
▪ Continue to perform clean-up of existing unliquidated obligations;
▪ Perform validation testing of all new processes; and
▪ Develop and implement performance measures/metrics for management to monitor progress in the timely deobligation of invalid ULOs.</td></tr>
<tr><td colspan="2">NRCS:
▪ Verified property data in the Corporate Property Automated Information Systems;
▪ Continued to perform asset valuation reviews to improve property and deferred maintenance reporting;
▪ Continued improving stewardship-land monitoring and reporting;
▪ Implemented recommendations from a review of period 13 adjustments;
▪ Performed internal control testing for the financial reporting cycle;
▪ Performed full reconciliation for FY 2012 converted unfilled customer order (reimbursable agreement) balances into the new financial system (FMMI);
▪ Conducted subsequent disbursement testing on accrued expenses; and
▪ Continued audit remediation efforts.</td><td colspan="2">NRCS will:
▪ Develop a comprehensive strategy for determining all needed policies and procedures;
▪ Continue quality assurance efforts and implement internal controls to improve stewardship land monitoring and reporting;
▪ Continue efforts to improve accuracy of upward and downward adjustments; and
▪ Continue audit remediation efforts.</td></tr>
</table>

Compliance with Laws and Regulations

Background

The Department identified an agency-specific deficiency in the Forest Service's (FS) Grants Management Program. Results of evaluations and audits of its program concluded that material deficiencies exist in the award and recipient management processes. Outstanding initiatives to achieve compliance are depicted in Exhibit 17. To achieve compliance, FS needs to ensure that grantees' financial systems comply with applicable standards and that disbursements are allowable, accurate, and fully supported. Specifically, we determined that FS was not compliant with the following requirements of the Code of Federal Regulations (CFR):

- 2 CFR 225.35. Establishes principles and standards to provide a uniform approach for determining costs, and promote effective program delivery, efficiency, and better relationships between governmental units and the Federal Government. The principles are for determining allowable costs only. "Agencies responsible for administering programs that involve cost reimbursement contracts, grants, and other agreements with governmental units shall issue regulations to implement the provisions of this part and its appendices;" and
- 7 CFR 3016.20. Requires agencies to:

  I. Ensure that State grantees expand and account for grant funds in accordance with State laws and procedures for expending and accounting for their own funds. Fiscal control and accounting procedures of the State, as well as its sub-grantees and cost-type contractors must be sufficient to permit the following:

     a. Preparation of required reports; and

     b. Tracing of funds to a level of expenditures adequate to establish that such funds have not been used in violation of the restrictions and prohibitions of applicable statutes.

  II. Ensure that the financial management systems of other (non-State) grantees and sub-grantees meet the following standards:

     a. Financial reporting. Financial results must be accurate, current, and completely disclosed;

     b. Accounting records. Records that adequately identify source and application of funds must be maintained;

     c. Internal control. Effective control and accountability must be maintained for all grant and sub-grant cash, real and personal property, and other assets;

     d. Budget control. Actual expenditures or outlays must be compared with budgeted amounts for each grant;

     e. Allowable cost. Applicable OMB cost principles, agency program regulations, and the terms of grant agreements must be followed in determining allowability and allocability of costs;

f. Source documentation. Accounting records must be supported by such source documentation as cancelled checks, paid bills, time and attendance records; and

g. Cash management. Procedures for minimizing the time elapsing between the transfer of funds from the U.S. Treasury and disbursement by grantees and sub-grantees must be followed whenever advance payment procedures are used.

In FY 2013, FS identified an Antideficiency Act (ADA) – Section 31 U.S.C. §1517(a) violation. The Energy Policy Act of 2005 (P.L. 109-58) established congressional direction in Section 365 for the Secretary of the Interior to create a pilot project to improve Federal permit coordination. The Bureau of Land Management (BLM) transferred funds to FS to participate in the pilot. The program's priorities are to identify additional expertise to accomplish congressional direction to improve Federal permit coordination, continue improvement in processing oil and gas permits, and establish a joint database tracking system between the BLM and FS. Four forests and grasslands in three FS regions participate in this program.

FS reported obligations/expenditures in excess of the balance of the funds transferred to the FS from the BLM as of December 31, 2012. The ADA specifically prohibits an agency from making obligations or expenditures in excess of an apportionment or reapportionment, or in excess of the amount permitted by agency regulations. FS spent $6,781.90 in excess of the $72,000 carried over from FY 2012. Although several actions had transpired to obtain the funding needed for FY 2013 work by FS and BLM, the warrant with additional funding was not received until after December 31, 2012. The transfer was received on January 31, 2013.

The following exhibit provides a summary of agency programs that are not compliant with various laws and regulations; the exhibit also provides the estimated date by which each agency must achieve compliance with the requirements.

Exhibit 17: Outstanding Initiatives to Achieve Compliance

OUTSTANDING INITIATIVES TO ACHIEVE COMPLIANCE			
Initiative	**Section of Noncompliance**	**Agency/Program**	**Target Completion Date**
Grants Management	2 CFR 225.35, "Cost Principles for State, Local, and Indian Tribal Governments"	Forest Service (FS)	12/31/2013
	7 CFR 3016.20, "Standards for Financial Management Systems"		
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	Publish improper payment estimates for all high-risk programs and activities	Food and Nutrition Service (FNS)/ /Child and Adult Care Food Program	9/30/2015
		Risk Management Agency (RMA)/Federal Crop Insurance Corporation (FCIC)	9/30/2016
	Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments	FNS/National School Lunch Program (NSLP), School Breakfast Program (SBP), and the Women, Infants, and Children	9/30/2014
		Farm Service Agency (FSA)/Conservation Reserve Program, Noninsured Assistance Program, and Miscellaneous Disaster Program	9/30/2014
		RMA/FCIC	9/30/2014
		Natural Resources Conservation Service (NRCS)/ Farm Security and Rural Investment Act Programs	9/30/2014

OUTSTANDING INITIATIVES TO ACHIEVE COMPLIANCE			
Initiative	**Section of Noncompliance**	**Agency/Program**	**Target Completion Date**
Improper Payments Elimination and Recovery Act of 2010 (IPERA) cont'd	Report a gross improper payment rate of less than 10 percent for each program and activity for which an improper payment estimate was obtained and published in the PAR or AFR	FNS/NSLP and SBP	9/30/2020

The following exhibit provides information on the status of corrective actions already completed and FY 2014 planned corrective actions related to the deficiency.

Exhibit 18: Summary of Corrective Actions/Noncompliance with Laws and Regulations

SUMMARY OF CORRECTIVE ACTIONS FOR NONCOMPLIANCES WITH LAWS AND REGULATIONS	
Grants Management	**Overall Estimated Completion Date: FY 2014** Pre-award noncompliance issues. Forest Service (FS)
FY 2013 Accomplishments:	**FY 2014 Planned Actions:**
FS:	**FS will:**
▪ Conducted training for program managers, grants and agreements specialists, and Acquisition Management Oversight Branch staff; ▪ Developed a "Grants Management Handbook" for all recipients; ▪ Created pre-award financial compliance questionnaires for program managers and grants and agreements (G & A) specialists to use prior to awards; ▪ Created analysis of closeout process and implemented quarterly reminders for de-obligation of funds for G&A; ▪ Trained all State and Territorial recipients on requirements of OMB Circular A-133, "Audits of States, Local Governments and Non-Profit Organizations"; and ▪ Created internal FS training for Cost Principles, Uniform Requirements, and Indirect Rates.	▪ Continue annual training for cost principles, uniform requirements, and Single Audit Act A-133; ▪ Work with OMB on required forms for FS recipients; ▪ Require a pre-award assessment prior to any award commencing on or after April 1, 2014; ▪ Create quarterly oversight tests to ensure the pre-award assessments occur; ▪ Define differences between all types of grants and agreements along with definition of exemptions; ▪ Revise Grants Management Handbook and policies; ▪ Update Chapters 10-90 of policies; and ▪ Continue annual reviews of recipients based upon risk assessments and regional visits to ensure that recipients are in compliance with applicable laws and regulations.

<table>
<tr><th rowspan="2">Improper Payments Elimination and Recovery Act of 2010 (IPERA)</th><th>Overall Estimated Completion Date: FY 2020</th></tr>
<tr><td>IPERA noncompliance issues. (Food and Nutrition Service (FNS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), Rural Development (RD), and Risk Management Agency (RMA))</td></tr>
<tr><th>FY 2013 Accomplishments:</th><th>FY 2014 Planned Actions:</th></tr>
<tr><td>FNS:</td><td>FNS will:</td></tr>
<tr><td>▪ Reported a FY 2013 improper payment rate of 1.09 percent for the Child and Adult Care Food Program (CACFP), which met its reduction target of 1.53 percent;
▪ Reported a FY 2013 improper payment rate of 3.42 percent for the Supplemental Nutrition Assistance Program, which met its reduction target of 3.81 percent;
▪ Issued a policy memo detailing the school district's ability and responsibilities to verify National School Lunch Program (NSLP)/School Breakfast Program (SBP) applications beyond the required sample size if needed; and
▪ Included milestones and results of past corrective actions in its corrective actions plans.</td><td>▪ Implement a State monitoring process for compliance with school meal program requirements;
▪ Require annual training for schools on certification and accountability issues;
▪ Monitor the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) vendor compliance and provide program integrity training and oversight to strengthen vendor management;
▪ Perform feasibility evaluation test (Child and Adult Care Food Program Improper Payments Meal Claim Assessment) to develop an estimate of meal counting/claiming errors; and
▪ Establish realistic and achievable improper payment rate reduction targets and meet the targets for NSLP, SBP, and WIC.</td></tr>
<tr><td>FSA:</td><td>FSA will:</td></tr>
<tr><td>▪ Reported a Marketing Assistance Loan (MAL) Program improper payment rate of 0.34 percent, which met its 0.49 percent reduction target;
▪ Reported a Milk Income Loss Contract (MILC) Program improper payment rate of 0.17 percent, which met its 1.80 percent reduction target; and
▪ Conducted video teleconference training, provided notices, and issued handbook amendments to field offices on second-party reviews on program and administrative policies and procedures.</td><td>▪ Establish audit procedures for identifying applicants exceeding income limitations;
▪ Provide notices on acceptable signatures;
▪ Reinforce program and administrative policy and procedures to field offices; and
▪ Establish realistic and achievable improper payment rate reduction targets and meet the targets for the Conservation Reserve Program, Miscellaneous Disaster Programs, and Noninsured Disaster Assistance Program.</td></tr>
<tr><td>NRCS:</td><td>NRCS will:</td></tr>
<tr><td>▪ Conducted training for program staff, reminding them that all entity participants must be registered in the System for Award Management (SAM) and that their registration must remain current;
▪ Conducted reminder training for program staff on the current easement policy regarding advance payments;
▪ Issued a National Bulletin requiring states to review all open easement obligations and to process modifications necessary to prevent period of performance expirations;
▪ Provided training to financial management and program staff on newly issued National Bulletin, and instructed staff on how to populate the period of performance data element in FMMI; and
▪ Drafted revised Wetland Reserve Program (WRP) policy to align with other advance payment policies.</td><td>▪ Work with the Department to ensure that the period of performance data element is available for all payment types and is available when reports are run and viewed; Develop and implement easement payment checklist that includes checking the status of obligations prior to payment; Publish revised WRP policy; and
▪ Conduct training on revised policy for program and financial management staff.</td></tr>
<tr><td colspan="2">RD:</td></tr>
<tr><td colspan="2">▪ Reported a FY 2013 improper payment rate of 1.79 percent for the Rental Assistance Program, which met its reduction target of 2.50 percent;
▪ Conducted reviews of appropriate documentation from borrowers and property managers; and
▪ Followed up on tenant income verification.</td></tr>
</table>

<table>
<tr><th rowspan="2">Improper Payments Elimination and Recovery Act of 2010 (IPERA) cont'd</th><th colspan="2">Overall Estimated Completion Date: FY 2020</th></tr>
<tr><td colspan="2">IPERA noncompliance issues. (Food and Nutrition Service (FNS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), Rural Development (RD), and Risk Management Agency (RMA))</td></tr>
<tr><th colspan="2">FY 2013 Accomplishments:</th><th>FY 2014 Planned Actions:</th></tr>
<tr><th colspan="2">RMA:</th><th>RMA will:</th></tr>
<tr><td colspan="2">▪ Requested additional funding through the budget process to measure the complete FCIC program to estimate an improper payments rate. However, the request was not included in the President's budget.
▪ RMA will monitor producers, administrative actions, and potential penalties for reinsurance company noncompliance.</td><td>▪ Request additional funding rate through the FY 2015 budget process to measure the complete FCIC program to estimate an improper payments.</td></tr>
</table>

Federal Financial Management Improvement Act Report on Financial Management Systems

Background

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decisionmaking, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with (1) Federal Financial Management System (FFMS) requirements; (2) applicable Federal accounting standards; and (3) the U.S. Standard General Ledger (USSGL) at the transaction level.

Additionally, the Federal Information Security Management Act (FISMA) requires that there be no significant weaknesses in information security policies, procedures, or practices to be substantially compliant with FFMIA. The information technology noncompliance is reported as a material weakness and included in the Federal Managers' Financial Integrity Act (FMFIA) Report on Management Control (Exhibit 14). This weakness is comprised of two major issues: logical access controls/personnel security and configuration management. More detailed information on the status of corrective actions planned and to be completed to comply with FISMA is also provided in the Response to Management Challenges section of this report, *Challenge 3: Information Technology Security Needs Continuing Improvement*.

The following exhibit contains the outstanding initiatives to achieve compliance.

Exhibit 19: Initiatives to Be Completed

OUTSTANDING INITIATIVES TO ACHIEVE FFMIA COMPLIANCE			
Initiative	**Section of Noncompliance**	**Agency**	**Target Completion Date**
Information Technology	Federal Financial Management System requirements, and Information security policies, procedures, and/or practices.	Multiple	9/30/2014
Funds Control Management	Federal Accounting Standards, and U.S. Standard General Ledger (USSGL) at the transaction level.	NRCS	11/30/2013
	USSGL at the transaction level.	CCC	9/30/2014

Fiscal Year 2013 Results

During fiscal year (FY) 2013, the U.S. Department of Agriculture (USDA) evaluated its financial management systems to assess substantial compliance with FFMIA. In assessing FFMIA compliance, the Department considered auditors' opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the *Fiscal Year 2012 Agency Financial Report*. Due to the CCC's inability to record obligations at the transaction level in their program feeder system and NRCS' inadequate business practices related to adjusting obligations, the Department is not compliant with Federal accounting standards and the USSGL at the transaction level. Additionally, as reported in the FMFIA section of this report, USDA continues to have weaknesses in information technology controls that result in noncompliance with the FISMA requirement. As part of its financial systems strategy, USDA agencies continue working to meet FFMIA and FISMA objectives.

Financial Management Systems Strategy

The Financial Management Modernization Initiative (FMMI) project was initiated to modernize USDA's outdated financial system technology. The legacy Foundation Financial Information System was a distributed multi-instance mainframe system and has now been migrated to a federally compliant and consolidated single-instance Web-based system with Systems, Applications, and Products Enterprise Resource Planning 6.0. FMMI will continue to be in a state of process improvement in order to enhance USDA financial capabilities.

FMMI has the following key attributes:

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

and achieve compliance with FFMIA, including Federal financial management system requirements, applicable Federal accounting standards, and USSGL.

FMMI will continue to improve financial performance through a modern financial system that provides maximum support to the mission and USDA's financial management objectives, including the following:

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

Other Management Information, Initiatives, and Issues

Federal Financial Management Improvement Act Requirements

Commodity Credit Corporation (CCC)

CCC is a wholly-owned government corporation within the Department of Agriculture. CCC has no employees, and its general day-to-day operations are managed by the Farm Service Agency (FSA). CCC is not in substantial compliance with Funds Control Management. FSA plans to correct the deficiency by September 30, 2014. The development of a fully integrated funds control system, the Electronic Funds Management System (eFMS), within the CCC core financial management system has been completed. This system is integrated with CCC's general ledger system at the transaction level. eFMS provides management with timely information to monitor and control the status of budgetary resources recorded in the general ledger. Work continues to implement programs into eFMS for full funds control at a transaction level.

Of total CCC funds obligated, 85 percent are obligated through eFMS. An additional 8 percent are electronically controlled at the payment level, not at the transactional level. The balance (7 percent) will be migrated to eFMS or administratively controlled due to the age of the systems or cost considerations.

While significant progress has been made toward complete funds control, the lack of the financial system functionality to record all obligations at the transaction level at the time the transaction occurs increases the risk that funds could be disbursed or obligations incurred with no or insufficient budget authority to fund the expense or obligation. Although CCC implemented detective manual controls to compensate for the system's inherent limitation, the controls may be inadequate to reduce the risks of an Anti-Deficiency Act violation occurring. They also may not prevent or detect violations in a timely manner. CCC is working to implement a systemic solution by the end of September 30, 2014, subject to the availability of sufficient IT resources.

In FY 2013, CCC accomplishments included the following:

- Identified program and financial applications that are not system compliant;
- Collaborated with Information Technology Services Division and Deputy Administrator Farm Programs to develop and execute a project plan to complete software modifications for the identified program applications to send obligations to eFMS at the transaction level;
- Developed and implemented reconciliation policies and procedures to ensure: (1) budget authority in CCC's Core Accounting System (CORE) agrees with budget authority in eFMS, Standard Form No. 132—Apportionment and Reapportionment Schedules and CCC/Farm Service Agency's Apportionment Control Log; and (2) unliquidated obligations (ULOs) in CORE agree with ULOs in eFMS;
- Modified the existing quarterly review and certification of the unliquidated obligations process;
- Performed clean-up of existing unliquidated obligations;

- Developed a report that summarizes the amounts allotted and obligated by fund and by program; and
- Developed and executed a training plan on the policy and procedures for reconciliation and account analysis.

In FY 2014, CCC will:

- Complete software modifications to ensure all program applications (Farm Programs, Foreign Programs, etc.) are in full compliance with the Funds Control/Obligation Requirements (e.g., business events such as establishments, liquidations, adjustments, etc.) related to obligations at the transaction level;
- Continue to collaborate with Information Technology Services Division (ITSD) and Deputy Administrator Farm Programs (DAFP) to make software modifications for the identified program applications to send obligation transactions, including establishments, liquidations, and adjustments to eFMS at the transaction level;
- Implement a reconciliation processes to ensure obligation transactions are timely and accurately recorded in the general ledger system;
- Continue to perform clean-up of existing unliquidated obligations;
- Perform validation testing of all new processes; and
- Develop and implement performance measures/metrics for management to monitor progress in the timely deobligation of invalid ULOs.

Natural Resources Conservation Service (NRCS)

NRCS had disclosed instances where its financial management systems did not substantially comply with applicable Federal accounting standards and the U.S. Standard General Ledger at the transaction level. In FY 2013, auditors determined that NRCS is compliant with Federal financial system requirements.

NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA. The following deficiencies were found:

- Applicable Federal accounting standards: the following areas were not properly recorded and include beginning net position balances; current year activity; obligations incurred; accrued expenses; undelivered orders; real and personal property; recoveries of prior year; unpaid obligations; advances to others; accrued revenue; accounts receivable; and unfilled customer; and
- U.S. Standard General Ledger at the transaction level: USSGL appropriate posting models were not used for recoveries of prior year obligations paid and unpaid, and nonproduction costs.

In FY 2013, NRCS accomplishments included the following:

- Established and maintained a formal procedure for account creation, modification, removal, review, and monitoring;
- Enhanced security controls over user access by installing VPN clients and LincPass card readers on remote user machines;

- Improved internal control over real and personal property;
- Improved ability to provide timely extracts for audit purposes; and
- Ensured that financial systems allow for authority beyond 10 years of availability.

In FY 2014, NRCS will:

- Continue to improve processes and procedures related to properly accounting for upward and downward adjustments;
- Continue to implement process improvements regarding leases on real and personal property;
- Continue quality assurance efforts and implement internal controls to improve stewardship-land monitoring and reporting; and
- Continue to monitor the validity of open obligations.

American Recovery and Reinvestment Act Activities

The American Recovery and Reinvestment Act of 2009 (ARRA) provided funding for several U.S. Department of Agriculture (USDA) programs. As of fiscal year (FY) 2013[1], USDA had obligated $48.9 billion and disbursed $47.5 billion (see Exhibit 20). Some of this funding was to entitlement programs, which are open-ended and subject to increases based on economic factors. The demand for the Supplemental Nutrition Assistance Program (SNAP) was high. SNAP, formerly known as the Food Stamps Program, issued more than $41.8 billion in benefits, more than the original appropriated amount of $19.8 billion. USDA also made more than $17.4 billion in direct and guaranteed loans in rural America for rural housing, broadband, community facilities, and rural businesses (see Exhibit 20). ARRA funds have been used to:

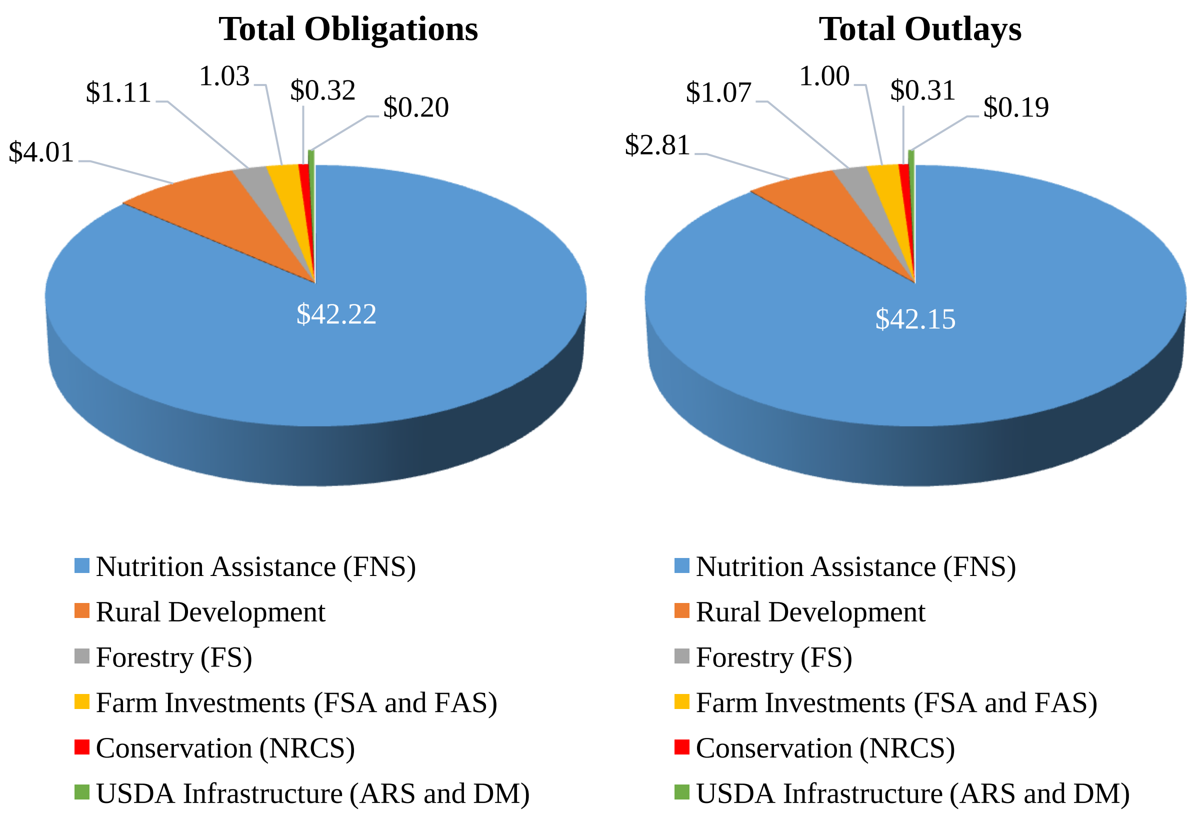
- Combat hunger and improve the nutrition and health of children, individuals, and families;
- Rebuild the infrastructure of rural communities;
- Provide decent housing opportunities in rural areas;
- Ensure that individuals and companies in rural areas have access to the latest in technology through expanded broadband;
- Provide farmers funds to operate and mitigate losses that occur when natural disasters cause a catastrophic loss of crop production or prevent planting;

[1] Figures through August 2013. The Recovery Board will not publish year end numbers and continue in October 2013.

- Reduce the risk of wildfires, improve forest health, and maintain forest roads and facilities;
- Rehabilitate aging flood control structures, improve water quality, increase water supply, decrease soil erosion, and improve fish and wildlife habitat; and
- Meet critical maintenance needs of USDA facilities.

For direct access to extensive reports and data, visit: Recovery.gov

Exhibit 20: Total ARRA Obligations and Outlays ($ billions)



Eliminating Improper Payments

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), requires agencies to review programs susceptible to significant improper payments, report estimated improper payments, and establish corrective actions to reduce improper payments. The Office of Management and Budget (OMB) provides guidance in OMB Circular No. A-123, Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments," and OMB Circular A-136 "Financial Reporting Requirements" on measuring, reducing, recovering, and reporting improper payments.

The Department of Agriculture (USDA) first reported on improper payments in 2004 and currently has 16 programs declared at risk for significant improper payments (high-risk programs). This report provides information on improper payments for FY 2013 in USDA high-risk programs regarding the estimated improper payment rate, estimated improper payment amount, measures methodology, root causes, corrective actions taken and planned, reduction targets for future years, and improper payments recovered.

IPIA requires that agencies measure their improper payments annually, establish reduction targets and corrective action plans, and track the results annually to ensure that the corrective actions are effective. USDA continues to strive for accurate improper payment measuring and reporting; developing and implementing effective corrective actions; and reducing, recovering, and preventing improper payments.

The USDA improper payment rate for FY 2013 was 5.36 percent, an increase from 5.11 percent reported for FY 2012. The FY 2013 improper payment rate is slightly below the 5.37 percent reported for FY 2011 and FY 2010. Outlays for the high-risk programs increased $7.3 billion from FY 2012 to FY 2013. The largest increase in outlays was attributable to the Federal Crop Insurance Corporation program, which had over a $6 billion increase in outlays.

USDA FY 2013 improper payment progress:

- Six USDA high-risk programs reported improper payment rates in FY 2013 that met the programs' reduction targets for FY 2013; and
- Four USDA high-risk programs reported improper payment rates in FY 2013 that were less than the programs' improper payment rates reported in FY 2012.

Significant actions taken by USDA during FY 2013 to address improper payments include:

- Awarded a payment supplier credit recovery auditing services contract to a private sector recovery auditing contractor to identify vendor unapplied credits owed USDA;
- Recovered overpayments under the payment recapture recovery auditing services contract with a private sector recovery auditing contractor that identifies potential overpayments by program;
- Enrolled USDA agencies with the Do Not Pay Portal through the on-boarding process for pre-award and eligibility checks at applicable points in a program's business process to prevent improper payments; and

- Developed a process to adjudicate and report on Do Not Pay Portal prepayment matches required by IPERIA to identify ineligible recipients and establish processes and business rules to prevent future improper payments.

USDA's FY 2014 goals are to reduce improper payments through the use of the following: expanding and refining the use of the Do Not Pay Portal; expanding the use of recovery auditing to additional high-risk programs and activities where cost effective; and developing and implementing effective corrective actions to address improper payment root causes and meet reduction targets. In addition to these goals, USDA will continue to address compliance issues identified by the Inspector General's annual IPERA Compliance Review.

USDA improper payment detailed results and corrective actions are provided in Section 3, Other Accompanying Information, of this report.

Debt Management

The U.S. Department of Agriculture (USDA) is one of the Federal Government's largest providers of direct loans with a receivables portfolio of approximately $117 billion. This represents about 12 percent of the non-tax debt owed to the Federal Government. In fiscal year (FY) 1996, Congress passed the Debt Collection Improvement Act. As of June 30, 2013, USDA's $4.8 billion in delinquent receivables represent a 45-percent decrease from the $8.8 billion in delinquencies reported for FY 1996. Of this $4.8 billion, $1.8 billion is eligible for referral to the Department of the Treasury (Treasury) for collection. The remaining delinquent debt is ineligible due to such statutory or administrative requirements such as bankruptcy, litigation, or debt owed by international/sovereign entities (approximately $2.2 billion of the delinquent debt is international debt). As of June 30, 2013, USDA referred 99.7 percent of the eligible delinquent debt to the Treasury Offset Program and 99.4 percent to the Cross Servicing Program. During the 12-month period ending June 30, 2013, USDA collected $1.3 billion of delinquent debt, a 10-percent increase over the previous 12-month period.

Limitations of the Financial Statements

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

While the statements have been prepared from the books and records of the entity in accordance with generally accepted accounting principles for Federal entities and with the formats prescribed by the Office of Management and Budget, 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.

Section 2: Financial Information

Message from the Deputy Chief Financial Officer

As Deputy Chief Financial Officer for the U.S. Department of Agriculture (USDA), I am pleased to present our Agency Financial Report (AFR) for fiscal year (FY) 2013. This report shows the progress made to provide fiscally sound, cost-effective program delivery.

Because we are accountable to the American taxpayer, we strive for peak performance in all facets of our work. Through the collaborative efforts of USDA managers, employees, business partners, and stakeholders, we have made significant strides in advancing the Department's impressive record of excellence in financial management during FY 2013. Highlights of this progress include:

- Received another clean financial audit opinion;
- Implemented the Financial Management Modernization Initiative (FMMI), a Web-based system to replace the mainframe-based legacy Foundation Financial Information System (FFIS). The Food and Nutrition Service will implement FMMI, which will replace its Integrated Program Accounting System, by the end of fiscal year 2015;
- Reduced administrative costs by approximately $355.3 million below FY 2010 levels, in accordance with Executive Order, Promoting Efficient Spending in the Federal Government;
- Increased the collection of delinquent debt by 9.4 percent from $0.924 billion for the 12-month period ending June 30, 2012, compared to $1.011 billion for the same period in 2013; and
- Provided cost-effective and secure payroll and other administrative services reliably and accurately Government-wide through our National Finance Center.

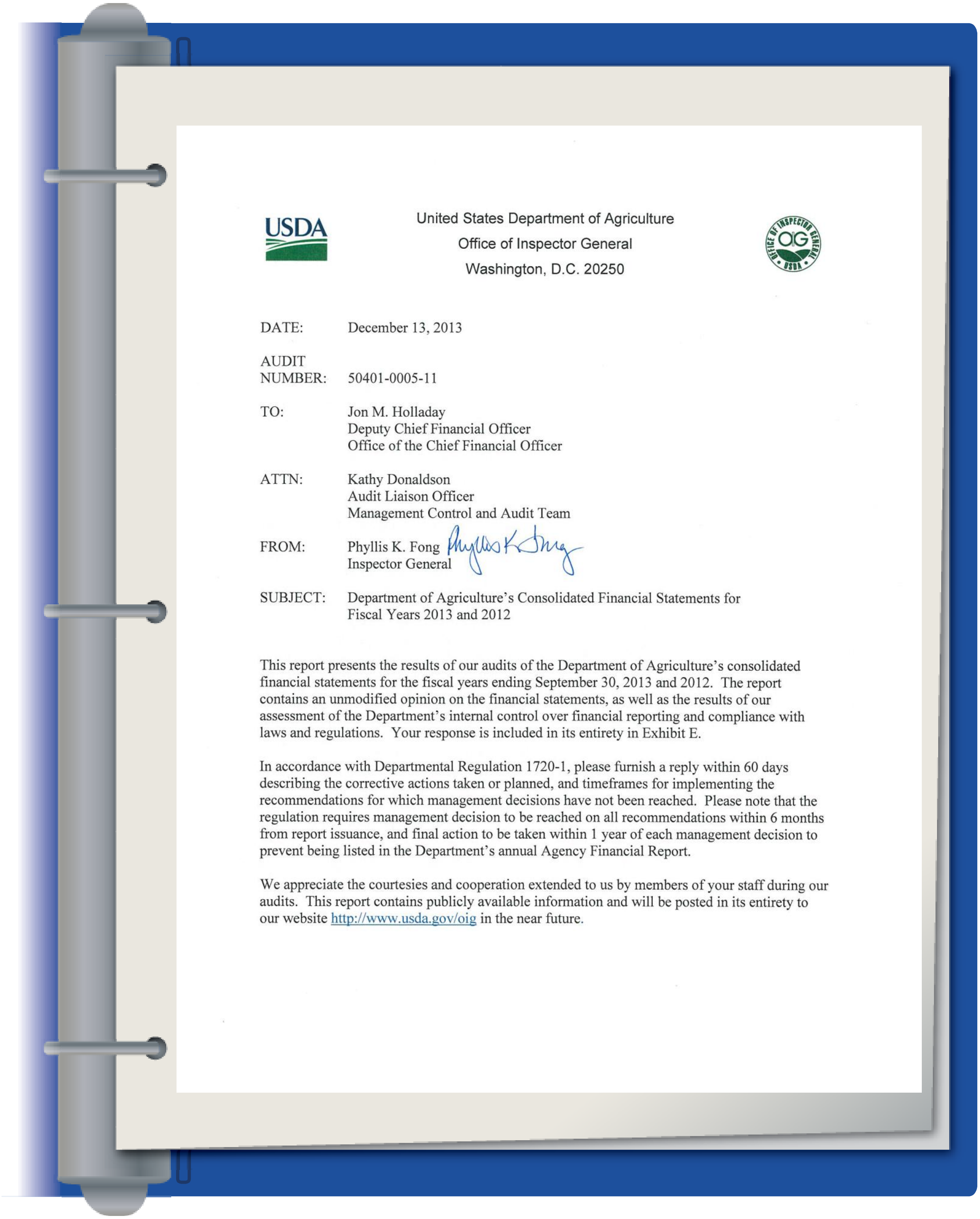
Though we are continually making progress in financial management, we cannot yet give unqualified assurance of compliance with the Federal Managers' Financial Integrity Act, or with the financial systems requirements of the Federal Financial Management Improvement Act. We will continue to focus on these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

We are proud of the accomplishments of our hard-working employees at USDA. All of us are committed to the sound management of resources under our stewardship. We remain steadfast and committed to making greater financial management improvements in FY 2014. Ultimately our efforts will result in setting the highest achievable standard of excellence in managing taxpayers' dollars.

Jon M. Holladay

Jon M. Holladay
Deputy Chief Financial Officer
December 12, 2013

Independent Auditors Report



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

DATE: December 13, 2013

AUDIT NUMBER: 50401-0005-11

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

ATTN: Kathy Donaldson
Audit Liaison Officer
Management Control and Audit Team

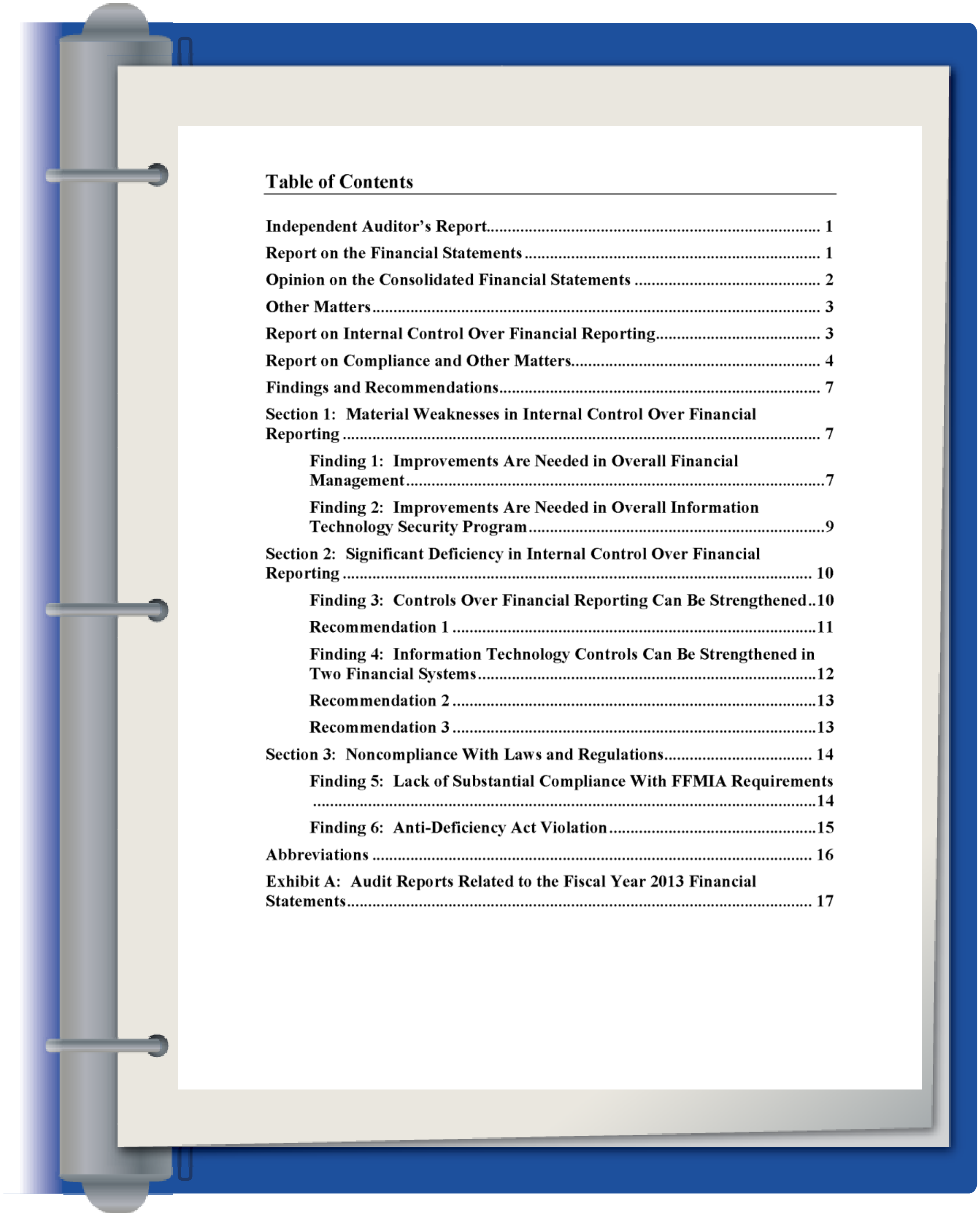
FROM: Phyllis K. Fong
Inspector General

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2013 and 2012

This report presents the results of our audits of the Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2013 and 2012. The report contains an unmodified opinion on the financial statements, as well as the results of our assessment of the Department's internal control over financial reporting and compliance with laws and regulations. Your response is included in its entirety in Exhibit E.

In accordance with Departmental Regulation 1720-1, please furnish a reply within 60 days describing the corrective actions taken or planned, and timeframes for implementing the recommendations for which management decisions have not been reached. Please note that the regulation requires management decision to be reached on all recommendations within 6 months from report issuance, and final action to be taken within 1 year of each management decision to prevent being listed in the Department's annual Agency Financial Report.

We appreciate the courtesies and cooperation extended to us by members of your staff during our audits. This report contains publicly available information and will be posted in its entirety to our website http://www.usda.gov/oig in the near future.



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Independent Auditor's Report

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

The U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) audited the consolidated financial statements of the Department for fiscal years 2013 and 2012. We also considered USDA's internal control over financial reporting and tested USDA's compliance with certain provisions of applicable laws, regulations, contracts, and grant agreements that could have a direct and material effect on these consolidated financial statements.

The Findings and Recommendations section presents the material weaknesses and significant deficiencies in internal control and instances of noncompliance with laws and regulations, as of and for the year ended September 30, 2013. Exhibit A of this report presents the audit reports related to the fiscal year 2013 financial statements. Exhibit B summarizes the current year status of prior years' open audit recommendations. Exhibit C shows the status of prior year internal control weaknesses. Exhibit D provides an update to a previously reported instance of noncompliance with laws and regulations. USDA's response is presented in its entirety in Exhibit E.

Report on the Financial Statements

OIG has audited the accompanying consolidated financial statements of the USDA, which comprise balance sheets as of September 30, 2013 and 2012; the related consolidated statements of net cost, changes in net position; and the combined statements of budgetary resources for the fiscal years then ended; and the related notes to the financial statements (hereafter referred to as the "consolidated financial statements"). The objective of our audits was to express an opinion on the fair presentation of these consolidated financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting principles generally accepted in the United States of America (U.S.); this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in government auditing standards issued by the Comptroller General of the U.S.; and Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion on the Consolidated Financial Statements

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of USDA, as of September 30, 2013 and 2012, and its net costs, changes in net position, and budgetary resources for the years then ended, in accordance with accounting principles generally accepted in the U.S.

Emphasis of Matter

The consolidated financial statements discuss, in Note 31, two changes in accounting principles implemented in fiscal year 2013. First, USDA implemented Technical Bulletin 2006-1, and recognized a liability for estimated asbestos-related cleanup costs of $165 million, with an offsetting charge to net position. Second, Statement of Federal Accounting Standards 43 modified the definition of a fund from dedicated collections. Consequently, two USDA funds no longer met the definition of dedicated collections, and net position for these funds of $878 million was reclassified to other funds.

Additionally, as discussed in Note 7, in fiscal year 2013, a component agency of the Department (Rural Development) changed its valuation methodology for reporting direct loans made pre-1992 to net realizable value. This change in methodology resulted in a decrease to the allowance of $3.8 billion.

Our opinion is not modified with respect to these items.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and Required Supplementary Information (RSI) sections be presented to supplement the consolidated financial statements. Such information, although not a part of the consolidated financial statements, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, RSSI, and RSI in accordance with auditing standards generally accepted in the U.S., which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the consolidated financial statements, and other knowledge we obtained during our audit of the consolidated financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audits were conducted for the purpose of forming an opinion on the consolidated financial statements as a whole. The information in the Other Information section is presented for purposes of additional analysis and is not a required part of the financial statements. This information has not been subjected to the auditing procedures applied in the audits of the consolidated financial statements and, accordingly, we express no opinion on it or provide any assurance.

Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered USDA's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of USDA's internal control or on management's assertion on the internal control included in the MD&A. Accordingly, we do not express an opinion on the effectiveness of USDA's internal control, or on management's assertion on internal control included in the MD&A. We did not test all internal controls relevant to operating objectives as broadly defined by the Federal Managers' Financial Integrity Act of 1982 (FMFIA).

Our consideration of the internal control over financial reporting was for the limited purposes described in the preceding paragraph and would not necessarily identify all deficiencies in the internal control over financial reporting that might be significant deficiencies or material weaknesses, and, therefore, material weaknesses or significant deficiencies may exist that were not identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of USDA's financial statements will not be prevented, or detected and corrected on a timely basis.

A significant deficiency is a deficiency, or combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

In our fiscal year 2013 audit, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

- overall financial management,
- overall information technology (IT) security program,
- controls over financial reporting, and
- IT controls in two financial systems.

We determined that the first two deficiencies are also material weaknesses. These deficiencies are discussed in the Findings and Recommendations, Sections 1 and 2, of this report.

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

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether the consolidated financial statements are free of material misstatement, we performed tests of USDA's compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of the consolidated financial statement amounts, and certain provisions of other laws and regulations specified in OMB Bulletin 14-02. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

We performed tests of USDA's compliance with selected provisions of applicable laws and regulations, as described in the preceding paragraph. Our tests disclosed two instances of noncompliance with laws and regulations that are required to be reported under government auditing standards and OMB Bulletin 14-02. Specifically, the results of our tests of the Federal Financial Management Improvement Act of 1996 (FFMIA) disclosed instances described in more detail in Finding 5 of this report, where USDA was not substantially compliant with applicable Federal Accounting Standards, and the U.S. Standard General Ledger (SGL) at the transaction level. Providing an opinion on compliance with FFMIA was not an objective of our engagement, and, accordingly, we do not express such an opinion. Also, the Department disclosed noncompliance with the Anti-Deficiency Act (ADA), as described in more detail in Finding 6 of this report.

Furthermore, in October 2013, the Commodity Credit Corporation (CCC)[1] identified that a violation of the ADA, 31 U.S.C. 1571 (a), may have occurred in September 2013 in the Feedstock Flexibility Program. As of the date of this report, CCC has not completed its investigation to determine whether a violation actually occurred or not.

Also, as noted in its MD&A, the Department reported that one agency was not compliant with certain requirements of the Code of Federal Regulations, relating to the management of grants.

Additionally, during fiscal year 2013, we identified instances of noncompliance with the requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA), regarding the design of program internal controls related to reporting improper payments. A separate report will be issued with further details on the Department's compliance with IPERA.[2]

Management's Responsibility for Internal Control and Compliance

USDA management is responsible for: (1) evaluating the effectiveness of internal control over financial reporting, based on criteria established under the FMFIA; (2) providing a statement of assurance on the overall effectiveness of internal control over financial reporting; (3) ensuring USDA's financial management systems are in substantial compliance with FFMIA requirements; and (4) ensuring compliance with other applicable laws, regulations, contracts, and grant agreements.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting to plan the audit; (2) testing whether USDA's financial management systems substantially comply with the FFMIA requirements referred to above; (3) testing compliance with certain provisions of laws and regulations that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing; and (4) applying certain limited procedures with respect to the RSI and all other information included with the financial statements.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient

[1] A wholly-owned Government Corporation within USDA.
[2] IPERA amended the Improper Payments Information Act of 2002, Public Law 107-300.

operations. We limited our internal control testing to testing controls over financial reporting. Because of inherent limitations in internal control, misstatements due to error or fraud, losses, or noncompliance may nevertheless occur and not be detected. We also caution that projecting our audit results to future periods is subject to risk that controls may become inadequate because of changes in conditions or that the degree of compliance with controls may deteriorate. In addition, we caution that our internal control testing may not be sufficient for other purposes.

We did not test compliance with all laws and regulations applicable to USDA. We limited our tests of compliance to certain provisions of laws and regulations that have a direct and material effect on the financial statements and those required by OMB Bulletin 14-02 that we deemed applicable to USDA's financial statements for the fiscal year ended September 30, 2013. We caution that noncompliance with laws and regulations may occur and not be detected by these tests and that such testing may not be sufficient for other purposes. Also, our work on FFMIA would not necessarily disclose all instances of noncompliance with FFMIA requirements.

Management's Response

Management's response to the report is presented in Exhibit E. We did not audit USDA's response and, accordingly, we express no opinion on it.

Status of Prior Year's Findings and Recommendations

We reviewed the status of open recommendations from prior years, prior year internal control deficiencies, and a prior year noncompliance issue. The statuses of these items are presented in Exhibits B, C, and D.

Purpose of the Report on Internal Control Over Financial Reporting and the Report on Compliance and Other Matters

The purpose of the "Report on Internal Control Over Financial Reporting" and the "Report on Compliance and Other Matters" sections of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion on the effectiveness of USDA's internal control or on compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering USDA's internal control and compliance. Accordingly, these reports are not suitable for any other purpose.

Phyllis K. Fong
Inspector General
December 13, 2013

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Findings and Recommendations

Section 1: Material Weaknesses in Internal Control Over Financial Reporting

Finding 1: Improvements Are Needed in Overall Financial Management

During fiscal year 2013, the Department made further improvements in its financial management. The Department completed the replacement of its outdated financial management system, which was a distributed multi-instance mainframe system.[3] That legacy system has now been migrated to a federally compliant and consolidated single instance web-based system, the Financial Management Modernization Initiative (FMMI). However, we noted areas where further improvements are needed for three component entities.

- In fiscal year 2013, we again attempted to perform an audit of the Natural Resources Conservation Service's (NRCS) financial statements.[4] NRCS was unable to provide sufficient evidential matter in support of certain transactions and account balances, as presented in the NRCS financial statements as of and for the year ended September 30, 2013, particularly with respect to beginning net position balances and current year activity; obligations incurred, including accrued expenses and undelivered orders; real and personal property; recoveries of prior year unpaid obligations; advances to others; and accrued revenue, accounts receivable and unfilled customer orders. NRCS was unable to complete corrective actions and make adjustments, as necessary, to these and other financial statement amounts prior to the contractually required completion date of the engagement.

- In fiscal year 2013, we continue to report a material weakness for CCC,[5] relating to funds control management specific to recording obligations at the transaction level. CCC has not yet achieved full funds control and still does not record certain obligations (budgetary entries) at the transaction level. This deficiency does not allow CCC to perform automated and real time funds control at the time contracts are fully executed (obligated).

  In its FMFIA R*eport on Management Control for 2013*, the Department identified the CCC and NRCS issues described above as an existing (previously reported) financial management system non-conformance.

- For fiscal year 2013, we also reported a material weakness in internal control for the Federal Crop Insurance Corporation[6] (FCIC), related to calculating estimated losses on insurance claims. While reviewing our questions and formulating respective

[3] The outdated financial management system was the Foundation Financial Information System (FFIS). A few agencies operated financial systems outside of FFIS, and continue to operate those systems outside of FMMI.
[4] Report 10401-0003-11, *NRCS' Financial Statements for Fiscal Year 2013* (December 2013).
[5] Report 06401-0003-11, *CCC's Financial Statements for Fiscal Years 2013 and 2012* (December 2013).
[6] Report 05401-0003-11, *FCIC's Financial Statements for Fiscal Years 2013 and 2012* (December 2013).

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responses, management noted an error in the calculation leading to the liability balance on the September 30, 2013 financial statements. The error affected multiple financial statement line items. Per discussions with FCIC, the root cause of the error on the financial statement was a manual coding error in the indemnity projection model that was not detected through FCIC's internal control procedures. Subsequent to the discovery of the error, management recalculated the liability on estimated losses on insurance claims and produced revised and corrected financial statements.

In its FMFIA *Report on Management Control for 2013*, the Department identified the FCIC issue as a new material weakness being reported for the first time.

Because of recommendations already made to NRCS, CCC, and FCIC in other audit reports, we are making no further recommendations in this report.

Finding 2: Improvements Are Needed in Overall Information Technology Security Program

We performed an independent evaluation of the Department's IT security program and practices, as required by the Federal Information Security Management Act of 2002 (FISMA). Although improvements continue to be made in the Department's IT security, our FISMA report notes that many long-standing weaknesses remain. Our fiscal year 2013 FISMA report provides details on the material weaknesses we continued to note in the design and effectiveness of the Department's overall IT security program.[7]

We also performed a review of the control structure of the Office of the Chief Financial Officer/National Finance Center (OCFO/NFC), located in New Orleans, Louisiana.[8] OCFO/NFC sustained an unmodified opinion on its control environment.

In its FMFIA *Report on Management Control for 2013*, the Department again reported an overall IT material weakness relating to deficiencies in the internal control design and operating effectiveness for logical access controls/personnel security and configuration management. As noted in its FMFIA report, the Department indicated that 2013 accomplishments include:

- Revision of a Departmental Regulation (DR), regarding the risk management framework;
- Revision and publication of National Institute of Standards and Technology (NIST)-compliant IT security policies; and
- Development of a continuous monitoring program plan.

The Department has additional corrective actions planned in fiscal year 2014.

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

[7] Report 50501-0004-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act* (November 2013).
[8] Report 11401-0005-11, *Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center for October 1, 2012 to July 31, 2013* (September 2013).

Section 2: Significant Deficiency in Internal Control Over Financial Reporting

Finding 3: Controls Over Financial Reporting Can Be Strengthened

During our audit, we noted that controls relating to certain financial management practices could be strengthened to operate more effectively throughout the fiscal year.

Unliquidated Obligations

Last year, our review of inactive, unliquidated obligations (ULO)[9] disclosed that substantial improvements had been made by agencies to effectively monitor and review ULOs. In its FMFIA *Report on Management Control for 2012*, the Department downgraded its long-standing material weakness (relating to the lack of consistent review and follow-up on ULOs) to a significant deficiency. OIG also downgraded the weakness to a significant deficiency in last year's audit report.

This year, we nonstatistically selected 60 ULOs (from 10 agencies and offices) for which no activity had occurred for over 1 year, as of March 31, 2013. We determined that five ULOs were invalid because no future expenditures were expected.

Also, we nonstatistically selected three agencies and reviewed the obligation certifications they submitted to the Department for the third quarter of fiscal year 2013. To assess the appropriateness of the ULO certifications, we selected six obligation balances nonstatistically from each of the certifications. We found that one agency inappropriately certified to the validity of the ULO balances, as five of the agency's six selected balances were invalid.

Additionally, the NRCS[10] and Forest Service [11] reports this year discussed deficiencies in controls over unliquidated obligations.

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2013-10, *2013 Yearend Closing*, dated August 14, 2013) requires an annual review of ULOs. DR 2230-1, *Reviews of Unliquidated Obligations* (April 21, 2009), further requires quarterly reviews and certifications as to the validity of ULO balances from agency Chief Financial Officers.

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

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[9] An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.
[10] 10401-0003-11, *NRCS's Financial Statements for Fiscal Year 2013* (December 2013).
[11] 08401-0003-11, *Forest Service's Fiscal Years 2013 and 2012 Financial Statements* (December 2013).

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Abnormal Balances

Our review again disclosed abnormal balances[12] in USDA's fiscal yearend trial balance that were not fully researched and corrected. For fiscal year 2013, we noted 80 abnormal balances with an absolute value of approximately $1.7 billion. According to the Department, the existence of an abnormal balance indicates that transactions or adjustments may have been posted in error. In addition, abnormal balances increase the risk of material misstatement on the financial statements. The Department is still in the process of completing actions on a recommendation we made last year, and therefore, no further recommendation is made in this report.

Intra-Governmental Payment and Collection (IPAC) Transactions

Last year, we reported that IPAC transactions were not always processed in a timely manner.[13] In order for IPAC bills to fully process, all details are required from the agencies, including valid funding document information. We noted that as of September 30, 2012, over 3,900 bills were not fully processed and over 2,000 remained unprocessed for more than 60 days.

Our review this year disclosed that over 3,400 bills were not fully processed as of June 30, 2013, and that over 1,800 remained unprocessed for more than 60 days. By September 30, 2013, over 1,800 bills were not fully processed, and only 363 remained unprocessed for over 60 days.

The Department initiated a series of corrective actions in response to our finding last year. These included training visits to customer agencies, system changes, and improved monthly suspense reconciliations. As a result, by the end of fiscal year 2013, the Department had significantly improved the timeliness of processing IPAC bills.

Corrective actions require time to be effective. Although these actions were not fully effective throughout fiscal year 2013, they were by yearend. Therefore, no further recommendations are made in relation to IPAC transactions at this time.

Recommendation 1

Emphasize to component agencies the importance of appropriately reviewing and certifying ULOs, and ensuring that appropriate actions were implemented for certified ULOs, as required by DR 2230-1.

[12] A balance that deviates from the standard balance, as defined by Treasury's SGL.
[13] The primary purpose of the IPAC system is to provide a standardized interagency fund transfer mechanism for Federal program agencies. IPAC facilitates the intra-Governmental transfer of funds, with descriptive data, from one Federal program agency to another.

Finding 4: Information Technology Controls Can Be Strengthened in Two Financial Systems

We reviewed application controls for two financial systems: the Integrated Acquisition System (IAS) and the Financial Management Modernization Initiative (FMMI). IAS is a web-based eProcurement solution designed to streamline and automate contract management and acquisition processes throughout USDA. FMMI replaced the Foundation Financial Information System (FFIS) administrative and program general ledger systems with a web-based accounting and ledger system. The Office of Procurement and Property (OPPM) is the owner of IAS and the Office of the Chief Financial Officer (OCFO) is the owner of FMMI.

During our audit, we noted that controls relating to certain access control and change management practices could be strengthened. Specifically, improvements could be made regarding IAS and FMMI access controls, and IAS change management practices.

The National Institute of Standards and Technology (NIST) requires organizations to manage information system accounts,[14] and implement separation of duties and least privilege philosophies.[15] Additionally, IAS procedures[16] require quality assurance test plans and scripts to be developed for every system modification. However, we found deviations related to IAS and FMMI access controls and IAS change management.

Specifically, for IAS, we noted:

- IAS user authorization forms were not consistently maintained;
- some inactive IAS user accounts were not automatically disabled;
- a flawed user review process for one agency;
- instances of IAS users with improper access;
- instances of IAS users with excessive access and undefined user roles;[17] and
- OPPM could not provide adequate testing documentation for one of five sampled IAS change records. Specifically, no evidence of final sign-off or acceptance was obtained for user testing. In addition, testing documentation did not show evidence that the modification, for which the change was initiated, was implemented correctly.

For FMMI, our review disclosed:

- two FMMI users with unmitigated segregation of duty risks;
- one FMMI user had four segregation of duty risks with expired mitigations; and
- in three instances, one agency had inappropriately applied mitigations to segregation of duty risks. These mitigations had been specifically developed for other agencies.

[14] NIST Special Publication (SP) 800-53, *Security and Privacy Controls for Federal Information Systems and Organizations,* Access Control 2 (Account Management) (April 2013).
[15] NIST SP 800-12, *An Introduction to Computer Security: The NIST Handbook* (October 1995).
[16] IAS Configuration Management Plan.
[17] OIG Audit 92501-1-12, *Review of the Procurement Operations* (September 27, 2013) found additional IAS users with excessive access and undefined user roles.

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These deviations occurred for a variety of reasons, including: reliance on agencies to perform user administration without adequate oversight by system owners, a lack of procedures or unclear procedures, and inconsistent or incomplete procedure implementation. As a result, FMMI and IAS are at risk from inappropriate access from unintended and/or malicious users, and IAS changes may not be effectively tested prior to introduction to the production environment.

Recommendation 2

Revise, improve, and consolidate user security administration for FMMI procedures (all contained within one document) that clearly identify the responsibilities assigned to the agencies and those addressed by OCFO. These procedures should include requirements for maintaining approvals, conducting periodic reviews of segregation of duties, and specifying how and when OCFO will conduct oversight procedures regarding monitoring segregation of duties and implementation of mitigations.

Recommendation 3

Ensure OPPM implements corrective actions for IAS relating to access controls and change management practices.

Section 3: Noncompliance With Laws and Regulations

Finding 5: Lack of Substantial Compliance With FFMIA Requirements

The Federal Financial Management Improvement Act of 1996 (FFMIA) requires agencies to annually assess whether their financial management systems comply substantially with (1) Federal Financial Management Systems Requirements, (2) applicable Federal accounting standards, and (3) the Standard General Ledger (SGL) at the transaction level. In addition, FISMA requires each agency to report significant information security deficiencies, relating to financial management systems, as a lack of substantial compliance under FFMIA. FFMIA also requires auditors to report in their Chief Financial Officers Act financial statement audit reports whether financial management systems substantially comply with FFMIA's system requirements.

During fiscal year 2013, the Department evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not compliant with applicable accounting standards, the SGL at the transaction level, and FISMA requirements. As noted in its MD&A section of its Agency Financial Report, the Department continues working to meet the FFMIA and FISMA objectives.

Specifically, in its FFMIA and FMFIA reports, the Department reported noncompliance with information security practices, procedures, and/or practices for multiple agencies relating to logical access controls/personnel security, and configuration management.

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

1. CCC was not compliant with the SGL at the transaction level. CCC is working to implement a systemic solution by September 30, 2014.
2. NRCS was not compliant with Federal accounting standards and the SGL at the transaction level. Corrective actions were scheduled for completion by November 30, 2013.

Finding 1 of this report provides more details on the NRCS and CCC issues.

Because of planned actions and recommendations made in other audit reports, we are making no further recommendations in this report.

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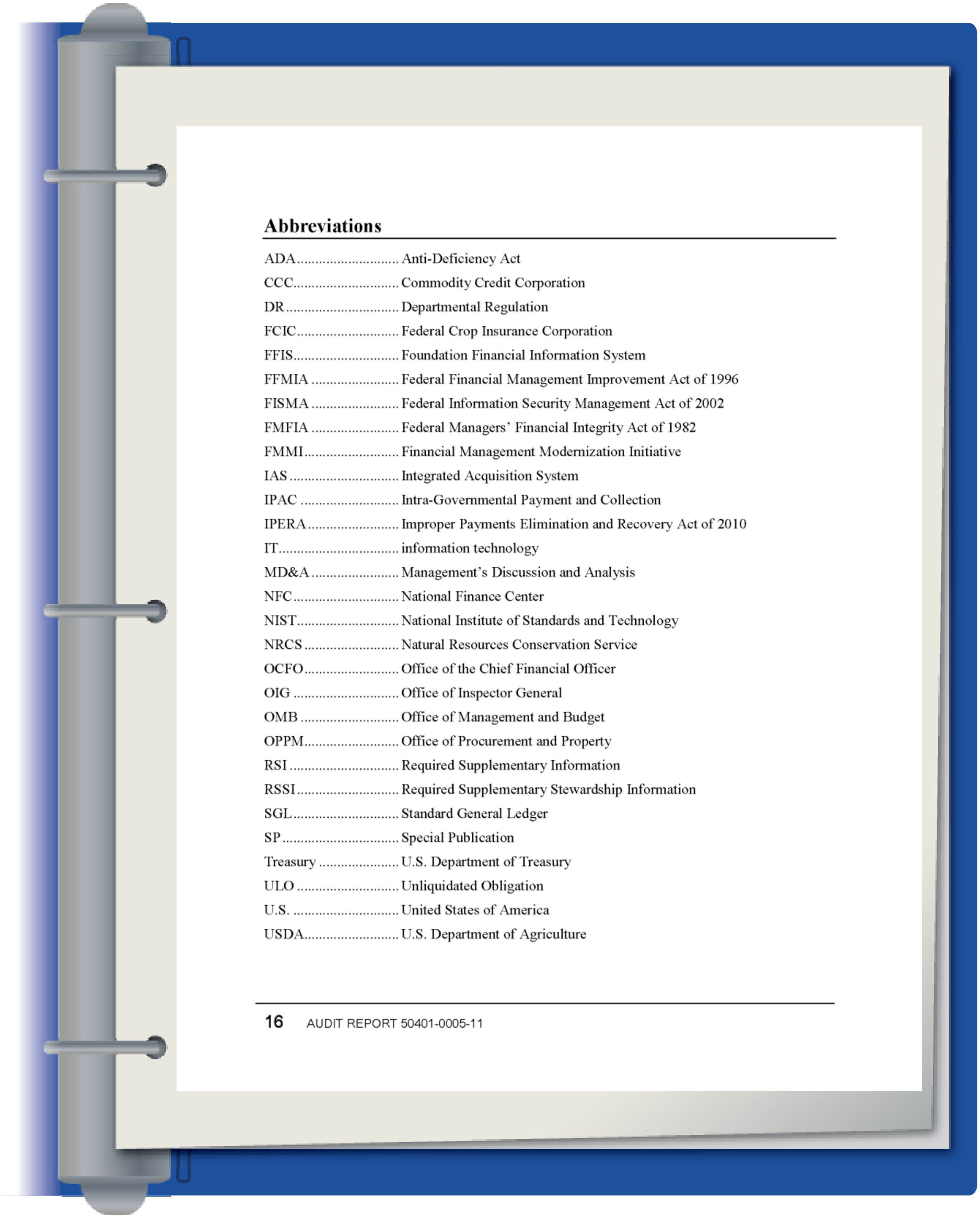
Finding 6: Anti-Deficiency Act Violation

In fiscal year 2013, the Department reported an Anti-Deficiency Act (ADA) violation in its Annual Financial Report. Specifically, Forest Service identified an ADA violation under 31 U.S.C. §1517(a). The Energy Policy Act of 2005 required the Secretary of Interior to create a pilot project to improve Federal permit coordination. The Bureau of Land Management transferred funds to Forest Service to participate in the pilot. Forest Service reported obligations/expenditures in excess of the balance of the fund transferred from the Bureau of Land Management as of December 31, 2012. Forest Service spent $6,781.90 in excess of the $72,000 carried over from fiscal year 2012. Although several actions were taken to obtain the funding needed for fiscal year 2013, the warrant with additional funding was not received by Forest Service until January 31, 2013. The ADA violation is in the process of being reported to Congress and the President.



Abbreviations

ADA	Anti-Deficiency Act
CCC	Commodity Credit Corporation
DR	Departmental Regulation
FCIC	Federal Crop Insurance Corporation
FFIS	Foundation Financial Information System
FFMIA	Federal Financial Management Improvement Act of 1996
FISMA	Federal Information Security Management Act of 2002
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMMI	Financial Management Modernization Initiative
IAS	Integrated Acquisition System
IPAC	Intra-Governmental Payment and Collection
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT	information technology
MD&A	Management's Discussion and Analysis
NFC	National Finance Center
NIST	National Institute of Standards and Technology
NRCS	Natural Resources Conservation Service
OCFO	Office of the Chief Financial Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
OPPM	Office of Procurement and Property
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
SGL	Standard General Ledger
SP	Special Publication
Treasury	U.S. Department of Treasury
ULO	Unliquidated Obligation
U.S.	United States of America
USDA	U.S. Department of Agriculture

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Exhibit A: Audit Reports Related to the Fiscal Year 2013 Financial Statements

The following is a list of reports related to OIG's audit of the Department's fiscal year 2013 financial statements.

Audit Number	Audit Title	Release Date
05401-0003-11	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2013 and 2012	December 2013
06401-0003-11	Commodity Credit Corporation's Financial Statements for Fiscal Years 2013 and 2012	December 2013
08401-0003-11	Forest Service's Financial Statements for Fiscal Years 2013 and 2012	December 2013
10401-0003-11	Fiscal Year 2013 Natural Resources Conservation Service's Financial Statements	December 2013
11401-0005-11	Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center for October 1, 2012, to July 31, 2013	September 2013
27401-0003-21	Food and Nutrition Service's Financial Statements for Fiscal Years 2013 and 2012	December 2013
50501-0004-12	Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act	November 2013
85401-0003-11	Rural Development's Financial Statements for Fiscal Years 2013 and 2012	December 2013

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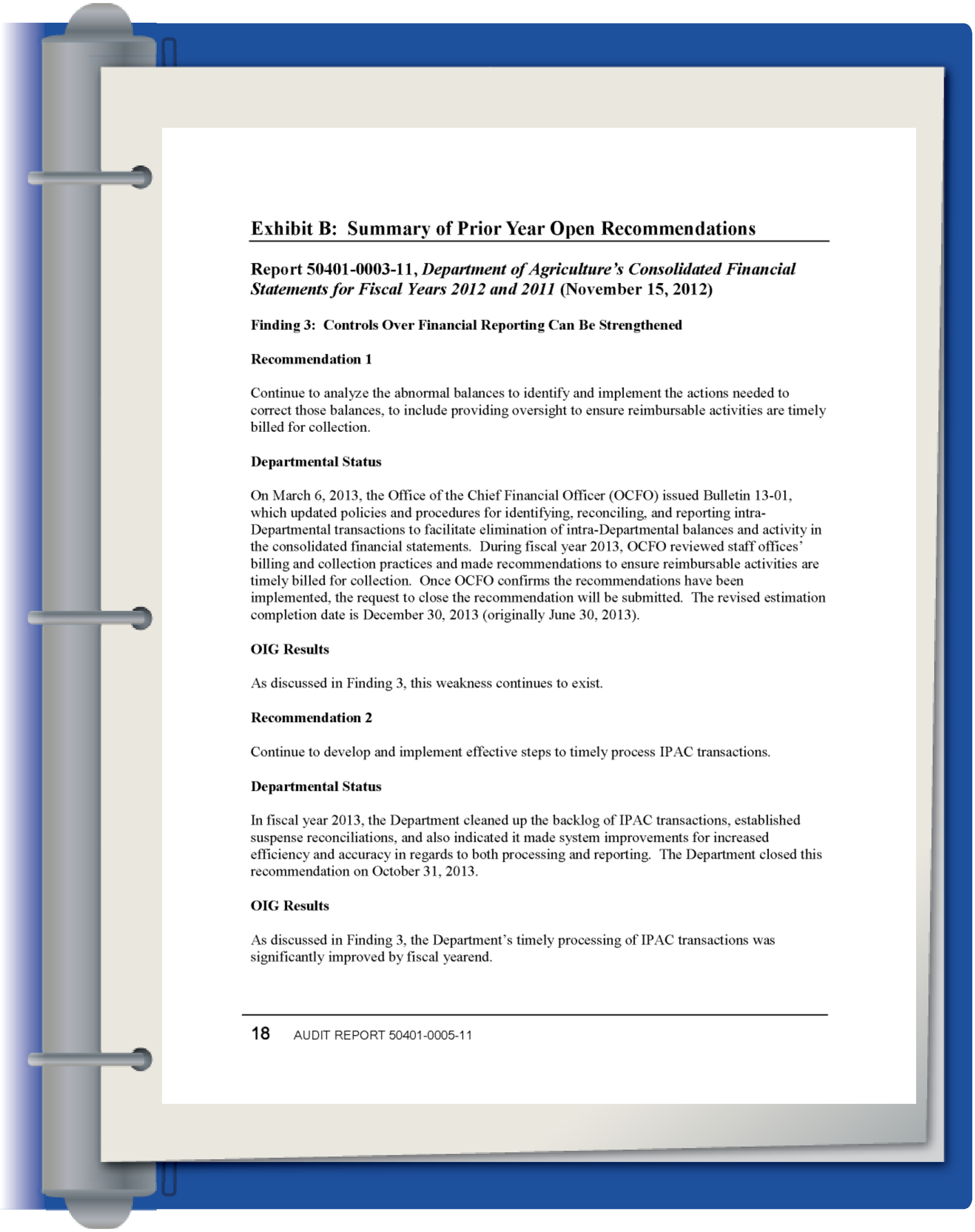

Exhibit B: Summary of Prior Year Open Recommendations

Report 50401-0003-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011* (November 15, 2012)

Finding 3: Controls Over Financial Reporting Can Be Strengthened

Recommendation 1

Continue to analyze the abnormal balances to identify and implement the actions needed to correct those balances, to include providing oversight to ensure reimbursable activities are timely billed for collection.

Departmental Status

On March 6, 2013, the Office of the Chief Financial Officer (OCFO) issued Bulletin 13-01, which updated policies and procedures for identifying, reconciling, and reporting intra-Departmental transactions to facilitate elimination of intra-Departmental balances and activity in the consolidated financial statements. During fiscal year 2013, OCFO reviewed staff offices' billing and collection practices and made recommendations to ensure reimbursable activities are timely billed for collection. Once OCFO confirms the recommendations have been implemented, the request to close the recommendation will be submitted. The revised estimation completion date is December 30, 2013 (originally June 30, 2013).

OIG Results

As discussed in Finding 3, this weakness continues to exist.

Recommendation 2

Continue to develop and implement effective steps to timely process IPAC transactions.

Departmental Status

In fiscal year 2013, the Department cleaned up the backlog of IPAC transactions, established suspense reconciliations, and also indicated it made system improvements for increased efficiency and accuracy in regards to both processing and reporting. The Department closed this recommendation on October 31, 2013.

OIG Results

As discussed in Finding 3, the Department's timely processing of IPAC transactions was significantly improved by fiscal yearend.

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Recommendation 3

Issue detailed guidance to agencies relating to processing IPAC bills and provide training to ensure agencies fully understand their roles, as well as the detailed data requirements for successful processing.

Departmental Status

During the fiscal year, OCFO indicated that it provided weekly training to OCFO staff and made quarterly visits to customer agencies. The Department closed this recommendation on October 31, 2013.

OIG Results

As discussed in Finding 3, the Department's timely processing of IPAC transactions was significantly improved by fiscal yearend.

Report 50401-70-FM, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2010 and 2009* (November 15, 2010)

Finding 1: Improvements Are Needed in Overall Financial Management

Recommendation 1

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

Departmental Status

During fiscal year 2011, the Department issued OCFO Bulletin 11-02, *Controls Over Abnormal Balances*, to update Departmental guidance to its agencies to improve the process for reviewing, researching, and timely implementing action to correct abnormal balances. This bulletin was updated on October 4, 2012. The Department closed this recommendation on January 28, 2013.

OIG Results

The weakness continues to exist, as discussed in Finding 3.

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

Finding 1: Improvements Are Needed in Overall Financial Management

Recommendation 1

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

Departmental Status

During fiscal year 2012, the Department worked with agencies to complete cleanup of obligations recorded in the Foundation Financial Information System and the Financial Management Modernization Initiative. In addition, the Department continued to monitor obligations via monthly status reports. The Department closed this recommendation on January 29, 2013.

OIG Results

This weakness continues to exist, as discussed in Finding 3.

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

Finding 1: Improvements Are Needed in Overall Financial Management

Recommendation 1

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

Departmental Status

The Department closed this recommendation on January 29, 2013.

OIG Results

The weakness continues to exist, as discussed in Finding 3.

Exhibit C: Status of Prior Year Material Weaknesses and Significant Deficiencies

Control Deficiency	2012 Status	2013 Status
Overall Financial Management	Material Weakness	Material Weakness
Information Technology Security and Controls	Material Weakness	Material Weakness
Financial Reporting Controls	Significant Deficiency	Significant Deficiency

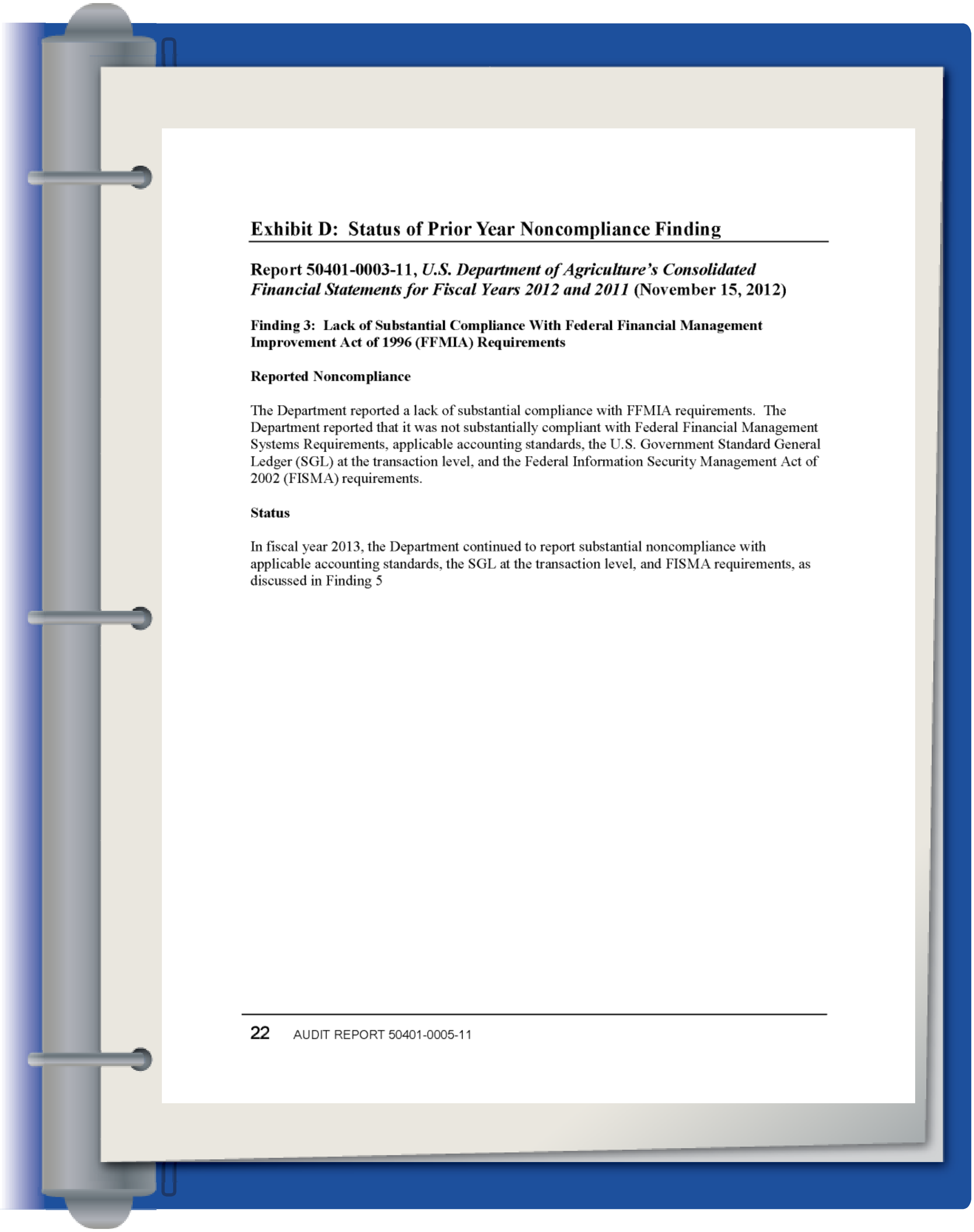

Exhibit D: Status of Prior Year Noncompliance Finding

Report 50401-0003-11, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2012 and 2011* (November 15, 2012)

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

Reported Noncompliance

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

Status

In fiscal year 2013, the Department continued to report substantial noncompliance with applicable accounting standards, the SGL at the transaction level, and FISMA requirements, as discussed in Finding 5

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Agency Response To Auditors Report

United States
Department of
Agriculture

Office of the Chief
Financial Officer

1400 Independence
Avenue, SW
Washington, DC
20250

DEC 13 2013

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

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

for M. Holladay

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2013 and 2012, Audit Report No. 50401-5-11

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2013 and 2012.

We concur with the findings in the report. We generally agree with the recommendations in the report and will develop corrective action plans with milestones to address the findings within 60 days.

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

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

Consolidated Financial Statements

Consolidated Balance Sheet

As of September 30, 2013 and 2012
(In Millions)

	2013	2012
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 86,570	$ 84,670
Investments (Note 5)	139	143
Accounts Receivable, Net (Note 6)	125	309
Other (Note 11)	6	-
Total Intragovernmental	86,840	85,122
Cash and Other Monetary Assets (Note 4)	316	183
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	2,578	8,660
Direct Loan and Loan Guarantees, Net (Note 7)	100,710	95,513
Inventory and Related Property, Net (Note 8)	69	14
General Property, Plant, and Equipment, Net (Note 9)	2,925	3,037
Other (Note 11)	198	197
Total Assets	193,639	192,729
Stewardship PP&E (Note 10)		
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	16	25
Debt (Note 13)	105,040	93,880
Other (Note 15)	14,116	12,434
Total Intragovernmental	119,172	106,339
Accounts Payable	2,112	1,978
Loan Guarantee Liability (Note 7)	4,866	4,471
Federal Employee and Veteran Benefits	986	944
Environmental and Disposal Liabilities (Note 14)	176	10
Benefits Due and Payable	4,041	3,837
Other (Notes 15 & 16)	19,989	35,555
Total Liabilities	151,342	153,134
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	107	97
Unexpended Appropriations - All Other Funds	33,738	34,925
Cumulative Results of Operations - Funds From Dedicated Collections(Note 18)	1,575	944
Cumulative Results of Operations - All Other Funds	6,877	3,629
Total Net Position	42,297	39,595
Total Liabilities and Net Position	$ 193,639	$ 192,729

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

For the Years Ended September 30, 2013 and 2012
(In Millions)

	2013	2012
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ 23,614	$ 37,192
Less: Earned Revenue	6,498	10,500
Net Costs	17,116	26,692
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Gross Costs	13,182	13,480
Less: Earned Revenue	942	1,006
Net Costs	12,240	12,474
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	3,070	3,188
Less: Earned Revenue	230	618
Net Costs	2,840	2,570
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	112,995	110,148
Less: Earned Revenue	1,053	938
Net Costs	111,942	109,210
Total Gross Costs	152,861	164,008
Less: Total Earned Revenue	8,723	13,062
Net Cost of Operations (Note 19)	$ 144,138	$ 150,946

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For The Year Ended September 30, 2013
(In Millions)

	Funds From Dedicated Collections (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 944	$ 3,629	$ -	$ 4,573
Adjustments:				
Changes in Accounting Principles (Note 31)	878	(1,043)	-	(165)
Beginning Balance, as Adjusted	1,822	2,586	-	4,408
Budgetary Financing Sources:				
Other Adjustments (recissions, etc.)	-	(381)	-	(381)
Appropriations Used	2	144,027	-	144,029
Non-exchange Revenue	-	6	-	6
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	505	4,366	4,282	9,153
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Property	-	1	-	1
Transfers In (Out) without Reimbursement	(188)	4,283	(4,282)	(187)
Imputed Financing	51	3,554	(2,760)	845
Other	81	(5,366)	-	(5,285)
Total Financing Sources	452	150,490	(2,760)	148,182
Net Cost of Operations	(699)	(146,199)	2,760	(144,138)
Net Change	(247)	4,291	-	4,044
Cumulative Results of Operations	1,575	6,877	-	8,452
Unexpended Appropriations:				
Beginning Balances	97	34,925	-	35,022
Budgetary Financing Sources:				
Appropriations Received	12	150,495	-	150,507
Appropriations Transferred In (Out)	-	23	-	23
Other Adjustments	-	(7,678)	-	(7,678)
Appropriations Used	(2)	(144,027)	-	(144,029)
Total Budgetary Financing Sources	10	(1,187)	-	(1,177)
Unexpended Appropriations	107	33,738	-	33,845
Net Position	$ 1,682	$ 40,615	$ -	$ 42,297

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For The Year Ended September 30, 2012

(In Millions)

	Funds From Dedicated Collections (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 1,730	$ 9,677	$ -	$ 11,407
Budgetary Financing Sources:				
Other Adjustments (recissions, etc.)	-	(155)	-	(155)
Appropriations Used	(11)	137,216	-	137,205
Non-exchange Revenue	-	(7)	-	(7)
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	223	7,161	-	7,384
Other Financing Sources (Non-Exchange):				
Transfers In (Out) without Reimbursement	(18)	104	-	86
Imputed Financing	50	3,019	(2,156)	913
Other	77	(1,392)	-	(1,315)
Total Financing Sources	322	145,946	(2,156)	144,112
Net Cost of Operations	(1,108)	(151,994)	2,156	(150,946)
Net Change	(786)	(6,048)	-	(6,834)
Cumulative Results of Operations	944	3,629	-	4,573
Unexpended Appropriations:				
Beginning Balances	74	30,395	-	30,469
Budgetary Financing Sources:				
Appropriations Received	12	152,099	-	152,111
Appropriations Transferred In (Out)	-	25	-	25
Other Adjustments	-	(10,378)	-	(10,378)
Appropriations Used	11	(137,216)	-	(137,205)
Total Budgetary Financing Sources	23	4,530	-	4,553
Unexpended Appropriations	97	34,925	-	35,022
Net Position	$ 1,041	$ 38,554	$ -	$ 39,595

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For The Years Ended September 30, 2013 and 2012
(In Millions)

	2013		2012	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 33,326	$ 5,154	$ 25,238	$ 5,604
Recoveries of prior year unpaid obligations	2,575	939	3,533	1,819
Other changes in unobligated balance (+ or -)	(1,722)	(2,266)	(3,593)	(4,442)
Unobligated balance from prior year budget authority, net	34,179	3,827	25,178	2,981
Appropriations (discretionary and mandatory)	148,775	-	149,916	-
Borrowing authority (discretionary and mandatory)	17,623	11,356	11,667	11,631
Spending authority from offsetting collections (discretionary and mandatory)	17,093	10,344	16,502	7,107
Total budgetary resources	217,670	25,527	203,263	21,719
Status of Budgetary Resources:				
Obligations Incurred (Note 23)	183,939	16,769	169,937	16,565
Unobligated balance, end of year:				
Apportioned	11,280	4,764	9,978	2,334
Exempt from apportionment	303	8	1,124	5
Unapportioned	22,148	3,986	22,224	2,815
Total unobligated balance, end of year	33,731	8,758	33,326	5,154
Total budgetary resources	217,670	25,527	203,263	21,719
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	39,816	26,270	36,637	28,532
Obligations incurred	183,939	16,769	169,937	16,565
Outlays (gross) (-)	(184,920)	(17,091)	(163,225)	(17,007)
Recoveries of prior year unpaid obligations (-)	(2,575)	(939)	(3,533)	(1,819)
Unpaid obligations, end of year	36,260	25,009	39,816	26,270
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(2,576)	(1,075)	(2,019)	(947)
Change in uncollected customer payments from Federal sources (+ or -)	409	163	(557)	(129)
Uncollected payments, Federal sources, end of year (-)	(2,167)	(912)	(2,576)	(1,075)
Memorandum (non-add) entries:				
Obligated balance, start of year (+ or -)	37,240	25,195	34,618	27,585
Obligated balance, end of year (+ or -)	34,093	24,097	37,240	25,195
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	183,491	21,700	178,085	18,738
Actual offsetting collections (discretionary and mandatory) (-)	(26,741)	(13,821)	(21,481)	(12,665)
Change in uncollected customer payments from Federal sources	409	163		
(discretionary and mandatory)(+ or -)	-	-	(557)	(129)
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-
Budget authority, net (discretionary and mandatory)	157,159	8,042	156,047	5,944
Outlays, gross (discretionary and mandatory)	184,920	17,091	163,225	17,007
Actual offsetting collections (discretionary and mandatory) (-)	(26,741)	(13,821)	(21,481)	(12,665)
Outlays, net (discretionary and mandatory)	158,179	3,270	141,744	4,342
Distributed offsetting receipts (-)	(914)	(1,363)	(723)	(1,310)
Agency outlays, net (discretionary and mandatory)	$ 157,265	$ 1,907	$ 141,021	$ 3,032

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2013 and 2012

(In Millions)

Note 1. Significant Accounting Policies

Organization

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

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

Farm and Foreign Agricultural Services (FFAS)

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

Food, Nutrition, and Consumer Services (FNCS)

- Food and Nutrition Service (FNS)

Food Safety

- Food Safety and Inspection Service (FSIS)

Marketing and Regulatory Programs (MRP)

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

Natural Resources and Environment (NRE)

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

Research, Education, and Economics (REE)

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

- National Agricultural Statistics Service (NASS)

Rural Development

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

Consolidation

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

Reclassifications

In FY 2013 and FY 2012, the Combined Statement of Budgetary Resources was reclassified to better align with the new SF-133, Report on Budget Execution and Budgetary Resources.

In FY 2012, RD and FSA reclassified distributed offsetting receipts of $1,128 million from the budgetary column to the non-budgetary column on the Combined Statement of Budgetary Resources to conform with credit reform guidance.

Use of Estimates

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

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

Investments

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

Accounts Receivable

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

Direct Loans and Loan Guarantees

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

Direct loans obligated and loan guarantees committed before fiscal 1992 are valued using either the present-value or net realizable methods. Under the present-value method, the outstanding principal of direct loans is reduced by an allowance equal to the difference between the outstanding principal and the present value of the expected net cash flows. The liability for loan guarantees is the present value of expected net cash outflows due to the loan guarantees. Under the net realizable value method, the average rate of the last five years of write-offs is used.

Inventories and Related Property

Inventories to be consumed in the production of goods for sale or in the provision of services for a fee are valued on the basis of historical cost using a first-in, first-out method. Commodities are valued at the lower of cost or net realizable value using a weighted average method. Barter Delivery Obligations (BDO) are valued at the net sales proceeds. BDO are exchanged for food products to be utilized in domestic and export food programs.

Property, Plant and Equipment

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

Pension and Other Retirement Benefits

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

Other Post-employment Benefits

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

Funds from Dedicated Collections

In accordance with SFFAS 43, Funds from Dedicated Collections, the Department has reported the funds from dedicated collections for which it has program management responsibility when the following three criteria are met: (1) a statute committing the federal government to use specifically identified revenues and/or other financing sources that are originally provided to the federal government by a non-federal source only for designated activities, benefits or purposes; (2) explicit authority for the fund to retain revenues and/or other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and (3) a requirement to account for and report on the receipt, use, and retention of the revenues and/or other financing sources that distinguishes the fund from the federal government's general revenues.

Contingencies

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

Allocation Transfers

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

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

Inter-Entity Costs

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

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

Fiduciary Activities

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

Asbestos-Related Cleanup Costs

Effective October 1, 2012, Technical Bulletin (TB) 2006-1, Recognition and Measurement of Asbestos-Related Cleanup Costs, as amended, requires an estimate of both friable and non-friable asbestos-related cleanup costs; recognition of a liability and related expense for those costs that are both probable and reasonably estimable; and disclosure of information related to friable and non friable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements.

Note 2. Non-Entity Assets

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

	FY 2013	FY 2012
Intragovernmental:		
Fund balance with Treasury	$ 1,055	$ 121
Accounts Receivable	247	20
Subtotal Intragovernmental	1,302	141
With the Public:		
Accounts receivable	104	96
Subtotal With the Public	104	96
Total non-entity assets	1,406	237
Total entity assets	192,233	192,492
Total Assets	$ 193,639	$ 192,729

Note 3. Fund Balance with Treasury

Other Fund Types include deposit and clearing accounts. Borrowing Authority not yet Converted to Fund Balance represents un-obligated and obligated amounts recorded at year-end that will be funded by future borrowings. Non-Budgetary Fund Balance with Treasury includes special fund receipt accounts; and clearing and suspense account balances awaiting disposition or reclassification. Unprocessed Intragovernmental Payment and Collection (IPAC) transactions were not reported to Treasury at the end of FY 2013 and FY 2012 because the proper Treasury Account Symbol was unknown which reduced Fund Balance with Treasury by $12 million and $50 million, respectively.

	FY 2013	FY 2012
Fund Balances:		
Trust Funds	$ 547	$ 439
Special Funds	19,298	18,786
Revolving Funds	17,594	16,371
General Funds	48,096	48,961
Other Fund Types	1,035	113
Total	86,570	84,670
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	16,355	13,441
Unavailable	26,137	25,039
Obligated Balance not yet Disbursed	57,874	62,252
Borrowing Authority not yet Converted to Fund Balance	(33,413)	(33,832)
Non-Budgetary Fund Balance with Treasury	19,617	17,770
Total	$ 86,570	$ 84,670

Note 4. Cash and Other Monetary Assets

In FY 2013 and FY 2012, cash mostly consists of Federal crop insurance escrow amounts of $316 million and $183 million respectively.

	FY 2013	FY 2012
Cash	$ 316	$ 183

Note 5. Investments

FY 2013	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	139	(1)	1	139	139
Total		$ 139	$ (1)	$ 1	$ 139	$ 139
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

FY 2012	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	143	(1)	1	143	143
Total		$ 143	$ (1)	$ 1	$ 143	$ 143
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

Note 6. Accounts Receivable, Net

FY 2013	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 125	$ -	$ 125
With the Public	2,635	(57)	2,578
Total	$ 2,760	$ (57)	$ 2,703

FY 2012	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 309	$ -	$ 309
With the Public	8,727	(67)	8,660
Total	$ 9,036	$ (67)	$ 8,969

Note 7. Direct Loans and Guarantees, Non-Federal Borrowers

Direct Loans

Direct loan obligations or loan guarantee commitments made pre-1992 and the resulting direct loans or loan guarantees are reported at either net present value or net realizable value.

For FY 2013, RD reported direct loans made pre-1992 at net realizable value. This is a change from the previous valuation method, for which RD received concurrence from the Office of Management and Budget. The effect of this change resulted in a decrease to the allowance of approximately $3.8 billion.

During FY 2013, RD analyzed the performance of pre-1992 direct loans receivable. The previous allowance method reduced direct loans by the difference between the nominal amount and the present value of the expected net cash flows. The net present value, at any given time, was the amount of loans receivable less the net present value of future cash flows discounted using RD's borrowing rate for liquidating loans. Due to the large difference between the net present value and the nominal amount of the loans, using a net realizable value approach, based on the last five years of write-offs, more accurately presents the value of the pre-1992 loans.

The majority of the reduction in the allowance for loss can be attributed to the Multi-Family Housing program. The reduction in the allowance increased Direct Loan and Loan Guarantees, Net, and reduced Gross Costs in the Statement of Net Cost by $3.8 billion. The change in valuation had corresponding increases to Other Liabilities on the accompanying Consolidated Balance Sheet and Other Financing Sources on the Consolidated Statement of Changes in Net Position. It also had corresponding effects on multiple lines on the Reconciliation of Budgetary Resources Obligated to Net Cost of Operations (Note 30).

RD recalculated the allowance for loss for the FY 2012 pre-1992 loans receivable using the net realizable value method. The change in valuation would have resulted in a decrease to the allowance of approximately $3.8 billion.

Direct loan obligations or loan guarantee commitments made post-1991, and the Federal Credit Reform Act of 1990 as amended governs the resulting direct loan or loan guarantees. The Act requires agencies to estimate the cost of direct loans and loan guarantees at present value for the budget. Additionally, the present value of the subsidy costs (i.e. interest rate differentials, interest subsidies, delinquencies and defaults, fee offsets and other cash flows) associated with direct loans and loan guarantees are recognized as a cost in the year the loan or loan guarantee is disbursed. The net present value of loans or defaulted guaranteed loans receivable at any point in time is the amount of the gross loan or defaulted guaranteed loans receivable less the present value of the subsidy at that time.

The net present value of Direct Loan and Loan Guarantees, Net is not necessarily representative of the proceeds that might be expected if these loans were sold on the open market.

Direct Loan and Loan Guarantees, Net at the end of FY 2013 was $100,710 million compared to $95,513 million at the end of FY 2012. Loans exempt from the Federal Credit Reform Act of 1990 represent $338 million of the total compared to $400 million in FY 2012. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2013 and FY 2012.

Beginning in FY 2012, advance payments surpassed the loans receivable balance in the Rural Utilities Liquidating Fund. This was due to an increased volume in advance payments and a normal reduction to the Liquidating Portfolio. The Omnibus Budget Act of 1987, section 313, authorized the accumulation of Cushion of Credit (CoC) in the Revolving Fund. Borrowers may make advance payments up to their liquidating and financing total Rural Utilities Service debt. To accurately represent the value of Electric and Telecommunication assets, RD reports the CoC amounts as a separate line item in Table 1.

During the fiscal year, the gross outstanding balance of the direct loans obligated post-1991 is adjusted by the value of the subsidy cost allowance held against those loans. Current year subsidy expense, modifications and reestimates all contribute to the change of the subsidy cost allowance throughout the year. The subsidy cost allowance moved from $6,118 million to $6,477 million during FY 2013, an increase of $359 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2012 to FY 2013.

Total direct loan subsidy expense is a combination of subsidy expense for new direct loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total direct loan subsidy expense in FY 2013 was $755 million compared to $237 million in FY 2012. Table 3 illustrates the breakdown of total subsidy expense for FY 2013 and FY 2012 by program.

Direct loan volume decreased from $11,071 million in FY 2012 to $10,437 million in FY 2013. Volume distribution between mission area and program is shown in Table 4.

Guaranteed Loans

Guaranteed loans are administered in coordination with conventional agricultural lenders for up to 95 percent of the principal loan amount. Under the guaranteed loan programs, the lender is responsible for servicing the borrower's account for the life of the loan. The Department, however, is responsible for ensuring borrowers meet certain qualifying criteria to be eligible and monitoring the lender's servicing activities. Borrowers interested in guaranteed loans must apply to a conventional lender, which then arranges for the guarantee with a Department agency. Estimated losses on loan and foreign credit guarantees are reported at net present value as Loan Guarantee Liability. Defaulted guaranteed loans are reported at net present value as Loans Receivable and Related Foreclosed Property, Net.

Guaranteed loans outstanding at the end of FY 2013 were $115,527 million in outstanding principal and $104,772 million in outstanding principal guaranteed, compared to $103,587 million and $92,667 million, respectively at the end of FY 2012. Table 5 shows the outstanding balances by credit program.

During the fiscal year, the value of the guaranteed loans is adjusted by the value of the loan guarantee liability held against those loans. Current year subsidy expense, modification and reestimates all contribute to the change of the loan guarantee liability through the year. The loan guarantee liability is a combination of the liability for losses on pre-1992 guarantees and post-1991 guarantees. Table 6 shows that total liability moved from $4,471 million to $4,866 million during FY 2013, an increase of $395 million. Table 7 shows the reconciliation of total loan guarantee liability.

Total guaranteed loan subsidy expense is a combination of subsidy expense for new guaranteed loans disbursed in the current year, modifications to existing loans, and interest rate and technical reestimates to existing loans. Total guaranteed loan subsidy expense in FY 2013 was $575 million compared to $926 million in FY 2012. Table 8 illustrates the breakdown of total subsidy expense for FY 2013 and FY 2012 by program.

Guaranteed loan volume increased from $27,170 million in FY 2012 to $29,035 million in FY 2013. Volume distribution between mission area and program is shown in Table 9.

Administrative Expenses

Consistent with the Federal Credit Reform Act of 1990 as amended, subsidy cash flows exclude direct Federal administrative expenses. Administrative expenses for FY 2013 and FY 2012 are shown in Table 10.

Subsidy Rates

Subsidy rates are used to compute each year's subsidy expenses. The subsidy rates disclosed in Tables 11 and 12 pertain only to the FY 2013 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

Credit Program Discussion and Descriptions

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

The Farm and Foreign Agricultural Services Mission Area

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

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

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

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

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

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

Farm and Foreign Agricultural Service List of Programs

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

The Rural Development Mission Area

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

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

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

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

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

Rural Development List of Programs

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

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

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

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates and updated estimates for future loan performance. The FY 2013 reestimate process resulted in a $571 million increase in the post 1991 estimated cost of the direct loan portfolio and a $555 million increase in the post 1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs:

Direct Loans

The Housing Programs had an overall net upward reestimate of $269 million. The majority of the $269 million upward reestimates related to lowered prepayment assumptions. Lowered prepayment assumptions are due to the housing market’s continued instability. By lowering projected prepayments, the assumption is that loans remain outstanding for longer periods; hence, borrowers receive more payment assistance. Therefore, lower prepayments produce higher interest rate assistance over the life of the cohort, which contributes to a higher subsidy rate.

The Electric Programs had an overall upward reestimate of $356 million. The majority of this reestimate consists of the following programs: Federal Financing Bank (FFB) upward reestimate of

$390 million and Electric Municipal downward reestimate of $68 million. The FFB Electric Program has seen a significant swing from a downward reestimate of $88 million in FY 2012 to upward reestimate of $390 million in FY 2013. The last five cohort years have the greatest changes due to: (1) differences between the Single Effective Rate (SER) and the weighted borrower rate, (2) Financing Account Interest Adjustment (difference between the SER and rate paid to FFB), (3) negative formulation rate moving to positive reestimate rate, and (4) increased cost at time of disbursement due to a higher SER. The Municipal Electric program downward reestimates were due to the current economic environment of lower interest rates and subsequent prepayments. Changes in the prepayment curve account for a major component in the subsidy rate change. In the Municipal Electric Program, projected prepayments were much lower than actual prepayments.

The Water and Environmental (WEP) program had an overall downward reestimates of $276 million. The WEP downward reestimates were due to the current economic environment of lower interest rates and subsequent prepayments. Changes in the prepayment curve account for a major component in the subsidy rate change. In WEP, projected prepayments were much lower than actual prepayments.

Guaranteed Loans

The Guaranteed Housing programs had an overall upward reestimate of $616 million. The Single Family Housing Section 502 – Purchase program had significant net upward reestimates of $400 million. The main causes for the significant increase were actual loss amounts that were less than projected loss amount and prediction of future defaults that were significantly less than the actual defaults. In addition, RD made changes to the loss curves used to forecast future defaults. The adjustment to the curves used to forecasting defaults has caused a significant increase in forecasted defaults compared to last year, but has led to a more accurate defaults prediction. The Single Family Housing Section 502 – Blended had significant net upward reestimates of $216 million. The main causes for the significant increase were overestimated defaults and predicted future defaults that were significantly less than the actual defaults. The decline in loss amounts is the result of overall better credit score requirements for borrowers. Additionally, RD made changes to the loss curves used to forecast future defaults.

Loan Modifications

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

Multiple-family housing direct loan program modifications related to the revitalization project, which began in FY 2006, continued throughout FY 2013. The revitalization project is used to rehabilitate ailing housing developments. In this program, RD determines whether the development owner should be offered a financial restructuring plan and what type of incentives, if any, should be offered to the owner to rehabilitate an ailing housing development and to provide affordable rents for tenants.

The Debt Reduction Fund is used to account for CCC's "modified debt." Debt is considered to be modified if the original debt has been reduced or the interest rate of the agreement changed. In contrast, when debt is "rescheduled," only the date of payment is changed. Rescheduled debt is carried in the original fund until paid. With one exception, all outstanding CCC modified debt is carried in the Debt Reduction Fund and is governed by the Federal Credit Reform Act of 1990 as amended.

Foreclosed Property

Property is acquired largely through foreclosure and voluntary conveyance. Acquired properties associated with loans are reported at their market value at the time of acquisition. The projected future cash flows associated with acquired properties are used in determining the related allowance (at present value).

As of September 30, 2013 and 2012, foreclosed property consisted of 1,547 and 1,375 rural single-family housing dwellings, with an average holding period of 15 months. As of September 30, 2013 and 2012, FSA-Farm Loan Program properties consist primarily of 75 and 77 farms, respectively. The average holding period for these properties in inventory for FY 2013 and FY 2012 was 44 months. Certain properties can be leased to eligible individuals.

Other Information

Non-performing loans are defined as receivables that are in arrears by 90 or more days, or are on rescheduling agreements until such time two consecutive payments have been made following the rescheduling. When RD, FSA and CCC calculate loan interest income, however, the recognition of revenue is deferred. Late interest is accrued on arrears.

Approximately $17,900 million and $18,600 million of RHS unpaid loan principal as of September 30, 2013, and 2012 were receiving interest credit, respectively. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately $892 million and $935 million higher for FY 2013 and FY 2012 respectively.

At the end of FY 2013 and FY 2012, the RD portfolio contained approximately 66,300 and 67,900 restructured loans with an outstanding unpaid principal balance of $2,800 million and $2,700 million, respectively . At the end of FY 2013 and FY 2012, the farm loan portfolio contained approximately 18,038 and 19,123 restructured loans with an outstanding unpaid principal balance of $1,093 million and $1,143 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2013 and 2012, were $1,926 million and $2,203 million, respectively.

Table 1. Direct Loan and Loan Guarantees, Net

FY 2013 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 544	$ 37	$ 8	$ (35)	$ 554
Export	-	-	-	-	-
Food Aid	2,896	847	-	(2,271)	1,472
Housing	8,193	72	29	(21)	8,273
Electric	3,539	3	-	(1,132)	2,410
Telecommunications	321	-	-	-	321
Water and Environmental	699	7	-	-	706
Business and Industry	-	-	-	-	-
Economic Development	21	-	-	-	21
Pre-1992 Total	16,213	966	37	(3,459)	13,757
Obligated Post-1991					
Farm	8,010	142	9	(493)	7,668
Export	-	-	-	-	-
Food Aid	1,089	50	-	(427)	712
Housing	22,833	144	72	(2,955)	20,094
Electric	46,006	27	-	(1,053)	44,980
Telecommunications	4,414	2	-	141	4,557
Water and Environmental	11,576	97	-	(350)	11,323
Business and Industry	34	-	2	28	64
Economic Development	542	2	-	(135)	409
Post-1991 Total	94,504	464	83	(5,244)	89,807
Cushion of Credit	(4,001)	-	-	-	(4,001)
Total Direct Loan Program Receivables	106,716	1,430	120	(8,703)	99,563
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	101	210	-	(268)	43
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	1	-	-	-	1
Economic Development	-	-	-	-	-
Pre-1992 Total	102	210	-	(268)	44
Post-1991					
Farm	113	-	-	(111)	2
Export	736	18	-	(279)	475
Food Aid	-	-	-	-	-
Housing	818	2	-	(767)	53
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	309	4	-	(78)	235
Economic Development	-	-	-	-	-
Post-1991 Total	1,976	24	-	(1,235)	765
Total Defaulted Guarantee Loans	2,078	234	-	(1,503)	809
Loans Exempt from Credit Reform Act:					
Commodity Loans	337	2	-	(1)	338
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	337	2	-	(1)	338
Total Direct Loan and Loan Guarantees, Net					$ 100,710

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

FY 2012 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 692	$ 47	$ 12	$ (48)	$ 703
Export	-	-	-	-	-
Food Aid	3,167	824	-	(2,362)	1,629
Housing	8,560	77	32	(3,831)	4,838
Electric	4,065	157	-	(1,087)	3,135
Telecommunications	412	1	-	(1)	412
Water and Environmental	904	8	-	(40)	872
Business and Industry	-	-	-	-	-
Economic Development	25	-	-	(8)	17
Pre-1992 Total	17,825	1,114	44	(7,377)	11,606
Obligated Post-1991					
Farm	7,982	193	10	(472)	7,713
Export	-	-	-	-	-
Food Aid	1,302	62	-	(521)	843
Housing	22,401	189	62	(2,945)	19,707
Electric	42,896	253	-	(759)	42,390
Telecommunications	4,374	4	-	99	4,477
Water and Environmental	11,280	97	-	(551)	10,826
Business and Industry	32	-	-	30	62
Economic Development	542	2	-	(144)	400
Post-1991 Total	90,809	800	72	(5,263)	86,418
Cushion of Credit	(3,797)	-	-	-	(3,797)
Total Direct Loan Program Receivables	104,837	1,914	116	(12,640)	94,227
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	109	207	-	(264)	52
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	1	-	-	-	1
Economic Development	-	-	-	-	-
Pre-1992 Total	110	207	-	(264)	53
Post-1991					
Farm	137	-	-	(136)	1
Export	814	20	-	(266)	568
Food Aid	-	-	-	-	-
Housing	443	-	-	(416)	27
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	269	4	-	(36)	237
Economic Development	-	-	-	-	-
Post-1991 Total	1,663	24	-	(854)	833
Total Defaulted Guarantee Loans	1,773	231	-	(1,118)	886
Loans Exempt from Credit Reform Act:					
Commodity Loans	397	3	-	-	400
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	397	3	-	-	400
Total Direct Loan and Loan Guarantees, Net					$ 95,513

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

	FY 2013	FY 2012
Beginning balance of the subsidy cost allowance	$ 6,118	$ 6,017
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	121	142
Default costs (net of recoveries)	154	196
Fees and other collections	(13)	(18)
Other subsidy costs	(85)	(36)
Total subsidy expense prior to adjustments and reestimates	177	284
Adjustments		
Loan modifications	7	25
Fees received	67	48
Loans written off	(789)	(1,136)
Subsidy allowance amortization	(249)	(112)
Other	575	1,064
Total subsidy cost allowance before reestimates	5,906	6,190
Add or subtract subsidy reestimates by component		
Interest rate reestimate	(401)	51
Technical/default reestimate	972	(123)
Total reestimates	571	(72)
Ending balance of the subsidy cost allowance	$ 6,477	$ 6,118

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

FY 2013

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 19	$ 77	$ (1)	$ (18)	$ 77	$ -	$ (67)	$ 117	$ 50	$ 127
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	-	-	-	-	-	4	47	29	76	80
Housing	50	39	-	2	91	3	(37)	337	300	394
Electric	(93)	14	(12)	(51)	(142)	-	(273)	629	356	214
Telecommunications	-	19	-	(7)	12	-	2	65	67	79
Water and Environmental	133	5	-	(11)	127	-	(73)	(203)	(276)	(149)
Business and Industry	1	-	-	-	1	-	2	1	3	4
Economic Development	11	-	-	-	11	-	(2)	(3)	(5)	6
Total Direct Loan Subsidy Expense	$ 121	$ 154	$ (13)	$ (85)	$ 177	$ 7	$ (401)	$ 972	$ 571	$ 755

FY 2012

Direct Loan Programs	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ 18	$ 89	$ (1)	$ (17)	$ 89	$ -	$ (91)	$ 43	$ (48)	$ 41
Export	-	-	-	-	-	21	-	10	10	31
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	43	54	-	14	111	4	58	114	172	287
Electric	(56)	21	(17)	(19)	(71)	-	147	(45)	102	31
Telecommunications	(1)	26	-	(7)	18	-	(20)	11	(9)	9
Water and Environmental	127	6	-	(7)	126	-	(142)	(115)	(257)	(131)
Business and Industry	1	-	-	-	1	-	(18)	(20)	(38)	(37)
Economic Development	10	-	-	-	10	-	117	(121)	(4)	6
Total Direct Loan Subsidy Expense	$ 142	$ 196	$ (18)	$ (36)	$ 284	$ 25	$ 51	$ (123)	$ (72)	$ 237

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

	FY 2013	FY 2012
Direct Loan Programs		
Farm	$ 1,733	$ 1,921
Export	-	-
Food Aid	-	-
Housing	1,657	1,914
Electric	4,956	5,144
Telecommunications	661	780
Water and Environmental	1,373	1,264
Business and Industry	6	7
Economic Development	51	41
Total Direct Loans Disbursed	$ 10,437	$ 11,071

Table 5. Guaranteed Loans Outstanding

FY 2013	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 9	$ 12,924	$ 12,933	$ 9	$ 11,637	$ 11,646
Export	-	5,345	5,345	-	5,238	5,238
Food Aid	-	-	-	-	-	-
Housing	2	90,164	90,166	2	82,538	82,540
Electric	85	188	273	85	188	273
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	79	79	-	69	69
Business and Industry	7	6,724	6,731	5	5,001	5,006
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 103	$ 115,424	$ 115,527	$ 101	$ 104,671	$ 104,772

FY 2012	Pre - 1992 Outstanding Principal, Face Value	Post - 1991 Outstanding Principal, Face Value	Total Outstanding Principal, Face Value	Pre - 1992 Outstanding Principal, Guaranteed	Post - 1991 Outstanding Principal, Guaranteed	Total Outstanding Principal, Guaranteed
Loan Guarantee Programs						
Farm	$ 13	$ 12,903	$ 12,916	$ 12	$ 11,613	$ 11,625
Export	-	6,195	6,195	-	6,071	6,071
Food Aid	-	-	-	-	-	-
Housing	2	76,995	76,997	2	69,284	69,286
Electric	96	193	289	96	193	289
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	85	85	-	74	74
Business and Industry	5	7,100	7,105	3	5,319	5,322
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 116	$ 103,471	$ 103,587	$ 113	$ 92,554	$ 92,667

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

FY 2013	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ -	$ 167	$ 167
Export	-	126	126
Food Aid	-	-	-
Housing	-	3,780	3,780
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	-	793	793
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ -	$ 4,866	$ 4,866

FY 2012	Liabilities for Losses on Pre-1992 Guarantees Present Value	Liabilities for Loan Guarantees on Post-1991 Guarantees Present Value	Total Liabilities for Loan Guarantees
Loan Guarantee Programs			
Farm	$ -	$ 183	$ 183
Export	-	174	174
Food Aid	-	-	-
Housing	-	3,201	3,201
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	-	-
Business and Industry	-	913	913
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ -	$ 4,471	$ 4,471

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2013	FY 2012
Beginning balance of the loan guarantee liability	$ 4,471	$ 3,620
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest supplement costs	1	(9)
Default costs (net of recoveries)	895	95
Fees and other collections	(876)	(75)
Other subsidy costs	-	1
Total of the above subsidy expense components	20	12
Adjustments		
Loan guarantee modifications	-	-
Fees received	597	515
Interest supplements paid	(22)	(26)
Claim payments to lenders	(135)	(129)
Interest accumulation on the liability balance	88	85
Other	(708)	(520)
Ending balance of the subsidy cost allowance before reestimates	4,311	3,557
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	115	181
Technical/default reestimate	440	733
Total of the above reestimate components	555	914
Ending balance of the loan guarantee liability	$ 4,866	$ 4,471

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

FY 2013

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ -	$ 23	$ (12)	$ -	$ 11	$ -	$ 8	$ (19)	$ (11)	$ -
Export	-	-	-	-	-	-	(7)	(3)	(10)	(10)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	1	793	(835)	-	(41)	-	135	502	637	596
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	79	(29)	-	50	-	(21)	(40)	(61)	(11)
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 1	$ 895	$ (876)	$ -	$ 20	$ -	$ 115	$ 440	$ 555	$ 575

FY 2012

Loan Guarantee Programs	Interest Supplement	Defaults	Fees and Other Collections	Other	Subtotal	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Farm	$ -	$ 25	$ (11)	$ -	$ 14	$ -	$ 5	$ (26)	$ (21)	$ (7)
Export	-	-	-	-	-	-	(4)	35	31	31
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	(9)	40	(60)	-	(29)	-	169	607	776	747
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	30	(4)	1	27	-	11	117	128	155
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ (9)	$ 95	$ (75)	$ 1	$ 12	$ -	$ 181	$ 733	$ 914	$ 926

Table 9. Guaranteed Loans Disbursed

	FY 2013		FY 2012	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,421	$ 2,180	$ 2,649	$ 2,384
Export	3,175	3,117	4,399	4,306
Food Aid	-	-	-	-
Housing	22,646	20,379	19,042	17,133
Electric	-	-	-	-
Telecommunications	-	-	-	-
Water and Environmental	1	1	26	23
Business and Industry	792	608	1,054	820
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 29,035	$ 26,285	$ 27,170	$ 24,666

Table 10. Administrative Expenses

	FY 2013	FY 2012
Direct Loan Programs	$ 459	$ 489
Guaranteed Loan Programs	415	417
Total Administrative Expenses	$ 874	$ 906

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2013	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Ownership	1.67	5.02	-	(2.45)	4.24
Farm Operating	1.45	4.73	-	(0.61)	5.57
Emergency Disaster	(2.34)	8.38	-	(0.43)	5.61
Indian Tribe Land Acquisition	(14.85)	-	-	-	(14.85)
Boll Weevil Eradication	(2.07)	0.02	-	(0.48)	(2.53)
Indian Highly Fractionated Land	(9.06)	11.14	-	(0.35)	1.73
Farm Storage Facility Loan Program	(2.14)	0.02	(0.27)	(0.07)	(2.46)
Sugar Storage Facility Loan Program	(3.21)	0.03	-	(0.13)	(3.31)
Multi-Family Housing Relending Demo	36.18	-	-	-	36.18
Multi-Family Housing Revitalization Seconds	61.35	0.13	-	(0.04)	61.44
Multi-Family Housing Revitalization Zero	58.35	0.10	-	(0.16)	58.29
Community Facility Loans	(3.11)	2.01	-	(0.99)	(2.09)
Section 502 Single-Family Housing	4.02	3.38	-	(1.43)	5.97
Section 515 Multi-Family Housing	36.28	0.19	-	(1.30)	35.17
Section 504 Housing Repair	18.55	(0.05)	-	(4.84)	13.66
Section 514 Farm Labor Housing	34.11	0.09	-	(0.86)	33.34
Section 523 Self-Help Housing	(2.20)	-	-	0.05	(2.15)
Single-Family Housing Credit Sales	(12.76)	2.59	-	1.20	(8.97)
Intermediary Relending Program	32.76	0.18	-	(0.90)	32.04
Rural Economic Development Loans	12.43	0.01	-	(0.05)	12.39
Water and Waste Disposal Loans	10.07	0.09	-	(2.09)	8.07
FFB Electric Loans	(4.85)	0.08	-	(1.52)	(6.29)
Treasury Telecommunication Loans	-	0.31	-	(1.46)	(1.15)
Broadband Treasury Loans	-	11.43	-	(1.96)	9.47

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2013	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	1.25	(1.32)	-	(0.07)
Farm Operating—Unsubsidized	-	2.52	(1.34)	-	1.18
Conservation—Guaranteed	-	1.04	(1.32)	-	(0.28)
GSM 102	-	0.05	(1.16)	-	(1.11)
Export Guarantee Program—Facilities	-	0.13	(4.78)	-	(4.65)
Community Facility Loan Guarantees	-	7.63	(0.88)	-	6.75
Guaranteed 538 Multi-Family Housing	-	7.07	(7.11)	-	(0.04)
Guaranteed 502 Single-Family Housing	-	4.17	(4.42)	-	(0.25)
Business and Industry Loan Guarantees	-	10.08	(4.19)	-	5.89
Renewable Energy Loan Guarantees	-	25.21	(1.19)	-	24.02
Section 9003 Loan Guarantees	-	45.86	(5.87)	2.01	42.00
Water and Waste Disposal Loans	-	1.91	(0.85)	-	1.06

Note 8. Inventory and Related Property, Net

Commodity inventory is restricted for the purpose of alleviating distress caused by natural disasters, providing emergency food assistance in developing countries and providing price support and stabilization.

		FY 2013 Beginning Inventory		Acquisitions		Sales		Donations		Other		FY 2013 Ending Inventory	
Commodities:	**Unit of Measure**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**
Corn Meal	Pounds	-	$ -	76	$ 19	-	$ -	(76)	$ (19)	-	$ -	-	$ -
Blended Foods	Pounds	2	1	144	54	-	-	(122)	(47)	-	-	25	8
Dry Edible Beans	Cwt.	-	-	-	11	-	-	-	(11)	-	-	-	-
Dry Whole Peas	Cwt.	-	-	2	59	-	-	(2)	(55)	-	-	-	4
Emergency Food Ration Bars	Pounds	1	3	6	11	-	-	(7)	(13)	-	-	1	1
Grain Sorghum	Bushels	-	-	10	74	-	-	(10)	(73)	-	-	-	1
Lentils Dry	Cwt.	-	-	1	22	-	-	(1)	(18)	-	-	-	4
Nonfat Dry Milk	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Rice Products	Cwt., Pounds	-	2	2	66	-	-	(2)	(66)	-	-	-	2
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	12	8	191	122	-	-	(180)	(115)	-	-	23	15
Wheat Products	Bushels, Pounds	-	-	147	239	-	-	(141)	(238)	-	-	6	1
Other	Various	-	-	-	204	-	-	-	(92)	-	(77)	-	35
Total Commodities		XXXX	$ 14	XXXX	$ 881	XXXX	$ -	XXXX	$ (747)	XXXX	$ (77)	XXXX	$ 71
Allowance for losses													(2)
Barter Delivery Obligations (BDO)													-
Total Inventory and Related Property, Net													$ 69

		FY 2012 Beginning Inventory		Acquisitions		Sales		Donations		Other		FY 2012 Ending Inventory	
Commodities:	**Unit of Measure**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**
Corn Meal	Pounds	-	$ -	103	$ 23	-	$ -	(103)	$ (23)	-	$ -	-	$ -
Blended Foods	Pounds	16	5	177	57	-	-	(190)	(61)	-	-	2	1
Dry Edible Beans	Cwt.	-	3	-	13	-	-	-	(16)	-	-	-	-
Dry Whole Peas	Cwt.	-	9	2	64	-	-	(2)	(73)	-	-	-	-
Emergency Food Ration Bars	Pounds	2	4	3	6	-	-	(4)	(7)	-	-	1	3
Grain Sorghum	Bushels	1	5	14	105	-	-	(14)	(110)	-	-	-	-
Lentils Dry	Cwt.	-	-	1	20	-	-	(1)	(20)	-	-	-	-
Nonfat Dry Milk	Pounds	-	-	-	-	-	-	(1)	(1)	1	1	-	-
Rice Products	Cwt., Pounds	-	-	3	81	-	-	(3)	(79)	-	-	-	2
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	33	24	210	150	-	-	(232)	(166)	-	-	12	8
Wheat Products	Bushels, Pounds	-	-	225	263	-	-	(225)	(263)	-	-	-	-
Other	Various	-	-	94	31	-	-	(95)	(32)	1	1	-	-
Total Commodities		XXXX	$ 50	XXXX	$ 813	XXXX	$ -	XXXX	$ (851)	XXXX	$ 2	XXXX	$ 14
Allowance for losses													-
Barter Delivery Obligations (BDO)													-
Total Inventory and Related Property, Net													$ 14

Note 9. General Property, Plant, and Equipment, Net

During FY 2012, ARS transferred $696 million from construction-in-progress to buildings and other structures.

FY 2013 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 76	$ -	$ 76
Improvements to Land	10 - 50	753	(686)	67
Construction-in-Progress		142	-	142
Buildings, Improvements and Renovations	15 - 30	2,934	(1,626)	1,308
Other Structures and Facilities	15 - 50	1,839	(1,509)	330
Equipment	5 - 20	1,636	(1,240)	396
Assets Under Capital Lease	3 - 20	63	(46)	17
Leasehold Improvements	10	78	(64)	14
Internal-Use Software	5 - 8	658	(529)	129
Internal-Use Software in Development		446	-	446
Total		$ 8,625	$ (5,700)	$ 2,925

FY 2012 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		$ 77	$ -	$ 77
Improvements to Land	10 - 50	751	(668)	83
Construction-in-Progress		330	-	330
Buildings, Improvements and Renovations	15 - 30	2,796	(1,548)	1,248
Other Structures and Facilities	15 - 50	1,816	(1,472)	344
Equipment	5 - 20	1,617	(1,219)	398
Assets Under Capital Lease	3 - 20	64	(44)	20
Leasehold Improvements	10	75	(57)	18
Internal-Use Software	5 - 8	650	(501)	149
Internal-Use Software in Development		370	-	370
Total		$ 8,546	$ (5,509)	$ 3,037

Note 10. Stewardship PP&E

Stewardship PP&E consist of assets whose physical properties resemble those of General PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets however, valuation would be difficult and matching costs with specific periods would not be meaningful. Stewardship PP&E include heritage assets and stewardship land.

Heritage Assets

Heritage assets are unique and are generally expected to be preserved indefinitely. Heritage assets may be unique because they have historical or natural significance, are of cultural, educational or artistic importance, or have significant architectural characteristics. The assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No amounts are shown on the balance sheet for heritage assets, except for multi-use heritage assets in which the predominant use of the asset is in general government operations. The costs of acquisition, betterment, or reconstruction of multi-use heritage assets is capitalized as general PP&E and depreciated. The costs of acquiring, constructing, improving, reconstructing, or renovating heritage assets, other than multi-use is considered an expense in the period incurred when determining the net cost of operations. Heritage assets consist of collection type, such as objects gathered and maintained for exhibition, for example library collections; and non-collection-type, such as memorials, monuments and buildings.

National Forests, National Grasslands and Other Sites — FS manages its heritage assets by site. Sites include National Forests, National Grasslands, other Forest Service-managed sites, and non Forest Service- managed sites such as museums and university laboratories. The mission of the FS is to sustain the health, diversity, and productivity of the Nation's forests and grasslands to meet the needs of present and future generations. The FS strives to achieve quality land management under the sustainable multiple-use management concept to deliver the necessary products and services that are essential for enhancing natural resource stewardship and to meet the diverse needs of people.

Heritage Asset categories can include the following:

Priority Heritage Assets (PHA): Heritage assets of distinct public value that are, or should be, actively maintained, and meet one or more of the following criteria:

- The property is recognized through an official designation; such as a listing on the National Register of Historic Places, State register, etc.
- The property is recognized through prior investment in preservation, interpretation, and use. Any improvement to a PHA that meets real property designation criteria is considered real property.
- The property is recognized in an agency-approved management plan.
- The property exhibits critical deferred maintenance needs, and those needs have been documented.

Other Heritage Assets: Assets that may have potential important historical or cultural significance, but lack formal listing and the demonstrated need for active maintenance.

Assemblage Assets: Any grouping of artifacts or archival materials aggregated through donation, agency events, site-specific or other field collection, other acquisition method, or combination therein.

Research Centers — ARS conducts research at centers nationwide to develop and transfer solutions to agricultural problems of high national priority and provides information access and dissemination to ensure high-quality, safe food and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole. NRCS currently owns one heritage asset, the Tucson Plant Materials Center (TPMC) which is included in general PP&E as a multi-use asset. It was listed in the National Register of Historic Places (NRHP) on July 2, 1997. The TPMC develops and evaluates native plants and addresses an array of resource issues in the areas of rangeland, mined land, urban lands, cropland riparian areas, and desert lands. The TPMC provides technical assistance to NRCS field offices, Resource Conservation and Development (RC&D) groups, conservation districts, Federal, State, and Tribal agencies, and private landowners through the greater Southwest. Research centers are considered heritage assets because one or more buildings or structures at these centers is on the National Register of Historic Places or have been identified as eligible for inclusion on the National Register.

Library Collections — The National Agricultural Library (NAL) as a whole is the largest collection of materials devoted to agriculture in the world. The collections are in constant use to support the research activities of USDA, departmental operations and to answer citizen inquiries. NAL houses and provides access to millions of books and periodicals. The overwhelming number of these items were published more than 25 years ago and almost all of them are out-of-print and unavailable for purchase. By statute, NAL is the primary depository of publications and information concerning the research and other activities of USDA. Included in the collection are government documents and many items that are unique and irreplaceable. NAL collects, preserves and provides access to manuscripts, rare books, photographs, posters, oral histories and other unique materials. Collection concentrations include the fields of agriculture, horticulture, entomology, poultry sciences, botany, natural history and agricultural history. Although focused primarily on American agriculture and related sciences, NAL holds numerous items of international origin.

Acquisition and Withdrawal of Heritage Assets — The FS generally does not construct heritage assets, although in some circumstances important site-structural components may be rehabilitated or reconstructed into viable historic properties to provide forest visitors with use and interpretation. Heritage assets may be acquired through the procurement process, but this rarely occurs. Normally, heritage assets are part of the land acquisition and inventory process. Withdrawal occurs through land exchange or natural disasters. Most additions occur through inventory activities where previously undocumented sites are discovered and added to the total.

Stewardship Land

Stewardship land is land and land rights not acquired for or in connection with items of general PP&E. Land is defined as the solid surface of the earth, excluding natural resources. Stewardship land is valued for its environmental resources, recreational and scenic value, cultural and paleontological resources, vast open spaces, and resource commodities and revenue provided to the Federal government, states, and counties. These assets are reported in terms of physical units rather than cost, fair value, or other monetary values. No asset amount is shown on the balance sheet for stewardship land. The acquisition cost of stewardship land is considered an expense in the period acquired when determining the net cost of operations. Stewardship land consists primarily of the national forests and grasslands owned by the FS and conservation easements purchased by NRCS.

National Forests — National forests are formally established and permanently set aside and reserved for national forest purposes, including National Wilderness, National Primitive, National Wild and Scenic River, National Recreation, National Scenic Research, National Game Refuges and Wildlife Preserve, and National Monument areas.

National Grasslands — National grasslands are designated by the Secretary of Agriculture and permanently held by the USDA under Title III of the Bankhead-Jones Farm Tenant Act.

Research and Experimental Areas — Research and experimental areas are reserved and dedicated by the Secretary of Agriculture for forest and range research experimentation. Areas reported are located outside the exterior boundaries of a national forest or national grassland.

National Preserves and Other Areas — National preserves are units established to protect and preserve scientific, scenic, geologic, watershed, fish, wildlife, historic, cultural and recreational values; and provide for multiple use and sustained yield of its renewable resources. Other areas include areas administered by the FS that are not included in one of the above groups.

Conservation Easements — NRCS's mission objectives in administering the conservation easement programs are to provide landowners with financial and technical assistance in return for maintaining and improving high quality productive soils, clean and abundant water, healthy plant and animal communities, clean air, an adequate energy supply, and working farm and ranch land.

NRCS's objectives in managing, monitoring and enforcing the terms and conditions of easement deeds are to ensure that: (1) taxpayer investments are properly used in accordance with the intent of the program; (2) the agency is a good steward of the land; and (3) the land is properly maintained.

Stewardship resources involve substantial investment in order to gain long-term benefits for the American public and help the Agency satisfy its mission. The purpose of purchasing easements is to restore or enhance wetlands, protect farmland, restore and protect grassland, restore and protect forest ecosystems, and restore, protect, maintain, and enhance the functions of floodplains.

NRCS, on behalf of USDA, administers and owns conservation easements on private lands. Landowners are not allowed to withdraw from the program; however termination or expiration may occur. For the purpose of stewardship asset reporting, all easements where NRCS is the grantee of the easement are included as stewardship land. Also included are easements that are administered by NRCS on behalf of other USDA agencies.

Acquisition and Withdrawal of Stewardship Lands — The Land and Water Conservation Fund (L&WCF) Land Acquisition Program acquires land for the FS NFS. The program coordinates with a variety of partners, including State, local, and Tribal governments, and private landowners through statewide planning for development of a land-adjustment strategy.

The Land Acquisition Program preserves, develops, and maintains access to NFS lands and waters for the public and provides permanent access to public lands for recreation, commodity production, resource management, public safety, and community economic viability.

The L&WCF statutory authority specifically defines the purpose to also include protecting the quality of scientific, scenic, historical, ecological, environmental, air and atmospheric, water resource, archeological values, as well as food and habitat for fish and wildlife, and managing the public lands for minerals, food, timber and fiber.

From these several allowable uses of program funding, the program concentrates on protecting habitat for priority species identified in the national forest and grassland's Land Management Plans and enhancing recreational opportunities for areas with high demand for recreation. The program focuses acquisitions on inholdings and areas adjacent to existing NFS lands.

	FY 2013	Additions	Withdrawals	FY 2012
Heritage Assets				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Other Sites	168	7	(7)	168
Research Centers	34	-	(2)	36
Library Collections	1	-	-	1
Total	377	7	(9)	379
Stewardship Land				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
Conservation Easements	16,253	1,517	-	14,736
Total	16,433	1,517	-	14,916

	FY 2012	Additions	Withdrawals	FY 2011
Heritage Assets				
National Forests	154	-	(1)	155
National Grasslands	20	-	-	20
Other Sites	168	19	(18)	167
Research Centers	36	-	-	36
Library Collections	1	-	-	1
Total	379	19	(19)	379
Stewardship Land				
National Forests	154	-	(1)	155
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	3	-	-	3
Conservation Easements	14,736	759	-	13,977
Total	14,916	759	(1)	14,158

Note 11. Other Assets

In FY 2013 and FY 2012, other assets include investments in trust for loan asset sales of $35 million.

	FY 2013	FY 2012
Intragovernmental:		
Advances to Others	$ 6	$ -
Subtotal Intragovernmental	6	-
With the Public:		
Advances to Others	161	160
Other Assets	37	37
Total Other Assets	$ 204	$ 197

Note 12. Liabilities Not Covered By Budgetary Resources

In FY 2013 and FY 2012, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $167 million and $167 million, contract disputes claims payable to Treasury's Judgment Fund of $23 million and $23 million, unemployment compensation of $21 million and $25 million, and custodial of $3 million and $3 million, respectively.

In FY 2013 and FY 2012, other liabilities with the public not covered by budgetary resources include, Tobacco Transition Payment Program of $954 million and $1,906 million, future funded indemnity costs of $3,846 million and $17,067 million, crop insurance premium subsidy deficiency reserve of $1,040 million and $1,126 million, unfunded leave of $596 million and $615 million, Payments to States $325 million and $346 million, contingent liabilities of $120 million and $74 million, estimated program delivery costs to reinsurer of $11 million and $92 million, respectively. In FY 2013, there was an estimated underwriting gain on crop insurance of $1,973 million and credit programs of $19 million. In FY 2012, the Black Farmer Discrimination Lawsuit, also known as Pigford II was $50 million and unapplied collections were $16 million.

	FY 2013	FY 2012
Intragovernmental:		
Other	$ 215	$ 218
Subtotal Intragovernmental	215	218
With the Public:		
Accounts Payable	-	-
Federal employee and veterans' benefits	986	944
Environmental and disposal liabilities	176	8
Other	8,885	21,291
Subtotal With the Public	10,047	22,243
Total liabilities not covered by budgetary resources	10,262	22,461
Total liabilities covered by budgetary resources	141,080	130,673
Total Liabilities	$ 151,342	$ 153,134

Note 13. Debt

FY 2013	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 55,788	$ 8,592	$ 64,380
Debt to the Federal Financing Bank	38,092	2,568	40,660
Total Intragovernmental	93,880	11,160	105,040
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 93,880	$ 11,160	$ 105,040

FY 2012	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 55,357	$ 431	$ 55,788
Debt to the Federal Financing Bank	34,226	3,866	38,092
Total Intragovernmental	89,583	4,297	93,880
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 89,583	$ 4,297	$ 93,880

Note 14. Environmental and Disposal Liabilities

The Department is subject to the Comprehensive Environmental Response, Compensation, and Liability Act, the Clean Water Act, and the Resource Conservation and Recovery Act for cleanup of hazardous waste. In FY 2013, CCC and FS estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $8 million and $3 million, respectively, based on actual cleanup costs at similar sites. In FY 2012, the liability was $8 million and $2 million, respectively. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

The Department is also subject to Asbestos National Emissions Standards for Hazardous Air Pollutants. In FY 2013, the Department estimated its liability for asbestos-related cleanup of real property to be $165 million. The liability is calculated using total square footage of real property expected to contain asbestos times a cost factor based on historical actual cleanup costs, adjusted for inflation, including any other identifiable costs, e.g. survey cost. As additional information becomes available, key assumptions will be reevaluated, cost estimates will be revised, and necessary adjustments will be made to the liability recognition.

Note 15. Other Liabilities

In FY 2013, other liabilities with the public include future funded indemnity costs of $3,846 million, estimated underwriting gains on crop insurance of $1,973 million, crop insurance premium subsidy deficiency reserve of $1,040 million, Payments to States of $327 million, estimated program delivery cost to reinsurer of $11 million, credit programs of $19 million, unapplied collections of $16 million, loans paid in advance for multi-family housing of $13 million, and purchaser road credits of $1 million.

In FY 2012, other liabilities with the public include future funded indemnity costs of $17,067 million, estimated underwriting gains on crop insurance of $1,666 million, crop insurance premium subsidy deficiency reserve of $1,126 million, Pigford II of $1,200 million, Payments to States of $346 million, estimated program delivery cost to reinsurer of $92 million, credit programs of $18 million, unapplied collections of $16 million, loans paid in advance for multi-family housing of $12 million, and purchaser road credits of $1 million.

FY 2013	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 23	$ 36	$ 59
Employer Contributions and Payroll Taxes	-	46	46
Unfunded FECA Liability	-	167	167
Other Unfunded Employment Related Liability	-	21	21
Advances from Others	-	49	49
Liability for Deposit Funds, Clearing Accounts	-	758	758
Liability for Subsidy Related to Undisbursed Loans	-	59	59
Resources Payable to Treasury	-	12,891	12,891
Custodial Liability	-	66	66
Other Liabilities	-	-	-
Subtotal Intragovernmental	23	14,093	14,116
With the Public:			
Other Accrued Liabilities	-	10,553	10,553
Accrued Funded Payroll and Leave	-	211	211
Unfunded Leave	-	596	596
Advances from Others	-	160	160
Deferred Credits	-	734	734
Liability for Deposit Funds, Clearing Accounts	-	344	344
Contingent Liabilities	-	120	120
Capital Lease Liability	13	5	18
Custodial Liability	-	8	8
Other Liabilities	23	7,222	7,245
Subtotal With the Public	36	19,953	19,989
Total Other Liabilities	$ 59	$ 34,046	$ 34,105

FY 2012	Non-Current	Current	Total
Intragovernmental:			
Other Accrued Liabilities	$ 21	$ 72	$ 93
Employer Contributions and Payroll Taxes	-	108	108
Unfunded FECA Liability	-	167	167
Other Unfunded Employment Related Liability	-	25	25
Advances from Others	-	87	87
Liability for Deposit Funds, Clearing Accounts	-	(14)	(14)
Liability for Subsidy Related to Undisbursed Loans	-	64	64
Resources Payable to Treasury	-	11,845	11,845
Custodial Liability	-	57	57
Other Liabilities	-	2	2
Subtotal Intragovernmental	21	12,413	12,434
With the Public:			
Other Accrued Liabilities	-	11,817	11,817
Accrued Funded Payroll and Leave	-	465	465
Unfunded Leave	-	615	615
Advances from Others	-	137	137
Deferred Credits	-	741	741
Liability for Deposit Funds, Clearing Accounts	-	138	138
Contingent Liabilities	-	74	74
Capital Lease Liability	16	6	22
Custodial Liability	-	-	-
Other Liabilities	22	21,524	21,546
Subtotal With the Public	38	35,517	35,555
Total Other Liabilities	$ 59	$ 47,930	$ 47,989

Note 16. Leases

USDA activities based in the Washington D.C. area are located in General Services Administration (GSA) leased facilities, and USDA owned buildings. The USDA Headquarter complex (Whitten Building, and South Building) is a government owned facility, which is part of the GSA Federal Buildings Inventory. As the result of a 1998 Agreement between GSA and USDA, a moratorium was placed on the rental billings for the Headquarters complex beginning in FY 1999.

At current market rate, the estimated yearly rental payment for the above mentioned space would be $65 million. This agreement is still in effect and as a result, USDA activities located in the Headquarter complex are not billed for rental costs.

FY 2013	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 63
Machinery and Equipment	-
Accumulated Amortization	(46)
Future Payments Due:	
	Land & Buildings
Fiscal Year	
2014	10
2015	9
2016	8
2017	6
2018	5
After 5 Years	16
Total Future Lease Payments	54
Less: Imputed Interest	25
Less: Executory Costs	11
Less: Lease Renewal Options	-
Net Capital Lease Liability	18
Lease liabilities covered by budgetary resources	18

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2014	122	-	1	123
2015	109	-	-	109
2016	95	-	1	96
2017	85	-	-	85
2018	75	-	-	75
After 5 Years	278	-	1	279
Total Future Lease Payments	$ 764	$ -	$ 3	$ 767

FY 2012

Capital Leases:

Summary of Assets Under Capital Leases	
Land and Building	$ 64
Machinery and Equipment	-
Accumulated Amortization	(44)

Future Payments Due:

Fiscal Year	Land & Buildings
2013	11
2014	10
2015	9
2016	8
2017	6
After 5 Years	21
Total Future Lease Payments	65
Less: Imputed Interest	30
Less: Executory Costs	13
Less: Lease Renewal Options	-
Net Capital Lease Liability	22
Lease liabilities covered by budgetary resources	22

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2013	125	1	1	127
2014	109	-	1	110
2015	98	-	-	98
2016	85	-	-	85
2017	76	-	-	76
After 5 Years	325	-	1	326
Total Future Lease Payments	$ 818	$ 1	$ 3	$ 822

Note 17. Commitments and Contingencies

The Department is subject to various claims and contingencies related to lawsuits as well as commitments under contractual and other commercial obligations.

For cases in which payment has been deemed probable and for which the amount of potential liability has been estimated, $120 million and $74 million has been accrued in the financial statements as of September 30, 2013 and 2012, respectively.

No amounts have been accrued in the financial statements for claims where the amount is uncertain or where the probability of judgment against USDA is remote. The Department's potential liability for claims where a judgment against the Department is reasonably possible ranges from $764 million to $1,704 million as of September 30, 2013, compared to $734 million to $1,544 million as of September 30, 2012.

CRP rental payments are estimated to be $2,000 million annually through FY 2019. Commitments to extend loan guarantees are estimated to be $5,430 million and $5,983 million in FY 2013 and FY 2012, respectively.

Note 18. Funds from Dedicated Collections

Funds from dedicated collections are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. These specifically identified revenues and other financing sources are required by statute to be used for designated activities or purposes and must be accounted for separately from the Government's general revenues.

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

Agricultural Marketing Service

Funds for Strengthening Markets, Income, and Supply

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

Expenses and Refunds, Inspection and Grading of Farm Products

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

Animal Plant Health Inspection Service

Agricultural Quarantine Inspection User Fee Account

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

Forest Service

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the Forest Service. Cooperators include timber purchasers, not-for-profit organizations, and local hunting and fishing clubs. The governing authorities are the Cooperative Funds Act of July 31, 1914 (16 U.S.C. 498), and the Knutson-Vandenberg Act.

Land Acquisition

Each fiscal year this fund receives a transfer of recreation user fees from the Department of the Interior's Land and Water Conservation Fund, to be used for the acquisition of land or waters, or interest therein, including administrative expenses, to carry out the provisions of the Land and Water Conservation Fund Act of 1965, as amended (16 U.S.C. 460l-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Payments to States, National Forest Fund

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25 percent of all monies received from the national forests and deposited into the National Forest Fund during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated.

Timber Salvage Sales

The Timber Salvage Sale Fund was established to facilitate the timely removal of timber damaged by fire, wind, insects, disease, or other events. Amounts collected from the sale of salvaged timber are used on other qualifying salvage sales to cover the cost of preparing and administering the sales. The Timber Salvage Sales program is authorized by 16 USC 472(a).

State, Private, and International Forestry, Land and Water Conservation Fund

The Fiscal Year 2004 Department of the Interior and Related Agencies Appropriation Act (Public Law 108-108) authorizes the Forest Service to receive a transfer of receipts from the Department of the Interior's Land and Water Conservation Fund to finance the existing Forest Legacy Program, funded previously by State and Private Forestry general appropriation. To accommodate the new financing arrangement and at OMB's request, the U.S. Department of Treasury established a new special fund, "State, Private and International Forestry Land and Water Conservation Fund". The program expenditures include grants and an occasional land purchase, but no real property will be procured or constructed.

Recreation Fee Demonstration Program

The Recreation Fee Demonstration Program fund receives deposits of recreation fees collected from projects that are part of the Recreation Fee Demonstration Program. These monies are retained and used for backlog repair and maintenance of recreation areas, sites or projects. These funds are also used for interpretation, signage, habitat or facility enhancement, resource preservation, annual operation, maintenance, and law enforcement related to public use of recreation areas and sites. The Recreation Fee Demonstration Program is authorized by 16 U.S.C. 4601-6(a).

National Forest Fund Receipts

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as "Payments to States", requires with a few exceptions, that 25 percent of all monies received from the national forests and deposited into the National Forest Fund during a fiscal year from timber, grazing, special-use permits, power and mineral leases, and admission and user fees be paid to the States in which the national forests are located, for public schools and public roads in the county or counties in which the national forests are situated.

Restoration of Forest Lands and Improvements

The Restoration of Forest Lands and Improvements Acts (16 U.S.C. 579(c)) states any monies received by the United States with respect to lands under the administration of the Forest Service (a) as a result of the forfeiture of a bond or deposit by a permittee or timber purchaser for failure to complete performance of improvement, protection, or rehabilitation work required under the permit or timber sale contract or (b) as a result of a judgment, compromise, or settlement of any claim, involving present or potential damage to lands or improvements, shall be deposited into the United States Treasury and are appropriated and made available until expended to cover the cost to the United States of any improvement, protection, or rehabilitation work on lands under the administration of the Forest Service rendered necessary by the action which led to the forfeiture, judgment, compromise, or settlement: Provided, that any portion of the monies received in excess of the amount expended in performing the work necessitated by the action which led to their receipt shall be transferred to miscellaneous receipts.

Payments to Counties, National Grasslands

Payments to Counties, Title III, Bankhead-Jones Farm Tenant Act (Act) authorizes national grassland or land utilization project receipts to be shared through grants with local governments for the purposes stated in the Act. At the end of each calendar year twenty-five percent of the net revenues from each national grassland or land utilization project are paid to the counties in which such lands are located. These payments are not in lieu of taxes. Receipts from the Act designated as either national grasslands or land utilization projects are to be credited to a special account.

Acquisition of Lands to Complete Land Exchanges

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

National Institute of Food and Agriculture (NIFA)

Native American Institutions Endowment Fund

The Native American Institutions Endowment Fund was authorized by Public Law 103-382, and provided an initial installment to establish an endowment to benefit the 1994 land grant institutions. The public law states that “This program will enhance educational opportunities for Native Americans by building educational capacity at these institutions in the areas of student recruitment and retention, curricula development, faculty preparation, instruction delivery systems, and scientific instrumentation for teaching.” While the principal (corpus) of the fund cannot be used, the interest that is earned on the endowment fund investments in Treasury instruments can be used for the purposes described above.

After the close of a fiscal year, the income is distributed after making adjustments for the cost of administering the fund.

Other

Financial information is summarized for all other funds from dedicated collections with total assets less than $50 million listed below.

Agricultural Marketing Service

Perishable Agricultural Commodities Act
Wool Research, Development and Promotion Trust Fund

Animal Plant Health Inspection Service

Miscellaneous Contributed Funds

Forest Service

Roads and Trails for States, National Forest Fund
Reforestation Trust Fund
Timber Sales Pipeline Restoration Fund
Operation and Maintenance of Forest Service Quarters
Timber Roads, Purchaser Elections
Expenses, Brush Disposal
Range Betterment Fund
Acquisition of Lands for National Forests, Special Acts
Construction of Facilities or Land Acquisition
Recreation Fees for Collection Costs
Payment to Minnesota (Cook, Lake and Saint Louis Counties)
Licensee Program
Tongrass Timber Supply Fund
Resource Management Timber Receipts
Quinault Special Management Area
MNP Rental Fee Account
Midewin National Tallgrass Prairie Restoration Fund
Land Between the Lakes Management Fund
Administration of Rights-of-Way and Other Land Uses Fund
Valles Caldera Fund
Hardwood Technology Transfer and Applied Research Fund
Stewardship Contracting Product Sales
Mount Saint Helens Highway
Gifts, Donations and Bequests for Forest and Rangeland Research
Land Between the Lakes Trust Fund
Gifts and Bequests

Natural Resources Conservation Service

Miscellaneous Contributed Funds

Agricultural Research Service

Concessions Fees and Volunteer Services
Gifts and Bequests
Miscellaneous Contributed Funds

Rural Development

Alternative Agricultural Research and Commercialization Revolving Fund

Foreign Agricultural Service

Miscellaneous Contributed Funds
Gifts and Bequests
Foreign Service National Separation Liability Trust Fund

Grain Inspection, Packers and Stockyards Administration

Inspection and Weighing Services

Food Safety and Inspection Service

Expenses and Refunds, Inspection of Farm Products

Office of the Inspector General

Inspector General Assets Forfeiture, Department of Justice
Inspector General Assets Forfeiture, Department of Treasury

National Agricultural Statistics Service

Miscellaneous Contributed Funds

Economic Research Service

Miscellaneous Contributed Funds

Departmental Offices

Gifts and Bequests

Funds from Dedicated Collections

Balance Sheet As of September 30, 2013	AMS Funds for Strengthening Markets, Income, and Supply	AMS Expenses and Refunds, Inspection and Grading of Farm Products	APHIS Agricultural Quarantine Inspection User Fee Account	FS Cooperative Work	FS Land Acquisition	FS Payments to States, National Forests Fund	FS Timber Salvage Sales	FS State, Private, and International Forestry, Land and Water Conservation Fund
Fund Balance with Treasury	$ 338	$ 89	$ 162	$ 181	$ 20	$ 108	$ 52	$ 118
Investments	-	-	-	-	-	-	-	-
Other Assets	207	23	142	23	46	2	2	-
Total Assets	545	112	304	204	66	110	54	118
Other Liabilities	6	60	86	83	-	303	1	35
Total Liabilities	6	60	86	83	-	303	1	35
Unexpended Appropriations	-	-	-	-	-	-	-	-
Cumulative Results of Operations	539	52	218	121	66	(193)	53	83
Total Liabilities and Net Position	545	112	304	204	66	110	54	118
Statement of Net Cost For the Period Ended September 30, 2013								
Gross program costs	975	186	186	104	51	112	22	63
Less Earned Revenue	2	145	578	88	-	47	28	-
Net Cost of Operations	973	41	(392)	16	51	65	(6)	63
Statement of Changes in Net Position For the period Ended September 30, 2013								
Net Position Beginning of Period	674	55	192	147	59	(130)	32	100
Changes in Accounting Principles (Note 31)	-	-	-	-	-	-	-	-
Beginning Balance, as Adjusted	674	55	192	147	59	(130)	32	100
Other Financing Sources	838	38	(366)	(10)	58	2	15	46
Net Cost of Operations	(973)	(41)	392	(16)	(51)	(65)	6	(63)
Change in Net Position	(135)	(3)	26	(26)	7	(63)	21	(17)
Net Position End of Period	$ 539	$ 52	$ 218	$ 121	$ 66	$ (193)	$ 53	$ 83

Funds from Dedicated Collections

Balance Sheet As of September 30, 2013	FS Recreation Fee Demonstration Program	FS National Forest Fund Receipts	FS Restoration of Forest Lands and Improvements	FS Payments to Counties, National Grasslands	FS Acquisition of Lands to Complete Land Exchanges	NIFA Native American Institutions Endowment Fund	FSA Agricultural Disaster Relief Trust Fund	Other	Total
Fund Balance with Treasury	$ 71	$ 68	$ 74	$ 64	$ 35	$ 40	$ -	$ 282	$ 1,702
Investments	-	-	-	-	-	140	-	3	143
Other Assets	5	11	2	1	41	-	-	29	534
Total Assets	76	79	76	65	76	180	-	314	2,379
Other Liabilities	3	-	2	-	-	-	-	118	697
Total Liabilities	3	-	2	-	-	-	-	118	697
Unexpended Appropriations	-	-	-	-	-	107	-	-	107
Cumulative Results of Operations	73	79	74	65	76	73	-	196	1,575
Total Liabilities and Net Position	76	79	76	65	76	180	-	314	2,379
Statement of Net Cost For the Period Ended September 30, 2013									
Gross program costs	65	-	20	-	4	-	-	240	2,028
Less Earned Revenue	70	104	81	1	4	6	-	175	1,329
Net Cost of Operations	(5)	(104)	(61)	(1)	-	(6)	-	65	699
Statement of Changes in Net Position For the period Ended September 30, 2013									
Net Position Beginning of Period	68	6	136	139	76	162	(895)	220	1,041
Changes in Accounting Principles (Note 31)	-	-	-	-	-	-	895	(17)	878
Beginning Balance, as Adjusted	68	6	136	139	76	162	-	203	1,919
Other Financing Sources	-	(31)	(123)	(75)	-	12	-	58	462
Net Cost of Operations	5	104	61	1	-	6	-	(65)	(699)
Change in Net Position	5	73	(62)	(74)	-	18	-	(7)	(237)
Net Position End of Period	$ 73	$ 79	$ 74	$ 65	$ 76	$ 180	$ -	$ 196	$ 1,682

Funds from Dedicated Collections

Balance Sheet As of September 30, 2012	AMS Funds for Strengthening Markets, Income, and Supply	AMS Expenses and Refunds, Inspection and Grading of Farm Products	APHIS Agricultural Quarantine Inspection User Fee Account	FS Cooperative Work	FS Land Acquisition	FS Payments to States, National Forests Fund	FS State, Private, and International Forestry, Land and Water Conservation Fund
Fund Balance with Treasury	$ 247	$ 94	$ 141	$ 213	$ 14	$ 186	$ 130
Investments	-	-	-	-	-	-	-
Other Assets	429	26	136	19	46	3	1
Total Assets	676	120	277	232	60	189	131
Other Liabilities	2	65	85	85	1	319	31
Total Liabilities	2	65	85	85	1	319	31
Unexpended Appropriations	-	-	-	-	-	-	-
Cumulative Results of Operations	674	55	192	147	59	(130)	100
Total Liabilities and Net Position	676	120	277	232	60	189	131
Statement of Net Cost For the Period Ended September 30, 2012							
Gross program costs	696	188	189	98	48	114	47
Less Earned Revenue	-	152	555	92	-	107	-
Net Cost of Operations	696	36	(366)	6	48	7	47
Statement of Changes in Net Position For the period Ended September 30, 2012							
Net Position Beginning of Period	569	53	175	313	74	(123)	94
Other Financing Sources	801	38	(349)	(160)	33	-	53
Net Cost of Operations	(696)	(36)	366	(6)	(48)	(7)	(47)
Change in Net Position	105	2	17	(166)	(15)	(7)	6
Net Position End of Period	$ 674	$ 55	$ 192	$ 147	$ 59	$ (130)	$ 100

Funds from Dedicated Collections

Balance Sheet As of September 30, 2012	FS Recreation Fee Demonstration Program	FS Restoration of Forest Lands and Improvements	FS Payments to Counties, National Grasslands	FS Acquisition of Lands to Complete Land Exchanges	NIFA Native American Institutions Endowment Fund	FSA Agricultural Disaster Relief Trust Fund	Other	Total
Fund Balance with Treasury	$ 68	$ 135	$ 138	$ 36	$ 19	$ 193	$ 328	$ 1,942
Investments	-	-	-	-	143	-	3	146
Other Assets	5	2	-	41	-	8	42	758
Total Assets	73	137	138	77	162	201	373	2,846
Other Liabilities	5	1	(1)	1	-	1,096	115	1,805
Total Liabilities	5	1	(1)	1	-	1,096	115	1,805
Unexpended Appropriations	-	-	-	-	96	-	1	97
Cumulative Results of Operations	68	136	139	76	66	(895)	257	944
Total Liabilities and Net Position	73	137	138	77	162	201	373	2,846
Statement of Net Cost For the Period Ended September 30, 2012								
Gross program costs	71	18	-	5	-	678	275	2,427
Less Earned Revenue	67	64	(1)	5	2	-	276	1,319
Net Cost of Operations	4	(46)	1	-	(2)	678	(1)	1,108
Statement of Changes in Net Position For the period Ended September 30, 2012								
Net Position Beginning of Period	72	170	62	76	148	(203)	324	1,804
Other Financing Sources	-	(80)	78	-	12	(14)	(67)	345
Net Cost of Operations	(4)	46	(1)	-	2	(678)	1	(1,108)
Change in Net Position	(4)	(34)	77	-	14	(692)	(66)	(763)
Net Position End of Period	$ 68	$ 136	$ 139	$ 76	$ 162	$ (895)	$ 258	$ 1,041

Note 19. Suborganization Program Costs/Program Costs by Segment

FY 2013	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 911	$ 2,525	$ 1,009	$ 5,264	$ 206	$ 169
Less: Earned Revenue	142	199	8	49	85	(1)
Net Costs	769	2,326	1,001	5,215	121	170
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	115	319	422	1,760	-	-
Less: Earned Revenue	18	25	33	2	-	-
Net Costs	97	294	389	1,758	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	112	2,436	58	48
Less: Earned Revenue	-	-	152	134	24	-
Net Costs	-	-	(40)	2,302	34	48
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	1,026	2,844	1,543	9,460	264	217
Less: Total Earned Revenue	160	224	193	185	109	(1)
Net Cost of Operations	$ 866	$ 2,620	$ 1,350	$ 9,275	$ 155	$ 218

FY 2013	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 67	$ 7,591	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	1,706	-	-	-	-
Net Costs	67	5,885	-	-	-	-
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	1,166	108,768	377	911
Less: Earned Revenue	-	-	1	62	1	213
Net Costs	-	-	1,165	108,706	376	698
Total Gross Costs	67	7,591	1,166	108,768	377	911
Less: Total Earned Revenue	-	1,706	1	62	1	213
Net Cost of Operations	$ 67	$ 5,885	$ 1,165	$ 108,706	$ 376	$ 698

FY 2013	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 77	$ 501	$ 48	$ 132	$ 34	$ 59
Less: Earned Revenue	2	88	13	92	1	40
Net Costs	75	413	35	40	33	19
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	23	62	-	-
Less: Earned Revenue	-	-	6	43	-	-
Net Costs	-	-	17	19	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	21	57	-	-
Less: Earned Revenue	-	-	5	39	-	-
Net Costs	-	-	16	18	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	105	682	263	722	-	-
Less: Earned Revenue	3	120	68	504	-	-
Net Costs	102	562	195	218	-	-
Total Gross Costs	182	1,183	355	973	34	59
Less: Total Earned Revenue	5	208	92	678	1	40
Net Cost of Operations	$ 177	$ 975	$ 263	$ 295	$ 33	$ 19

FY 2013	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ -	$ -	$ -	$ -	$ 84	$ 313
Less: Earned Revenue	-	-	-	-	29	15
Net Costs	-	-	-	-	55	298
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	1,359	5,182	656	3,465	50	189
Less: Earned Revenue	225	536	128	6	17	9
Net Costs	1,134	4,646	528	3,459	33	180
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	37	139
Less: Earned Revenue	-	-	-	-	13	7
Net Costs	-	-	-	-	24	132
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	123	460
Less: Earned Revenue	-	-	-	-	43	22
Net Costs	-	-	-	-	80	438
Total Gross Costs	1,359	5,182	656	3,465	294	1,101
Less: Total Earned Revenue	225	536	128	6	102	53
Net Cost of Operations	$ 1,134	$ 4,646	$ 528	$ 3,459	$ 192	$ 1,048

FY 2013	NIFA		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 31	$ 660	$ 13	$ 20	$ 73	$ 141
Less: Earned Revenue	47	-	1	-	18	4
Net Costs	(16)	660	12	20	55	137
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	8	172	5	8	-	1
Less: Earned Revenue	12	-	-	-	-	-
Net Costs	(4)	172	5	8	-	1
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	10	201	9	14	-	-
Less: Earned Revenue	14	-	1	-	-	-
Net Costs	(4)	201	8	14	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	7	154	9	13	2	3
Less: Earned Revenue	11	-	1	-	-	-
Net Costs	(4)	154	8	13	2	3
Total Gross Costs	56	1,187	36	55	75	145
Less: Total Earned Revenue	84	-	3	-	18	4
Net Cost of Operations	$ (28)	$ 1,187	$ 33	$ 55	$ 57	$ 141

FY 2013	RD Intragovernmental	RD With the Public	DO Intragovernmental	DO With the Public	Total Intragovernmental	Total With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 4,104	$ 725	$ 212	$ 331	$ 6,869	$ 18,431
Less: Earned Revenue	539	3,560	329	4	1,214	5,756
Net Costs	3,565	(2,835)	(117)	327	5,655	12,675
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	150	235	2,788	11,393
Less: Earned Revenue	-	-	234	3	673	624
Net Costs	-	-	(84)	232	2,115	10,769
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	12	19	259	2,914
Less: Earned Revenue	-	-	19	-	228	180
Net Costs	-	-	(7)	19	31	2,734
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	204	317	2,256	112,030
Less: Earned Revenue	-	-	315	3	443	924
Net Costs	-	-	(111)	314	1,813	111,106
Total Gross Costs	4,104	725	578	902	12,172	144,768
Less: Total Earned Revenue	539	3,560	897	10	2,558	7,484
Net Cost of Operations	$ 3,565	$ (2,835)	$ (319)	$ 892	$ 9,614	$ 137,284

FY 2013		Intradepartmental Eliminations		Grand Total
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:				
Gross Costs	$	(1,686)	$	23,614
Less: Earned Revenue		(472)		6,498
Net Costs		(1,214)		17,116
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:				
Gross Costs		(999)		13,182
Less: Earned Revenue		(355)		942
Net Costs		(644)		12,240
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:				
Gross Costs		(103)		3,070
Less: Earned Revenue		(178)		230
Net Costs		75		2,840
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:				
Gross Costs		(1,291)		112,995
Less: Earned Revenue		(314)		1,053
Net Costs		(977)		111,942
Total Gross Costs		(4,079)		152,861
Less: Total Earned Revenue		(1,319)		8,723
Net Cost of Operations	$	(2,760)	$	144,138

FY 2012	FSA		CCC		FAS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 926	$ 1,551	$ 993	$ 4,919	$ 224	$ 177
Less: Earned Revenue	186	213	10	102	89	(3)
Net Costs	740	1,338	983	4,817	135	180
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	112	187	460	1,694	-	-
Less: Earned Revenue	22	26	36	2	-	-
Net Costs	90	161	424	1,692	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	132	2,379	64	50
Less: Earned Revenue	-	-	298	404	25	(1)
Net Costs	-	-	(166)	1,975	39	51
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	1,038	1,738	1,585	8,992	288	227
Less: Total Earned Revenue	208	239	344	508	114	(4)
Net Cost of Operations	$ 830	$ 1,499	$ 1,241	$ 8,484	$ 174	$ 231

FY 2012	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 73	$ 19,907	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	5,909	-	-	-	-
Net Costs	73	13,998	-	-	-	-
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	528	106,125	380	901
Less: Earned Revenue	-	-	2	67	3	180
Net Costs	-	-	526	106,058	377	721
Total Gross Costs	73	19,907	528	106,125	380	901
Less: Total Earned Revenue	-	5,909	2	67	3	180
Net Cost of Operations	$ 73	$ 13,998	$ 526	$ 106,058	$ 377	$ 721

FY 2012	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 25	$ 517	$ 48	$ 140	$ 33	$ 62
Less: Earned Revenue	1	104	9	84	1	39
Net Costs	24	413	39	56	32	23
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	22	66	-	-
Less: Earned Revenue	-	-	4	40	-	-
Net Costs	-	-	18	26	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	21	61	-	-
Less: Earned Revenue	-	-	4	37	-	-
Net Costs	-	-	17	24	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	25	510	266	780	-	-
Less: Earned Revenue	1	103	49	471	-	-
Net Costs	24	407	217	309	-	-
Total Gross Costs	50	1,027	357	1,047	33	62
Less: Total Earned Revenue	2	207	66	632	1	39
Net Cost of Operations	$ 48	$ 820	$ 291	$ 415	$ 32	$ 23

FY 2012	FS		NRCS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ -	$ -	$ -	$ -	$ 82	$ 340
Less: Earned Revenue	-	-	-	-	23	13
Net Costs	-	-	-	-	59	327
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	1,411	5,530	638	3,592	51	211
Less: Earned Revenue	132	708	163	-	14	8
Net Costs	1,279	4,822	475	3,592	37	203
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	37	156
Less: Earned Revenue	-	-	-	-	10	6
Net Costs	-	-	-	-	27	150
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	124	515
Less: Earned Revenue	-	-	-	-	34	19
Net Costs	-	-	-	-	90	496
Total Gross Costs	1,411	5,530	638	3,592	294	1,222
Less: Total Earned Revenue	132	708	163	-	81	46
Net Cost of Operations	$ 1,279	$ 4,822	$ 475	$ 3,592	$ 213	$ 1,176

FY 2012	NIFA		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 27	$ 730	$ 16	$ 20	$ 67	$ 127
Less: Earned Revenue	16	-	1	-	19	(5)
Net Costs	11	730	15	20	48	132
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	7	185	6	8	-	1
Less: Earned Revenue	4	-	-	-	-	-
Net Costs	3	185	6	8	-	1
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	12	331	11	14	-	-
Less: Earned Revenue	7	-	1	-	-	-
Net Costs	5	331	10	14	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	6	165	11	14	2	4
Less: Earned Revenue	4	-	1	-	1	-
Net Costs	2	165	10	14	1	4
Total Gross Costs	52	1,411	44	56	69	132
Less: Total Earned Revenue	31	-	3	-	20	(5)
Net Cost of Operations	$ 21	$ 1,411	$ 41	$ 56	$ 49	$ 137

FY 2012	RD		DO		Total	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:						
Gross Costs	$ 4,088	$ 3,241	$ 187	$ 327	$ 6,789	$ 32,058
Less: Earned Revenue	431	3,432	314	2	1,100	9,890
Net Costs	3,657	(191)	(127)	325	5,689	22,168
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:						
Gross Costs	-	-	126	219	2,833	11,693
Less: Earned Revenue	-	-	211	2	586	786
Net Costs	-	-	(85)	217	2,247	10,907
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	13	23	290	3,014
Less: Earned Revenue	-	-	22	-	367	446
Net Costs	-	-	(9)	23	(77)	2,568
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	169	297	1,511	109,311
Less: Earned Revenue	-	-	284	2	379	842
Net Costs	-	-	(115)	295	1,132	108,469
Total Gross Costs	4,088	3,241	495	866	11,423	156,076
Less: Total Earned Revenue	431	3,432	831	6	2,432	11,964
Net Cost of Operations	$ 3,657	$ (191)	$ (336)	$ 860	$ 8,991	$ 144,112

FY 2012	Intradepartmental Eliminations	Grand Total
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ (1,655)	$ 37,192
Less: Earned Revenue	(490)	10,500
Net Costs	(1,165)	26,692
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Gross Costs	(1,046)	13,480
Less: Earned Revenue	(366)	1,006
Net Costs	(680)	12,474
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	(116)	3,188
Less: Earned Revenue	(195)	618
Net Costs	79	2,570
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	(674)	110,148
Less: Earned Revenue	(283)	938
Net Costs	(391)	109,210
Total Gross Costs	(3,491)	164,008
Less: Total Earned Revenue	(1,334)	13,062
Net Cost of Operations	$ (2,157)	$ 150,946

Note 20. Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2013 and FY 2012 was $424 million and $521 million, respectively.

Note 21. Terms of Borrowing Authority Used

The Secretary of Agriculture has the authority to make and issue notes to the Secretary of Treasury for the purpose of discharging obligations for RD's insurance funds and CCC's nonreimbursed realized losses and debt related to foreign assistance programs. The permanent indefinite borrowing authority includes both interest bearing and non–interest bearing notes. These notes are drawn upon daily when disbursements exceed deposits. Notes payable under the permanent indefinite borrowing authority have a term of one year. On January 1 of each year, USDA refinances its outstanding borrowings, including accrued interest, at the January borrowing rate.

In addition, USDA has permanent indefinite borrowing authority for the foreign assistance and export credit programs to finance disbursements on post-credit reform, direct credit obligations, and credit guarantees. In accordance with the Federal Credit Reform Act of 1990 as amended, USDA borrows from Treasury on October 1, for the entire fiscal year, based on annual estimates of the difference between the amount appropriated (subsidy) and the amount to be disbursed to the borrower. Repayment under this agreement may be, in whole or in part, prior to maturity by paying the principal amount of the borrowings plus accrued interest to the date of repayment. Interest is paid on these borrowings based on weighted average interest rates for the cohort, to which the borrowings are associated. Interest is earned on the daily balance of uninvested funds in the credit reform financing funds maintained at Treasury. The interest income is used to reduce interest expense on the underlying borrowings.

USDA has authority to borrow from the Federal Financing Bank (FFB) in the form of Certificates of Beneficial Ownership (CBO) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBO's outstanding with the FFB are generally secured by unpaid loan principal balances. CBO's outstanding are related to pre-credit reform loans and no longer are used for program financing.

FFB's CBO's are repaid as they mature and are not related to any particular group of loans. Borrowings made to finance loans directly between the borrower and FFB mature and are repaid as the related group of loans become due. Interest rates on the related group of loans are equal to interest rates on FFB borrowings, except in those situations where an FFB funded loan is restructured and the terms of the loan are modified.

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

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

Note 22. Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2013 and 2012 was $33,411 million and $33,693 million, respectively.

Note 23. Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

FY 2013

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 37,662	$ 2,163	$ 39,825
Apportionment for Special Activities	139,891	20,223	160,114
Exempt from Apportionment	768	1	769
Total Obligations Incurred	$ 178,321	$ 22,387	$ 200,708

FY 2012

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 41,597	$ 2,372	$ 43,969
Apportionment for Special Activities	122,359	19,330	141,689
Exempt from Apportionment	843	1	844
Total Obligations Incurred	$ 164,799	$ 21,703	$ 186,502

Note 24. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2013 and 2012 was $46,420 million and $49,077 million, respectively.

Note 25. Permanent Indefinite Appropriations

USDA has permanent indefinite appropriations available to fund 1) subsidy costs incurred under credit reform programs, 2) certain costs of the crop insurance program, 3) certain commodity program costs and 4) certain costs associated with FS programs.

The permanent indefinite appropriations for credit reform are mainly available to finance any disbursements incurred under the liquidating accounts. These appropriations become available pursuant to standing provisions of law without further action by Congress after transmittal of the Budget for the year involved. They are treated as permanent the first year they become available, as well as in succeeding years. However, they are not stated as specific amounts but are determined by specified variable factors, such as cash needs for liquidating accounts, and information about the actual performance of a cohort or estimated changes in future cash flows of the cohort in the program accounts.

The permanent indefinite appropriation for the crop insurance program is used to cover premium subsidy, delivery expenses, losses in excess of premiums and research and delivery costs.

The permanent indefinite appropriation for commodity program costs is used to encourage the exportation of agricultural commodities and products, to encourage domestic consumption of agricultural products by diverting them, and to reestablish farmers' purchasing power by making payments in connection with the normal production of any agricultural commodity for domestic consumption.

The permanent indefinite appropriation for FS programs is used to fund Recreation Fee Collection Costs, Brush Disposal, License programs, Smokey Bear and Woodsy Owl, Restoration of Forest Lands and Improvements, Roads and Trails for States, National Forest Fund, Timber Roads, Purchaser Elections, Timber Salvage Sales and Operations, and Maintenance of Quarters. Each of these permanent indefinite appropriations is funded by receipts made available by law, and is available until expended.

Note 26. Legal Arrangements Affecting Use of Unobligated Balances

Unobligated budget authority is the difference between the obligated balance and the total unexpended balance. It represents that portion of the unexpended balance unencumbered by recorded obligations. Appropriations are provided on an annual, multi-year, and no-year basis. An appropriation expires on the last day of its period of availability and is no longer available for new obligations. Unobligated balances retain their fiscal-year identity in an expired account for an additional five fiscal years. The unobligated balance remains available to make legitimate obligation adjustments, i.e., to record previously unrecorded obligations and to make upward adjustments in previously underestimated obligations for five years. At the end of the fifth year, the authority is canceled. Thereafter, the authority is not available for any purpose.

Any information about legal arrangements affecting the use of the unobligated balance of budget authority is specifically stated by program and fiscal year in the appropriation language or in the alternative provisions section at the end of the appropriations act.

Note 27. Explanation of Differences Between the SBR and the Budget of the US Government

The differences between the FY 2012 Statement of Budgetary Resources and the FY 2012 actual numbers presented in the FY 2014 Budget of the United States Government (Budget) are summarized below.

The Budget excludes expired accounts that are no longer available for new obligations.

Adjustments were made prior to the Budget submission as follows:

FNS transferred to the General Fund amounts in excess of appropriations authorized in the Child Nutrition Program.

RD changed when guaranteed loan subsidy is disbursed to align with unclosed loans.

The Budget includes the Milk Market Orders Assessment Fund since employees of the Milk Market Administrators participate in the Federal retirement system, though these funds are not available for use by the Department.

FY 2012	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 224,982	$ 186,502	$ 2,033	$ 146,086
Reconciling items:				
Expired accounts	(10,478)	(647)	-	-
FNS Child Nutrition Program	(74)	-	-	-
RD Guaranteed Loan Subsidy Program	(25)	(25)	-	-
Milk Market Orders Fund	53	53	-	-
Other	(12)	(3)	-	8
Budget of the United States Government	$ 214,446	$ 185,880	$ 2,033	$ 146,094

A comparison between the FY 2013 Statement of Budgetary Resources and the FY 2013 actual numbers presented in the FY 2015 Budget cannot be performed as the FY 2015 Budget is not yet available. The FY 2015 Budget is expected to be published in February 2014 and will be available from the Government Printing Office.

Note 28. Incidental Custodial Collections

Custodial collections represent collections on land leases for resource extraction, National Forest Fund receipts from the sale of timber and other forest products, miscellaneous general fund receipts such as collections on accounts receivable related to canceled year appropriations, civil monetary penalties and interest, and commercial fines and penalties. Custodial collection activities are considered immaterial and incidental to the mission of the Department.

Revenue Activity:	FY 2013	FY 2012
Sources of Collections:		
Miscellaneous	$ 211	$ 38
Total Cash Collections	211	38
Accrual Adjustments	4	(4)
Total Custodial Revenue	215	34
Disposition of Collections:		
Transferred to Others:		
Treasury	(207)	(26)
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	(8)	(8)
Net Custodial Activity	$ -	$ -

Note 29. Fiduciary Activities

Rural Housing Insurance Fund (RHIF) was established by Public Law 89-117 pursuant to section 517 of title V of the Housing Act of 1949, which authorized RD to collect escrow payments on behalf of new and existing Single Family Housing borrowers. Other fiduciary activities by RD include but are not limited to collections from borrowers, interest paid on escrow accounts, payments to insurance agencies and taxing authorities.

Schedule of Fiduciary Activity
For the Years Ended September 30, 2013 and 2012

	Rural Housing Insurance Fund 2013	Rural Housing Insurance Fund 2012
Fiduciary net assets, beginning of year	$ 107	$ 107
Fiduciary revenues	-	-
Contributions	389	376
Investment earnings	-	-
Gain (Loss) on disposition of investments, net	-	-
Administrative and other expenses	-	-
Disbursements to and on behalf of beneficiaries	(395)	(376)
Increases/(Decrease) in fiduciary net assets	(6)	-
Fiduciary net assets, end of year	$ 101	$ 107

Fiduciary Net Assets
As of September 30, 2013 and 2012

	Rural Housing Insurance Fund 2013	Rural Housing Insurance Fund 2012
Fiduciary Assets		
Cash and cash equivalents	$ 5	$ 6
Investments	96	101
Other assets	-	-
Fiduciary Liabilities		
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 101	$ 107

Note 30. Reconciliation of Budgetary Resources Obligated to Net Cost of Operations

Budgetary and proprietary accounting information are inherently different because of the types of information and the timing of their recognition. The reconciliation of budgetary resources obligated and the net cost of operations provides a link between budgetary and proprietary accounting information. It serves not only to explain how information on net obligations relates to the net cost of operations but also to assure integrity between budgetary and proprietary accounting.

Net obligations and the net cost of operations are different because (1) the net cost of operations may be financed by non-budgetary resources (e.g. imputed financing); (2) the budgetary and non-budgetary resources used may finance activities which are not components of the net cost of operations; and (3) the net cost of operations may contain components which do not use or generate resources in the current period.

	2013	2012
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 200,708	$ 186,502
Less: Spending authority from offsetting collections and recoveries	43,505	40,179
Obligations net of offsetting collections and recoveries	157,203	146,323
Less: Distributed Offsetting receipts	2,277	2,033
Net Obligations	154,926	144,290
Other Resources -		
Donations and forfeitures of property	1	-
Transfers in(out) without reimbursement	(187)	86
Imputed financing from costs absorbed by others	845	913
Other	(5,285)	(1,315)
Net other resources used to finance activities	(4,626)	(316)
Total resources used to finance activities	150,300	143,974
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	2,657	2,571
Resources that fund expenses recognized in prior periods	(17,113)	(4,033)
Budgetary offsetting collections and receipts that do not affect net cost of operations -		
Credit program collections which increase liabilities for loan guarantees or allowances for subsidy	17,066	16,192
Change in Unfilled Customer Orders	2,687	2,116
Decrease in exchange revenue receivable from public	9,356	3,071
Other	48	(235)
Resources that finance the acquisition of assets	(22,571)	(21,771)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	1,103	(1,359)
Total resources used to finance items not part of the net cost of operations	(6,767)	(3,448)
Total resources used to finance the net cost of operations	143,533	140,526
Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods -		
Increase in annual leave liability	190	5
Increase in environmental and disposal liability	3	1
Upward/Downward reestimates of credit subsidy expense	2,194	2,009
Increase in exchange revenue receivable from the public	-	-
Other	165	7,675
Total components of Net Cost of Operations that will require or generate resources in future periods	2,552	9,690
Components not Requiring or Generating Resources -		
Depreciation and amortization	248	408
Revaluation of assets or liabilities	4	4
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	(4,067)	(1,102)
Cost of Goods Sold	56	-
Other	1,812	1,420
Total components of Net Cost of Operations that will not require or generate resources	(1,947)	730
Total components of Net Cost of Operations that will not require or generate resources in the current period	605	10,420
Net Cost of Operations	$ 144,138	$ 150,946

Note 31. Changes in Accounting Principles

Effective FY 2013, Statement of Federal Financial Accounting Standards 43: Funds from Dedicated Collections: Amending Statement of Federal Financial Accounting Standards 27, Identifying and Reporting Earmarked Funds modified the definition of a fund from dedicated collection clarifying that at least one source of funds external to the federal government must exist for a fund to qualify as a fund from dedicated collections. The Agricultural Disaster Transition Assistance Recovery Act Fund and the Agricultural Disaster Relief Trust Fund no longer meet this definition. Consequently, the total net position for these funds of $878 million was reclassified from funds from dedicated collections to other funds.

Effective FY 2013, Technical Bulletin 2006-1: Recognition and Measurement of Asbestos-Related Cleanup Costs requires agencies to estimate both friable and non-friable asbestos-related cleanup costs; recognize a liability and related expense for those asbestos-related cleanup costs that are both probable and reasonably estimable in the financial statements; and disclose information related to friable and non-friable asbestos-related cleanup costs that are probable but not reasonably estimable in a note to the financial statements. Because the real property has been in service for a substantial portion of its estimated useful life, management elected to recognize the estimated total cleanup cost as a liability upon implementation. The offsetting charge of $165 million for asbestos-related cleanup costs was made to net position.

Required Supplementary Stewardship Information

Stewardship Investments (Unaudited)

	FY 2013 Expense	FY 2012 Expense	FY 2011 Expense	FY 2010 Expense	FY 2009 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	$ 25	$ 38	$ 40	$ 41	$ 55
Special Supplemental Nutrition Program	13	13	17	17	15
National Institute of Foods and Agriculture					
Extension 1890 Facilities Program	18	20	19	19	17
Total Non-Federal Property	$ 56	$ 71	$ 76	$ 77	$ 87
Human Capital:					
National Institute of Foods and Agriculture					
Higher Education and Extension Programs	$ 503	$ 536	$ 547	$ 559	$ 547
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	81	53	45	63	19
Agricultural Research Service					
National Agricultural Library	21	21	21	24	23
Risk Management Agency					
Risk Management Education	10	13	10	6	6
Total Human Capital	$ 615	$ 623	$ 623	$ 652	$ 595

	FY 2013 Expense	FY 2012 Expense	FY 2011 Expense	FY 2010 Expense	FY 2009 Expense
Research and Development:					
Basic Research:					
Agricultural Research Service					
Human Nutrition	$ 39	$ 43	$ 43	$ 45	$ 43
Collaborative Research Program	-	-	-	-	2
Product Quality/Value Added	47	50	52	56	54
Livestock Production	35	37	41	44	43
Crop Production	106	114	116	119	102
Food Safety	49	53	53	53	53
Livestock Protection	35	38	40	45	42
Crop Protection	89	97	102	103	100
Environmental Stewardship	88	94	101	103	112
National Institute of Foods and Agriculture					
Land-grant University System	232	249	274	283	256
Forest Service	77	80	91	94	87
Economic Research Service					
Economic and Social Science	7	7	8	8	8
National Agricultural Statistics Service					
Statistical	3	3	3	3	3
Total Basic Research	$ 807	$ 865	$ 924	$ 956	$ 905
Applied Research:					
Agricultural Research Service					
Human Nutrition	$ 32	$ 34	$ 34	$ 35	$ 34
Collaborative Research Program	-	-	-	-	1
Product Quality/Value Added	37	40	42	44	43
Livestock Production	28	30	33	35	34
Crop Production	84	91	93	96	82
Food Safety	39	42	43	43	42
Livestock Protection	28	31	32	36	33
Crop Protection	72	77	81	82	81
Environmental Stewardship	70	75	80	83	90
National Institute of Foods and Agriculture					
Land-grant University System	393	424	467	461	435
Forest Service	192	207	220	227	220
Economic Research Service					
Economic and Social Science	64	71	74	74	71
National Agricultural Statistics Service					
Statistical	4	4	4	4	5
Total Applied Research	$ 1,043	$ 1,126	$ 1,203	$ 1,220	$ 1,171
Development:					
Agricultural Research Service					
Human Nutrition	$ 8	$ 8	$ 9	$ 9	$ 8
Product Quality/Value Added	9	10	11	11	11
Livestock Production	7	8	8	9	9
Crop Production	21	23	23	24	20
Food Safety	10	11	11	11	11
Livestock Protection	7	7	7	9	8
Crop Protection	18	19	20	20	20
Environmental Stewardship	17	19	20	21	23
Forest Service	40	32	16	17	16
Total Development	$ 137	$ 137	$ 125	$ 131	$ 126
Total Research and Development	$ 1,987	$ 2,128	$ 2,252	$ 2,307	$ 2,202

Non-Federal Physical Property

Food and Nutrition Service

FNS' non-Federal physical property consists of computer systems and other equipment obtained by State and local governments for the purpose of administering the SNAP. The total SNAP expense for ADP Equipment & Systems has been reported as of the date of FNS' financial statements. FNS' non-Federal physical property also consists of computer systems and other equipment obtained by the State and local governments for the purpose of administering the Special Supplemental Nutrition Program for Women, Infants and Children.

National Institute of Food and Agriculture

The Extension 1890 facilities program supports the renovation of existing buildings and the construction of new facilities as well as computers and equipment purchases that permit faculty, students, and communities to benefit fully from the partnership between USDA and the 1890 Land-Grant Universities.

Human Capital

National Institute of Food and Agriculture

The Higher Education programs include graduate fellowship grants, competitive challenge grants, Secondary/2-year Post Secondary grants, Hispanic serving institutions education grants, a multicultural scholars program, a Native American institutions program, a Native American institutions endowment fund, an Alaska Native Serving and Native Hawaiian Serving institutions program, a resident instruction grants and distance education grants for insular areas, and a capacity building program at the 1890 institutions. These programs enable universities to broaden their curricula, increase faculty development and student research projects, and increase the number of new scholars recruited in the food and agriculture sciences. NIFA also supports extension-related work at 1862 and 1890 land-grant institutions throughout the country through formula and competitive programs.

Food and Nutrition Service

FNS' human capital consists of employment and training (E&T) for the SNAP. The E&T program requires recipients of SNAP benefits to participate in an employment and training program as a condition to SNAP eligibility.

Outcome data for the E&T program is only available through the third quarter. As of this period, FNS' E&T program has placed 501,754 work registrants subject to the 3 - month SNAP participant limit and 1,454,027 work registrants not subject to the limit in either job-search, job-training, job-workfare, education, or work experience.

Agricultural Research Service

As the Nation's primary source for agricultural information, the National Agricultural Library (NAL) has a mission to increase the availability and utilization of agricultural information for researchers, educators, policymakers, consumers of agricultural products, and the public. The NAL is one of the world's largest and most accessible agricultural research libraries and plays a vital role in supporting research, education, and applied agriculture.

The NAL was created as the departmental library for USDA in 1862 and became a national library in 1962. One of four national libraries of the U.S. (with the Library of Congress, the National Library of Medicine, and the National Library of Education), it is also the coordinator for a national network of

State land-grant and USDA field libraries. In its international role, the NAL serves as the U.S. center for the international agricultural information system, coordinating and sharing resources and enhancing global access to agricultural data. The NAL collection of over 50 million items and its leadership role in information services and technology applications combine to make it the foremost agricultural library in the world.

Risk Management Agency

FCIC has formed partnerships with NIFA, the Commodity Futures Trading Commission, the USDA National Office of Outreach, the ERS, and private industry to leverage the Federal Government's funding of its Risk Management Education (RME) program by using both public and private organizations to help educate their members in agricultural risk management. RME expanded State and Regional education partnerships; encouraged the development of information and technology-based decision aids; facilitated local crop insurance education and risk management training workshops throughout the nation through Cooperative Agreements with educational institutions and community-based outreach organizations.

During fiscal years 2013 and 2012, the RME program worked toward its goals by funding risk management sessions, most of which directly target producers. The number of producers reached through these sessions is approximately 89,100 in fiscal year 2013 and 81,000 in fiscal year 2012. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and other agricultural professionals) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately $10 million and $12.6 million in fiscal years 2013 and 2012, respectively.

Research and Development

Agricultural Research Service

The Agricultural Research Service (ARS) mission is to conduct research to develop and transfer solutions to agricultural problems of high national priority and provide information access and dissemination to: ensure high quality, safe food, and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole. ARS' programs are aligned under the Department's priorities as follows:

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

New Products/Product Quality/Value Added – ARS has active research programs directed toward: improving the efficiency and reducing the cost for the conversion of agricultural products into biobased products and biofuels; developing new and improved products to help establish them in domestic and foreign markets; and providing higher quality, healthy foods that satisfy consumer needs in the United States and abroad. Note: Some of ARS' Livestock and Crop Production research is carried out under this Strategic Goal and Strategic Goal 3.

National Agricultural Library — The Library, the world's largest library serving agriculture, delivered more than 50 million page views and 2 million searches in FY 2013, adjusting the Library's statistical reporting to standard web metrics.

Buildings and Facilities — ARS has approximately 97 laboratory locations, primarily located throughout the United States. ARS' facilities programs are designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.

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

Environmental Stewardship — ARS' research programs emphasis is in developing technologies and systems that support profitable production and enhance the Nation's vast renewable natural resource base. The agency is currently developing the scientific knowledge and technologies needed to meet the challenges and opportunities facing U.S. agriculture in managing water resource quality and quantity under different climatic regimes, production systems, and environmental conditions. ARS' air resources research is developing measurement, prediction, and control technologies for emissions of greenhouse gases, particulate matter, ammonia, hydrogen sulfide, and volatile organic compounds affecting air quality and land-surface climate interactions. The agency is a leader in developing measurement and modeling techniques for characterizing gaseous and particulate matter emissions from agriculture. In addition, ARS is evaluating strategies for enhancing the health and productivity of soils, including developing predictive tools to assess the sustainability of alternative land management practices. Finding mechanisms to aid agriculture in adapting to changes in atmospheric composition and climatic variations are also important components of ARS' research program.

ARS' grazing and range land research includes the conservation and restoration of the Nation's range lands and pasture ecosystems and agroecosystems through improved management of fire, invasive weeds, grazing, global change, and other agents of ecological change. ARS is currently developing improved grass and forage legume germplasm for livestock, conservation, bioenergy, and bioproduct systems as well as grazing-based livestock systems that reduce risk and increase profitability. In addition, the agency is developing whole system management strategies to reduce production costs and risks.

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

Livestock Production — ARS' program is directed toward: safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatic tools; developing a basic understanding of the physiology of livestock and poultry; and developing information, tools, and technologies that can be used to improve animal production systems. The research is heavily focused on the development and application of genomic technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems. Current areas of emphasis include increasing efficiency of nutrient utilization; increasing animal well being and reducing stress in production systems; increasing reproductive rates and breeding animal longevity; developing and evaluating non-traditional production systems (e.g., organic, natural); and evaluating and conserving animal genetic resources.

Crop Production — ARS' program focuses on developing and improving ways to reduce crop losses while protecting and ensuring a safe and affordable food supply. The research program concentrates on production strategies that are environmentally friendly, safe to consumers, and compatible with sustainable and profitable crop production systems. Research activities are directed at safeguarding and utilizing plant genetic resources and their associated genetic, genomic, and bioinformatic databases that facilitate selection of varieties and/or germplasm with significantly improved traits. Current research activities attempt to minimize the impacts of crop pests while maintaining healthy crops and safe commodities that can be sold in markets throughout the world. ARS is conducting research to discover and exploit naturally occurring and engineered genetic mechanisms for plant pest control; develop agronomic germplasm with durable defensive traits, and transfer genetic resources for commercial use. ARS is also providing taxonomic information on invasive species that strengthen prevention techniques, aid in detection/identification of invasive pests, and increase control through management tactics which restore habitats and biological diversity.

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

Food Safety — Assuring that the United States has the highest levels of affordable, safe food requires that the food system be protected at each stage from production through processing and consumption from pathogens, toxins, and chemical contaminants that cause diseases in humans. The U.S. food supply is very diverse, extensive, easily accessible, and thus vulnerable to the introduction of biological and chemical contaminants through natural processes, intentional means, or by global commerce. ARS' current food safety research is designed to yield science-based knowledge on the safe production, storage, processing, and handling of plant and animal products, and on the detection and control of toxin producing and/or pathogenic bacteria and fungi, parasites, chemical contaminants, and plant toxins. ARS' research activities involve a high degree of cooperation and collaboration both within the USDA-REE agencies as well as with USDA's Food Safety and Inspection Service and the Animal and Plant Health Inspection Service, and with other entities, including the Food and Drug Administration, the Centers for Disease Control, the Department of Homeland Security, and the Environmental Protection Agency. ARS also collaborates in international research programs to address and resolve global food safety issues. Specific research efforts are directed toward developing new technologies that assist ARS stakeholders and customers, including, regulatory agencies, industry, and commodity and consumer organizations in detecting, identifying, and controlling foodborne diseases that affect human health.

Livestock Protection — ARS' animal health program is directed at protecting and ensuring the safety of the Nation's agriculture and food supply through improved disease detection, prevention, control, and treatment. Basic and applied research approaches are used to solve animal health problems of high national priority. Emphasis is given to methods and procedures to control animal diseases. The research program has the following strategic objectives: develop ARS' laboratories into a fluid, highly effective research network to maximize use of core competencies and resources; use specialized high containment facilities to study zoonotic and emerging diseases; develop an integrated animal and microbial genomics research program; establish centers of excellence in animal immunology; launch a biotherapeutic discovery program providing alternatives to animal drugs; build a technology driven vaccine and diagnostic discovery research program; develop core competencies in field epidemiology and predictive biology; establish a best in class training center for our Nation's veterinarians and scientists; and develop a model technology transfer program to achieve the full impact of ARS' research discoveries. ARS' current animal research program includes the following core components: biodefense research, animal genomics and immunology, zoonotic diseases, respiratory diseases, reproductive and neonatal diseases, enteric diseases, parasitic diseases, and transmissible spongiform encephalopathies.

Crop Protection – ARS research is directed toward epidemiological investigations to understand pest and disease transmission mechanisms, and to identify and apply new technologies that increase our understanding of virulence factors and host defense mechanisms.

Currently, ARS' research priorities include: identification of genes that convey virulence traits in pathogens and pests; factors that modulate infectivity, gene functions, and mechanisms; genetic profiles that provide specified levels of disease and insect resistance under field conditions, and mechanisms that facilitate the spread of pests and infectious diseases. ARS is developing new knowledge and integrated pest management approaches to control pest and disease outbreaks as they occur. Its research will improve the knowledge and understanding of the ecology, physiology, epidemiology, and molecular biology of emerging diseases and pests. This knowledge will be incorporated into pest risk assessments and management strategies to minimize chemical inputs and increase production. Strategies and approaches will be available to producers to control emerging crop diseases and pest outbreaks.

Human Nutrition – Maintenance of health throughout the lifespan along with prevention of obesity and chronic diseases via food-based recommendations are the major emphasis of ARS' human nutrition research program. These health-related goals are based on the knowledge that deficiency diseases are no longer the most important public health concerns. Excessive consumption has become the primary nutrition problem in the American population. This is reflected by increased emphasis on prevention of obesity from basic science through intervention studies to assessments of large populations. ARS' research programs also actively study bioactive components of foods that have no known requirement but have health promotion activities. Four specific areas of research are currently emphasized: nutrition monitoring and the food supply, e.g., a national diet survey and the food composition databank; dietary guidance specific foods, nutrients, and dietary patterns that maintain health and prevent diseases; prevention of obesity and related diseases, including research on the reasons for the limited use of the *Dietary Guidelines for Americans*; and life stage nutrition and metabolism, in order to better define the role of nutrition in pregnancy, growth of children, and for healthier aging.

National Institute of Food and Agriculture

NIFA participates in a nationwide land-grant university system of agriculture related research and program planning and coordination between State institutions and USDA. It assists in maintaining cooperation among the State institutions, and between the State institutions and their Federal research partners. NIFA administers grants and formula payments to State institutions to supplement State and local funding for agriculture research.

Forest Service

Forest Service R&D has an integrated portfolio that supports achievement of the agency's strategic goals. The Forest Service R&D structure has two components: Priority Research Areas and Strategic Program Areas (SPAs).

The Priority Research Areas address urgent needs in seven areas: Forest Disturbances, Forest Inventory and Analysis, Watershed Management and Restoration, Bioenergy and Biobased Products, Urban Natural Resources Stewardship, Nanotechnology, and Localized Needs Research.

The SPAs are the long-term programs from which Priority Research Areas are funded; the SPAs are:

Wildland Fire and Fuels - R&D provides managers with the knowledge and tools to reduce negative impacts, while enhancing the beneficial effects of wildland fire, as a natural process. This knowledge and these tools are critical to understanding the human process of fire and fuels management on society and the environment.

Research focuses on understanding and modeling fundamental fire processes; interactions of fire with ecosystems; and the environmental, social, and economic aspects of fire, as well as evaluating the integrated management strategies and disturbance interactions at multiple scales and the application of fire research to address management problems.

Invasive Species — R&D provides the scientific information, methods, and technology to reduce or eliminate the introduction, spread, and impact of invasive species and to restore or improve the functionality of ecosystems affected by invasives species.

Research focuses on non-native plants, animals, fish, insects, diseases, invertebrates, and other species whose introduction is likely to cause economic or environmental harm to an ecosystem.

Water, Air, and Soil — R&D enables the sustainable management of these essential resources by providing clear air and safe drinking water, by protecting lives and property from wildlife fire and smoke, and through adapting to climate variability and change.

The program features ecosystem services with a high level of integration between water, air, and soil research, such as the effects of climate variability and change on water budgets or carbon sequestration metrics from an ecosystem perspective.

Wildlife and Fish — R&D relies upon interdisciplinary research to inform policy initiatives affecting wildlife and fish habitat on private and public lands, and the recovery of threatened or endangered species.

Scientists investigate the complex interactions among species, ecosystem dynamics and processes, land use and management, and any emerging broadscale threats, including global climate change, loss of open space, invasive species, and disease.

Resource Management and Use — R&D provides the scientific and technology base to sustainably manage and use forest resources and forest fiber-based products.

Research focuses on the plant sciences, soil sciences, social sciences, silviculture, productivity, forest and range ecology management, harvesting and operations, forest and biomass products and utilization, economics, urban forestry, and climate change.

Outdoor Recreation — R&D promotes human and ecological sustainability by researching environmental management, activities, and experiences that connect people with the natural world.

Research in outdoor recreation is interdisciplinary, focusing on nature-based recreation and the changing trends in American society; connections between recreation visitors, communities, and the environment; human benefits and consequences of recreation and nature contact; the effectiveness of recreation management and decision-making; and sustaining ecosystems affected by recreational use.

Inventory and Monitoring — R&D provides the resource data, analysis, and tools needed to monitor vulnerable forest ecosystems to rapid change due to threats from fire, insects, disease, natural processes, or management actions. From their research, scientists determine the status and trend of the health of the Nation’s forests and grasslands, and the potential impact from climate change.

Their research integrates the development and use of science, technology, and remotely sensed data to better understand the incidences of forest fragmentation over time from changes in land use or from insects, disease, fire, and extreme weather events.

A representative summary of FY 2013 accomplishments include the following:

- 44 new interagency agreements and contracts
- 2 interagency agreements and contracts continued
- 3,014 articles published in journals
- 446 articles published in all other publications
- 2 patents granted

Economic Research Service

The Economic Research Service (ERS) provides economic and other social science research and analysis for public and private decisions on agriculture, food, natural resources, and rural America. Research results and economic indicators on these important issues are fully disseminated through published and electronic reports and articles, special staff analyses, briefings, presentations and papers, databases, and individual contacts. ERS' objective information and analysis helps public and private decision makers attain the goals that promote agricultural competitiveness, food safety and security, a well-nourished population, environmental quality, and a sustainable rural economy.

National Agricultural Statistics Service

Statistical research 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 National Agricultural Statistics Service estimation program through development of better estimators at lower cost and with less respondent burden. This means greater efficiency in sampling and data collection coupled with higher quality data upon which to base the official estimates. Two additional high priority items are significance editing, or cleaning of the respondent data; and research on quality operations for the new National Operations Center. The significance editing has potential to enhance the quality of survey data and reduce manual operations in preparing the survey responses for summary. While the research on quality process increases data quality through the processes of the National Operations Center, products for data users are being improved using technologies such as remote sensing and geographic information systems. Continued service to users will be increasingly dependent upon methodological and technological efficiencies.

Required Supplementary Information

Deferred Maintenance and Repairs (Unaudited)

Deferred maintenance and repairs is maintenance and repair activity that was not preformed when it should have been or was scheduled to be to and which is put off or delayed to a future period.

Maintenance and repairs are activities directed toward keeping fixed assets in an acceptable condition. Activities include preventive maintenance; replacement of parts, systems, components; and other activities needed to preserve or maintain the asset. Maintenance and repairs, as distinguished from capital improvements, exclude activities directed towards expanding the capacity of an asset or otherwise upgrading it to serve needs different from, or significantly greater than, its current use.

Forest Service

FY 2013	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 210	$ 38	$ 172
Buildings	1,225	81	1,144
Dam	26	11	15
Minor Constructed Features	94	-	94
Fence	268	268	-
Handling Facility	22	22	-
Heritage	21	3	18
Road	3,267	633	2,634
Trail Bridge	9	3	6
Wastewater	32	16	16
Water	98	51	47
Wildlife, Fish, TES	7	5	2
Trails	279	5	274
Total Forest Service	$ 5,558	$ 1,136	$ 4,422

FY 2012	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 190	$ 35	$ 155
Buildings	1,173	84	1,089
Dam	22	8	14
Minor Constructed Features	103	-	103
Fence	268	268	-
Handling Facility	22	22	-
Heritage	20	3	17
Road	3,761	376	3,385
Trail Bridge	9	3	6
Wastewater	34	16	18
Water	102	56	46
Wildlife, Fish, TES	7	5	2
Trails	314	6	308
Total Forest Service	$ 6,025	$ 882	$ 5,143

Deferred maintenance is reported for general Property, Plant, and Equipment (PP&E), heritage assets, and stewardship land. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of asset to its acceptable operating condition. Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization. Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

The FS uses condition surveys to estimate deferred maintenance on all major classes of its PP&E. Over the past decade, the FS has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No deferred maintenance exists for fleet vehicles as they are managed through the agency's working capital fund. Each fleet vehicle is maintained according to schedule. The cost of maintaining the remaining classes of equipment is expensed.

The agency is committed to sustaining a manageable level of infrastructure—disinvesting in infrastructure that can no longer be managed to appropriate standards, rightsizing its asset portfolio, and eliminating the substantial backlog of deferred maintenance.

Deferred maintenance estimates for most assets—except bridges—are based on condition surveys performed on a 5-year maximum revolving schedule. The bridge class is on a 2-year maximum revolving schedule. To date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's deferred maintenance for National Forest System (NFS) roads is determined annually from random sample surveys, providing an 80-percent level of confidence.

The overall condition of major asset classes range from poor to good depending on the location, age, and type of property. The standards for acceptable operating condition for various classes of general PP&E, stewardship, and heritage assets are as follows.

Conditions of roads and bridges within the National Forest System (NFS) road system are measured by various standards:

- Federal Highway Administration regulations for the Federal Highway Safety Act;
- Best management practices for the nonpoint source provisions of the Clean Water Act from Environmental Protection Agency and States;
- Road management objectives developed through the National Forest Management Act forest planning process; and
- Forest Service directives—Forest Service Manual (FSM) 7730, Operation and Maintenance (August 25, 2005, amendment was superseded with October 1, 2008, revision); Forest Service Handbook (FSH) 7709.56a, Road Preconstruction, and FSH 7709.56b, Transportation Structures Handbook.

Dams shall be managed according to FSM 7500, Water Storage and Transmission, and FSH 7509.11, Dams Management Handbook. The condition of a dam is acceptable when the dam meets current design standards and does not have any deficiencies that threaten the safety of the structure or public. For dams to be rated in acceptable condition, the agency needs to restore the dams to the original functional purpose, correct unsightly conditions, or prevent more costly repairs.

Buildings shall comply with the National Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys. These requirements are found in FSM 7310, Buildings and Related Facilities, revised November 19, 2004. The condition of administrative facilities ranges from poor to good, with approximately 35 percent needing major repairs or renovations; approximately 14 percent in fair condition; and 51 percent of the facilities in good condition.

The agency is currently developing an integrated strategy to realign our administrative facility infrastructure to meet current organizational structure and to reduce the maintenance liability for unneeded buildings, free up land for use by local communities and private enterprise, and provide added funds for infrastructure maintenance and development. Forest Service anticipates maximum benefits from a combination of appropriations, facility conveyance receipts, and decommissioning of unneeded facilities.

Recreation facilities include developed recreation sites, general forest areas, campgrounds, trailheads, trails, water and wastewater systems, interpretive facilities, and visitor centers. These components are included in several asset classes of the deferred maintenance exhibit. All developed sites are managed in accordance with Federal laws and regulations (Code of Federal Regulations (CFR) 36).

Detailed management guidelines are contained in FSM 2330, Publicly Managed Recreation Opportunities, and forest- and regional-level user guides. Quality standards for developed recreation sites were established as Meaningful Measures for health and cleanliness, settings, safety and security, responsiveness, and the condition of the facility.

The condition assessment for range structures (fences and stock handling facilities) is based on (1) a determination by knowledgeable range specialists or other district personnel of whether the structure would perform the originally intended function, and (2) a determination through the use of a protocol system to assess conditions based on age. A long-standing range methodology is used to gather this data.

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

Trails and trail bridges are managed according to Federal law and regulations (CFR 36). More specific direction is contained in FSM 2350, Trail, River, and Similar Recreation Opportunities, and the FSH 2309.18, Trails Management Handbook.

Deferred maintenance of structures for wildlife, fish, and threatened and endangered species is determined by field biologists using their professional judgment. The deferred maintenance is considered critical if resource damage or species endangerment would likely occur if maintenance were deferred much longer.

Condition of Heritage Assets and Stewardship Lands

Heritage Assets

Heritage professionals are responsible for documenting and maintaining cultural resource condition assessments to standard. Periodic monitoring and condition assessments are the basis for applying protective measures and treatments to vulnerable, deteriorating, or threatened cultural resources. The condition of heritage assets depends on the type of asset and varies from poor to fair.

Stewardship Land

The condition of NFS lands varies by purpose and location. The FS monitors the condition of its stewardship lands based on information compiled by two national inventory and monitoring programs—Forest Inventory and Analysis and Forest Health Monitoring.

Although most of the estimated 193 million acres of stewardship lands continue to produce valuable benefits – clean air and water, habitat for wildlife, and products for human use – significant portions are at risk to pest outbreaks or catastrophic fires.

In FY 2013, the FS developed the Invasive Species Framework to provide a vision for future agency policies and management strategies for all invasive species. Invasive species of insects, diseases, and plants continue to affect our native ecosystems by causing mortality to, or displacement of, native vegetation. The agency also released the next iteration of the National Insect and Disease Risk Map in FY 2013, providing a comprehensive public online database containing 750 forest pest hazard and risk models to support forest management across all landscapes. This key resource is used by not only the FS, but State and academic partners across the country.

The FY 2013 year-to-date accomplishments on NFS and State and Private Forestry lands include treatment of 761,000 acres for invasives and 107,000 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasives and native pests on NFS lands available in February 2014 at https://www.fs.fed.us.

Agricultural Research Service

	FY 2013	FY 2012
Asset Class		
Buildings	$ 257	$ 271
Structures	18	19
Heritage	104	90
Total Agricultural Research Service	$ 379	$ 380

Deferred Maintenance (DM) includes work needed to meet laws, regulations, codes and other legal direction as long as the original intent or purpose of the fixed asset is not changed. Also includes work performed to bring an asset up to present environmental standards or correction of safety problems. Critical DM is DM that is identified for critical systems including HVAC, electrical, roofing, and plumbing tasks. Non-critical DM is all other systems. DM is reported for buildings, structures and heritage assets.

Executive Order (EO) 13327 requires all Federal agencies to assess the condition of their facilities and plan for their full life cycle management. The Condition Index (CI) is a general measure of the constructed asset's condition at a specific point in time. It is calculated as the ration of repair needs, or DM, to plant replacement value (PRV). PRV can be calculated systematically and without much effort. The condition of the constructed asset is a more difficult figure to determine. A repair need is the amount necessary to ensure a constructed asset is restored to a condition substantially equivalent to the originally intended and designed capacity, efficiency or capability. Ideally, with enough money and time, repair needs would be determined for each asset by inspection, evaluation of the repairs required, and consistent estimating of the repairs throughout ARS. ARS does not have available manpower in-house to complete this type of inspection and estimating, nor the funding to contract. ARS looked at approaches to model ARS assets and evaluate the results for management purposes.

Whitestone Research is a company that estimates DM based on the age of the facility, geographic location, typical major components and size of the structure. Whitestone first inspected a sample of 1,107 buildings from 38 ARS sites and used parametric models to estimate DM and PRV. The Whitestone Report only addresses Existing Active – Real Property and excludes excess and inactive property. The results were generalized to the entire population of ARS facilities. Assuming a PRV of $4 billion, the CI ratio (1 - $DM/PRV) is 92.6 percent, an outcome commonly classified as “adequate.

Statement of Budgetary Resources (Unaudited)

FY 2013	FSA	FSA	CCC	CCC	FAS	RMA	FNS	FSIS	AMS	APHIS	GIPSA
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:											
Unobligated balance, brought forward, October 1:	$ 1,746	$ 527	$ 1,214	$ 341	$ 579	$ 567	$ 18,364	$ 40	$ 127	$ 354	$ 17
Recoveries of prior year unpaid obligations	61	83	372	41	30	2	987	16	16	42	1
Other changes in unobligated balance (+ or -)	(60)	(448)	(195)	(107)	(3)	(1)	(387)	(7)	(1)	(1)	-
Unobligated balance from prior year budget authority, net	1,747	162	1,391	275	606	568	18,964	49	142	395	18
Appropriations (discretionary and mandatory)	1,833	-	2,450	-	346	12,274	111,115	988	1,034	1,020	37
Borrowing authority (discretionary and mandatory)	1,506	1,566	16,117	270	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	440	936	2,589	291	19	8,809	173	202	121	241	50
Total budgetary resources	5,526	2,664	22,547	836	971	21,651	130,252	1,239	1,297	1,656	105
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	5,046	2,046	21,481	460	497	21,083	110,042	1,164	1,157	1,202	88
Unobligated balance, end of year:											
Apportioned	318	383	215	168	223	566	4,789	54	126	419	31
Exempt from apportionment	-	-	303	8	-	-	-	-	-	-	-
Unapportioned	162	235	548	200	251	2	15,421	21	14	35	(14)
Total unobligated balance, end of year	480	618	1,066	376	474	568	20,210	75	140	454	17
Total budgetary resources	5,526	2,664	22,547	836	971	21,651	130,252	1,239	1,297	1,656	105
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	425	372	11,358	173	199	3,251	7,196	184	242	423	12
Obligations incurred	5,046	2,046	21,481	460	497	21,083	110,042	1,164	1,157	1,202	88
Outlays (gross)(-)	(5,083)	(2,076)	(20,870)	(383)	(370)	(22,616)	(109,013)	(1,195)	(1,169)	(1,226)	(89)
Recoveries of prior year unpaid obligations (-)	(61)	(83)	(372)	(41)	(30)	(2)	(987)	(16)	(16)	(42)	(1)
Unpaid obligations, end of year	327	259	11,597	209	296	1,716	7,238	137	214	357	10
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(62)	(18)	(134)	(157)	(580)	-	-	(31)	(15)	(139)	(7)
Change in uncollected payments, Federal sources (+ or -)	21	6	86	-	194	-	-	(14)	(3)	(69)	-
Uncollected payments, Federal sources, end of year (-)	(41)	(12)	(48)	(157)	(386)	-	-	(45)	(18)	(208)	(7)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	363	354	11,224	16	(381)	3,251	7,196	153	227	284	5
Obligated balance, end of year (+ or -)	286	247	11,549	52	(90)	1,716	7,238	92	196	149	3
Budget Authority and Outlays, Net	-	-	-	-	-	-	-	-	-	-	-
Budget authority, gross (discretionary and mandatory)	3,779	2,502	21,155	561	365	21,083	111,289	1,190	1,155	1,261	87
Actual offsetting collections (-) (discretionary and mandatory)	(611)	(2,036)	(10,133)	(527)	(213)	(8,809)	(173)	(187)	(118)	(172)	(50)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	21	6	86	-	194	-	-	(14)	(3)	(69)	-
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	3,189	472	11,108	34	346	12,274	111,116	989	1,034	1,020	37
Outlays, gross (discretionary and mandatory)	5,083	2,076	20,870	383	370	22,616	109,013	1,195	1,169	1,226	89
Actual offsetting collections (discretionary and mandatory) (-)	(611)	(2,036)	(10,133)	(527)	(213)	(8,809)	(173)	(187)	(118)	(172)	(50)
Outlays, net (discretionary and mandatory)	4,472	40	10,737	(144)	157	13,807	108,840	1,008	1,051	1,054	39
Distributed offsetting receipts (-)	(1)	(203)	-	(102)	23	-	3	(13)	(162)	(15)	-
Agency outlays, net (discretionary and mandatory)	$ 4,471	$ (163)	$ 10,737	$ (246)	$ 180	$ 13,807	$ 108,843	$ 995	$ 889	$ 1,039	$ 39

FY 2013	FS	NRCS	ARS	NIFA	ERS	NASS	RD	RD	DO	TOTAL	TOTAL
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:											
Unobligated balance, brought forward, October 1:	$ 1,391	$ 2,438	$ 65	$ 241	$ 3	$ 1	$ 5,920	$ 4,286	$ 259	$ 33,326	$ 5,154
Recoveries of prior year unpaid obligations	21	551	22	113	20	15	264	815	42	2,575	939
Other changes in unobligated balance (+ or -)	2	(11)	(6)	(7)	(2)	1	(1,032)	(1,711)	(12)	(1,722)	(2,266)
Unobligated balance from prior year budget authority, net	1,414	2,978	81	347	21	17	5,152	3,390	289	34,179	3,827
Appropriations (discretionary and mandatory)	5,653	4,370	1,049	1,157	71	167	4,672	-	539	148,775	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	9,520	-	17,623	11,356
Spending authority from offsetting collections (discretionary and mandatory)	712	155	133	44	4	23	2,409	9,117	969	17,093	10,344
Total budgetary resources	7,779	7,503	1,263	1,548	96	207	12,233	22,027	1,797	217,670	25,527
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	6,692	4,452	1,202	1,253	95	206	6,750	14,263	1,529	183,939	16,769
Unobligated balance, end of year:											
Apportioned	816	665	47	280	-	-	2,468	4,213	263	11,280	4,764
Exempt from apportionment	-	-	-	-	-	-	-	-	-	303	8
Unapportioned	271	2,386	14	15	1	1	3,015	3,551	5	22,148	3,986
Total unobligated balance, end of year	1,087	3,051	61	295	1	1	5,483	7,764	268	33,731	8,758
Total budgetary resources	7,779	7,503	1,263	1,548	96	207	12,233	22,027	1,797	217,670	25,527
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	2,557	4,514	457	2,128	38	42	6,292	25,725	498	39,816	26,270
Obligations incurred	6,692	4,452	1,202	1,253	95	206	6,750	14,263	1,529	183,939	16,769
Outlays (gross)(-)	(6,876)	(3,991)	(1,246)	(1,273)	(82)	(196)	(8,056)	(14,632)	(1,569)	(184,920)	(17,091)
Recoveries of prior year unpaid obligations (-)	(21)	(551)	(22)	(113)	(20)	(15)	(264)	(815)	(42)	(2,575)	(939)
Unpaid obligations, end of year	2,352	4,424	391	1,995	31	37	4,722	24,541	416	36,260	25,009
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(531)	(306)	(180)	(131)	(7)	(6)	(20)	(900)	(427)	(2,576)	(1,075)
Change in uncollected payments, Federal sources (+ or -)	72	68	(3)	29	(1)	(3)	-	157	32	409	163
Uncollected payments, Federal sources, end of year (-)	(459)	(238)	(183)	(102)	(8)	(9)	(20)	(743)	(395)	(2,167)	(912)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	2,026	4,208	277	1,997	31	36	6,272	24,825	71	37,240	25,195
Obligated balance, end of year (+ or -)	1,893	4,186	208	1,893	23	28	4,702	23,798	21	34,093	24,097
Budget Authority and Outlays, Net	-	-	-	-	-	-	-	-	-	-	-
Budget authority, gross (discretionary and mandatory)	6,365	4,525	1,182	1,201	75	190	7,081	18,637	1,508	183,491	21,700
Actual offsetting collections (-) (discretionary and mandatory)	(785)	(223)	(130)	(72)	(3)	(20)	(4,041)	(11,258)	(1,001)	(26,741)	(13,821)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	72	68	(3)	29	(1)	(3)	-	157	32	409	163
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	5,652	4,370	1,049	1,158	71	167	3,040	7,536	539	157,159	8,042
Outlays, gross (discretionary and mandatory)	6,876	3,991	1,246	1,273	82	196	8,056	14,632	1,569	184,920	17,091
Actual offsetting collections (discretionary and mandatory) (-)	(785)	(223)	(130)	(72)	(3)	(20)	(4,041)	(11,258)	(1,001)	(26,741)	(13,821)
Outlays, net (discretionary and mandatory)	6,091	3,768	1,116	1,201	79	176	4,015	3,374	568	158,179	3,270
Distributed offsetting receipts (-)	(693)	(9)	(31)	(6)	(1)	(3)	-	(1,058)	(6)	(914)	(1,363)
Agency outlays, net (discretionary and mandatory)	$ 5,398	$ 3,759	$ 1,085	$ 1,195	$ 78	$ 173	$ 4,015	$ 2,316	$ 562	$ 157,265	$ 1,907

FY 2012	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS	GIPSA
	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:											
Unobligated balance, brought forward, October 1:	$ 2,780	$ 1,053	$ 1,870	$ 656	$ 455	$ 565	$ 10,726	$ 17	$ 126	$ 324	$ 20
Recoveries of prior year unpaid obligations	215	85	1,199	29	48	3	817	11	19	39	1
Other changes in unobligated balance (+ or -)	(85)	(922)	(50)	(437)	(90)	(1)	(3,262)	(1)	(2)	(4)	(1)
Unobligated balance from prior year budget authority, net	2,910	216	3,019	248	413	567	8,281	27	143	359	20
Appropriations (discretionary and mandatory)	1,003	-	2,504	-	370	7,681	117,370	1,015	1,123	1,103	38
Borrowing authority (discretionary and mandatory)	400	1,970	11,267	220	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	468	639	5,716	283	365	5,000	117	171	115	202	50
Total budgetary resources	4,781	2,825	22,506	751	1,148	13,248	125,768	1,213	1,381	1,664	108
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	3,035	2,298	21,292	410	569	12,681	107,404	1,173	1,254	1,310	91
Unobligated balance, end of year:											
Apportioned	425	240	200	217	157	564	5,581	18	86	47	12
Exempt from apportionment	769	-	355	5	-	-	-	-	-	-	-
Unapportioned	552	287	659	119	422	3	12,783	22	41	307	5
Total unobligated balance, end of year	1,746	527	1,214	341	579	567	18,364	40	127	354	17
Total budgetary resources	4,781	2,825	22,506	751	1,148	13,248	125,768	1,213	1,381	1,664	108
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	652	438	9,925	210	235	460	6,661	185	222	422	10
Obligations incurred	3,035	2,298	21,292	410	569	12,681	107,404	1,173	1,254	1,310	91
Outlays (gross)(-)	(3,048)	(2,277)	(18,659)	(418)	(556)	(9,888)	(106,052)	(1,163)	(1,215)	(1,270)	(88)
Recoveries of prior year unpaid obligations (-)	(215)	(85)	(1,199)	(29)	(49)	(3)	(817)	(11)	(19)	(39)	(1)
Unpaid obligations, end of year	425	372	11,358	173	199	3,251	7,196	184	242	423	12
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(125)	(22)	(53)	(158)	(336)	-	-	(28)	(5)	(75)	(5)
Change in uncollected payments, Federal sources (+ or -)	63	3	(81)	-	(244)	-	-	(3)	(11)	(64)	(2)
Uncollected payments, Federal sources, end of year (-)	(62)	(18)	(134)	(157)	(580)	-	-	(31)	(15)	(139)	(7)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	527	416	9,872	52	(101)	460	6,661	157	217	347	5
Obligated balance, end of year (+ or -)	363	354	11,224	16	(381)	3,251	7,196	153	227	284	5
Budget Authority and Outlays, Net:											
Budget authority, gross (discretionary and mandatory)	1,871	2,609	19,486	503	735	12,681	117,488	1,186	1,238	1,305	88
Actual offsetting collections (-) (discretionary and mandatory)	(711)	(2,032)	(9,437)	(562)	(120)	(5,001)	(116)	(167)	(78)	(137)	(48)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	63	3	(81)	-	(244)	-	-	(3)	(11)	(64)	(2)
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	1,223	580	9,968	(59)	371	7,680	117,372	1,016	1,149	1,104	38
Outlays, gross (discretionary and mandatory)	3,048	2,277	18,659	418	556	9,888	106,052	1,163	1,215	1,270	88
Actual offsetting collections (discretionary and mandatory) (-)	(711)	(2,032)	(9,437)	(562)	(120)	(5,001)	(116)	(167)	(78)	(137)	(48)
Outlays, net (discretionary and mandatory)	2,337	245	9,222	(144)	436	4,887	105,936	996	1,137	1,133	40
Distributed offsetting receipts (-)	-	(209)	-	(74)	(26)	-	1	(11)	(147)	(9)	-
Agency outlays, net (discretionary and mandatory)	$ 2,337	$ 36	$ 9,222	$ (218)	$ 410	$ 4,887	$ 105,937	$ 985	$ 990	$ 1,124	$ 40

FY 2012	FS	NRCS	ARS	NIFA	ERS	NASS	RD		DO	TOTAL	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Non-Budgetary Financing Accounts	Budgetary	Budgetary	Non-Budgetary Financing Accounts
Budgetary Resources:											
Unobligated balance, brought forward, October 1:	$ 1,907	$ 1,873	$ 57	$ 277	$ 4	$ 5	$ 4,032	$ 3,895	$ 200	$ 25,238	$ 5,604
Recoveries of prior year unpaid obligations	131	463	28	157	5	15	317	1,705	65	3,533	1,819
Other changes in unobligated balance (+ or -)	(2)	(12)	(4)	(6)	(2)	-	(64)	(3,083)	(7)	(3,593)	(4,442)
Unobligated balance from prior year budget authority, net	2,036	2,324	81	428	7	20	4,285	2,517	258	25,178	2,981
Appropriations (discretionary and mandatory)	5,296	4,485	1,125	1,347	78	159	4,685	-	534	149,916	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	9,441	-	11,667	11,631
Spending authority from offsetting collections (discretionary and mandatory)	757	231	143	41	2	22	2,052	6,185	1,050	16,502	7,107
Total budgetary resources	8,089	7,040	1,349	1,816	87	201	11,022	18,143	1,842	203,263	21,719
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	6,698	4,602	1,284	1,575	84	200	5,102	13,857	1,583	169,937	16,565
Unobligated balance, end of year:											
Apportioned	800	425	48	244	1	-	1,153	1,877	217	9,978	2,334
Exempt from apportionment	-	-	-	-	-	-	-	-	-	1,124	5
Unapportioned	591	2,013	17	(3)	2	1	4,767	2,409	42	22,224	2,815
Total unobligated balance, end of year	1,391	2,438	65	241	3	1	5,920	4,286	259	33,326	5,154
Total budgetary resources	8,089	7,040	1,349	1,816	87	201	11,022	18,143	1,842	203,263	21,719
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	2,771	4,254	494	2,136	40	44	7,664	27,884	462	36,637	28,532
Obligations incurred	6,698	4,602	1,284	1,575	84	200	5,102	13,857	1,583	169,937	16,565
Outlays (gross)(-)	(6,781)	(3,878)	(1,294)	(1,425)	(82)	(188)	(6,157)	(14,312)	(1,481)	(163,225)	(17,007)
Recoveries of prior year unpaid obligations (-)	(131)	(463)	(27)	(157)	(5)	(15)	(317)	(1,705)	(65)	(3,533)	(1,819)
Unpaid obligations, end of year	2,557	4,514	457	2,128	38	42	6,292	25,725	498	39,816	26,270
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(485)	(159)	(154)	(118)	(6)	(7)	(15)	(767)	(448)	(2,019)	(947)
Change in uncollected payments, Federal sources (+ or -)	(46)	(147)	(26)	(14)	-	1	(5)	(132)	22	(557)	(129)
Uncollected payments, Federal sources, end of year (-)	(531)	(306)	(180)	(131)	(7)	(6)	(20)	(900)	(427)	(2,576)	(1,075)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	2,286	4,095	340	2,018	34	37	7,649	27,117	14	34,618	27,585
Obligated balance, end of year (+ or -)	2,026	4,208	277	1,997	31	36	6,272	24,825	71	37,240	25,195
Budget Authority and Outlays, Net:											
Budget authority, gross (discretionary and mandatory)	6,053	4,716	1,268	1,388	80	181	6,737	15,626	1,584	178,085	18,738
Actual offsetting collections (-) (discretionary and mandatory)	(712)	(85)	(117)	(28)	(2)	(24)	(3,627)	(10,071)	(1,071)	(21,481)	(12,665)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(46)	(147)	(26)	(14)	-	1	(5)	(132)	22	(557)	(129)
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	5,295	4,484	1,125	1,346	78	158	3,105	5,423	535	156,047	5,944
Outlays, gross (discretionary and mandatory)	6,781	3,878	1,294	1,425	82	188	6,157	14,312	1,481	163,225	17,007
Actual offsetting collections (discretionary and mandatory) (-)	(712)	(85)	(117)	(28)	(2)	(24)	(3,627)	(10,071)	(1,071)	(21,481)	(12,665)
Outlays, net (discretionary and mandatory)	6,069	3,793	1,177	1,397	80	164	2,530	4,241	410	141,744	4,342
Distributed offsetting receipts (-)	(529)	12	(30)	(4)	1	-	1	(1,027)	18	(723)	(1,310)
Agency outlays, net (discretionary and mandatory)	$ 5,540	$ 3,805	$ 1,147	$ 1,393	$ 81	$ 164	$ 2,531	$ 3,214	$ 428	$ 141,021	$ 3,032

Risk Assumed Information (Unaudited)

Risk assumed is generally measured by the present value of unpaid expected losses net of associated premiums based on the risk inherent in the insurance or guarantee coverage in force. Risk assumed information is in addition to the liability for unpaid claims from insured events that have already occurred. The assessment of losses expected based on the risk assumed are based on actuarial or financial methods applicable to the economic, legal and policy environment in force at the time the assessments are made. The FCIC has estimated the loss amounts based on the risk assumed for its programs to be $4,496 million and $18,287 million as of September 30, 2013 and 2012, respectively.

Section 3: Other Information

Schedule of Spending

The Schedule of Spending (SOS) presents an overview of how and where agencies are spending (i.e. obligating) money for the reporting period. The data used to populate this schedule is the same underlying data used to populate the Statement of Budgetary Resources (SBR). The “Total Amounts Agreed to be Spent” line item of the schedule should reconcile to the “Obligations Incurred” line in the SBR. These amounts may not reconcile to USAspending.gov because the SOS and the website have different reporting requirements.

For The Year Ended September 30, 2013
(In Millions)

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
What Money is Available to Spend?		
Total Resources	$ 217,670	$ 25,527
Less Amount Available but Not Agreed to be Spent	11,583	4,772
Less Amount Not Available to be Spent	22,148	3,986
Total Amounts Agreed to be Spent	183,939	16,769
How was the Money Spent/Issued?		
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Personnel Compensation and Benefits	2,338	-
Travel and transportation	72	-
Rent, communications, and utilities	315	-
Other contractual services	3,645	1,974
Supplies and materials	358	-
Equipment, land, and structures	65	-
Investments and loans	7,407	10,294
Grants, subsidies, and contributions	16,690	-
Insurance claims and indemnities	20,496	-
Interest, dividends, and refunds	134	4,109
Other	20	-
Total	51,540	16,377
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Personnel Compensation and Benefits	4,376	-
Travel and transportation	201	-
Rent, communications, and utilities	343	-
Other contractual services	2,802	4
Supplies and materials	292	-
Equipment, land, and structures	636	-
Investments and loans	-	173
Grants, subsidies, and contributions	5,716	-
Insurance claims and indemnities	134	-
Interest, dividends, and refunds	(11)	52
Other	342	-
Total	14,831	229

Schedule of Spending (continued)

For The Year Ended September 30, 2013
(In Millions)

	Budgetary	Non-Budgetary Credit Reform Financing Accounts
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Personnel Compensation and Benefits	196	-
Travel and transportation	9	-
Rent, communications, and utilities	19	-
Other contractual services	196	-
Supplies and materials	14	-
Equipment, land, and structures	8	-
Investments and loans	3	163
Grants, subsidies, and contributions	3,116	-
Insurance claims and indemnities	-	-
Interest, dividends, and refunds	-	-
Other	13	-
Total	3,574	163
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Personnel Compensation and Benefits	2,237	-
Travel and transportation	89	-
Rent, communications, and utilities	198	-
Other contractual services	904	-
Supplies and materials	1,977	-
Equipment, land, and structures	83	-
Investments and loans	-	-
Grants, subsidies, and contributions	108,472	-
Insurance claims and indemnities	4	-
Interest, dividends, and refunds	-	-
Other	30	-
Total	113,994	-
USDA		
Personnel Compensation and Benefits	9,147	-
Travel and transportation	371	-
Rent, communications, and utilities	875	-
Other contractual services	7,547	1,978
Supplies and materials	2,641	-
Equipment, land, and structures	792	-
Investments and loans	7,410	10,630
Grants, subsidies, and contributions	133,994	-
Insurance claims and indemnities	20,634	-
Interest, dividends, and refunds	123	4,161
Other	405	-
Total Amounts Agreed to be Spent	183,939	16,769
Who did the Money go to?		
Federal	12,980	5,788
Non-Federal	170,959	10,981
Total Amounts Agreed to be Spent	183,939	16,769

Response to Management Challenges

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture (USDA) Office of Inspector General (OIG) to report annually on the most serious management challenges USDA and its agencies face. To identify these Departmental challenges, OIG examined previously issued audit reports where corrective actions have yet to be taken. It also assessed ongoing investigative and audit work to ascertain significant vulnerabilities, and analyzed new programs and activities that could pose significant challenges due to their range and complexity. Ten challenges were included in OIG's report this year.

This year, OIG broadened three of their challenges to include additional concerns associated with these areas. Challenge 4, formerly addressing USDA's civil rights efforts, now includes a discussion on the Department's general outreach efforts. Challenge 6 incorporated not only the Forest Service's role in improving the stewardship of natural resources, but the Natural Resources Conservation Service's efforts as well. Challenge 9, which previously focused on succession planning, has been expanded to address the training of human resources as USDA moves to a more streamlined workforce.

One new challenge was added concerning fraud in the Supplemental Nutrition Assistance Program (SNAP), more commonly known as "food stamps." Participation in SNAP has grown, and the Department must strengthen its efforts to prevent misuse as the program increases in size. Finally, OIG discussed several emerging issues that may develop into significant concerns: the Animal and Plant Health Inspection Service's (APHIS) animal care; potentially redundant Federal programs and operations; USDA's performance measures; and the Risk Management Agency's (RMA) policies.

The following narratives summarize:

- management challenges;
- USDA's fiscal year (FY) 2013 agency accomplishments, and
- FY 2014 planned actions to address these management challenges.

CHALLENGE 1: Interagency Communication, Coordination, and Program Integration Need Improvement

Like many departments within the Federal Government, USDA faces a challenge in coordinating the efforts of various agencies and programs within its purview. This challenge is particularly pressing for USDA, as the Department divides responsibilities for such matters as food safety among several agencies that jointly provide oversight of key mission areas. This requires a high degree of intradepartmental cooperation, and USDA agencies must better understand their interrelationships in order to create a cohesive, integrated system of program administration. Such an approach should increase organizational communication; streamline operations; reduce spending; and improve program efficiency, compliance, and integrity.

OIG determined the following:

- The lack of coordination within USDA, and between the Department and the Food and Drug Administration (FDA), prevented crucial information from getting to agencies that could have potentially limited the scope of the recall and related illnesses;
- The Agricultural Marketing Service (AMS) conducted its grading activities without ensuring that the Food Safety and Inspection Service (FSIS), FDA, or the shell egg companies informed AMS graders of possible *Salmonella enteritidis* contamination;
- Agencies need to better coordinate their efforts when working in the field; and
- AMS and FSIS have a memorandum of understanding (MOU) that sets forth the basic framework for cross-utilization of AMS graders and FSIS inspectors. However, OIG's review found that this MOU is 30-years old and out of date.

Corrective Actions:

FSIS will complete assessing and documenting the existing coordination efforts within USDA and with FDA and will develop a plan to improve existing coordination. FSIS will complete its analyses on the current level of sanitation issues at shell egg packing companies nationwide, and continue to coordinate with FDA on sanitation issues. FSIS will evaluate the use of cross-utilization with AMS to determine whether there are circumstances where the MOU would be beneficial. If the evaluation results in a determination that an MOU for cross-utilization is not an efficient option for FSIS, the MOU will be cancelled. If the evaluation results in a decision to revise the MOU, FSIS will draft a plan with appropriate milestones and timelines for the MOU revision as well as update the appropriate directives. If necessary, FSIS will perform an assessment to determine whether specific Web-based time and attendance (WebTA) time codes need to be developed for the Agency to use in order to reflect cross-utilization time for billing purposes.

CHALLENGE 2: USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs

USDA managers oversee critical elements of our Nation's agriculture, nutrition, and natural resources policy. In order to bring about desired results—such as disbursing payments accurately, and only to eligible persons—they must design effective internal systems for program implementation. These internal controls are comprised of the policies, procedures, and organizational structures that collectively determine how a program is managed and how its requirements are met. In effect, internal controls are the tools managers use to ensure that programs achieve intended results efficiently and effectively; they provide for program integrity and proper stewardship of resources. Since systemic control flaws can yield systemic program weaknesses—e.g., unrealized objectives and improper payments—managers must continuously assess and improve their internal control systems. When they identify a widespread deficiency, they must fix the problem before it undermines the program.

OIG determined the following:

- NRCS performs some compliance activities, but it has not implemented a comprehensive, integrated compliance strategy;
- The review of the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) program determined that the Food and Nutrition Service's (FNS) controls in two State offices were not sufficient to identify and disqualify vendors who violated program guidelines and that one State agency did not conduct compliance investigations on 24 of its 35 high-risk vendors, and did not treat smaller vendors in an equitable manner with large chain stores; and
- The Smuggling, Interdiction and Trade Compliance (SITC) unit is part of the APHIS Plant Protection and Quarantine Program. The SITC's control environment did not include a system of management accountability that fostered efficiency, adequacy, or accuracy in either achieving its core mission or in reporting its results.

Corrective Actions:

NRCS led a cross-functional team to develop a comprehensive integrated compliance strategy. The strategy includes goals, objectives, initiatives, and measures that focus on strengthening internal controls across all Agency programs and operations. The NRCS compliance strategy will be completed and rolled out to the agency in FY 2014. The finalized plan will include a plan for the implementation of strategic initiatives that span the next three years.

FNS revised the vendor management section of the Management Evaluation (ME) tool and provided training for staff in January 2013. Over 60 FNS staff participated in the training. This guidance was uploaded to the ME tool in May 2013. The FNS Midwest Regional Office worked with the State of Illinois to ensure that any of the vendors identified in the OIG audit report titled *Vendor Management in the Food and Nutrition Service's Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) (27601-0038-Ch, March 2013),* were disqualified for the required time period. The Southeast Regional Office is currently working with Florida to obtain confirmation of the final disposition of their vendors in question. FNS required the Illinois State agency to disqualify three WIC vendors, also identified in the report for the same period as their SNAP disqualifications. The State implemented controls to ensure that disqualified SNAP vendors are being disqualified from the WIC Program, as required. The Florida WIC State Agency's State Plan/Procedure Manual for FY 2014 has been updated to include a description of the necessary controls.

FNS plans to reevaluate the other eight functional areas of the ME tool, including all applicable guidance, by December 2014. FNS also plans to reevaluate all functional areas of the ME tool on an annual basis.

FNS is scheduled to deploy a new training environment for the ME tool. All regional staff will receive training prior to conducting actual ME reviews. FNS will continue to identify ways to ensure compliance with Federal requirements regarding reciprocal WIC and SNAP disqualifications. FNS will review best practices, evaluate the appropriate controls needed, and issue guidance to the States by December 2013.

APHIS implemented guidance and a checklist for SITC personnel to further educate staff on the SITC mission and objectives. The guidance requires SITC managers to exercise sufficient oversight to ensure that the program's mission is achieved and that duties and expectations of managers and supervisors are described. Using their checklist, APHIS did the following:

- performed secondary reviews of nearly 2,000 previous seizures to ensure that found prohibited items do not identify as another entry pathway for items to enter the United States;
- implemented an operational process for closing an entry pathway for prohibited items and steps for staff to take to notify external parties of the closure;
- implemented actions to ensure that the national database is officially incorporated into APHIS' technology portfolio, and also to ensure that the information in the national database undergoes integrity and quality control; and
- established analytical methodologies for the reports from the national database.

The outstanding action regarding the SITC program is the development and implementation of a time-phased action plan that will identify procedures for the Plant Protection Quarantine staff and SITC management on the benchmarks and expectations of the SITC program. These actions will be completed during FY 2014.

CHALLENGE 3: Information Technology Security Needs Continuing Improvement

Typically, USDA's work is thought of in terms of the benefits and services the Department provides, which touch almost every aspect of American life. To accomplish these missions, USDA must manage vast amounts of data associated with its many programs and operations. This critical information ranges from agricultural statistics that drive domestic and global markets to data-driven inspection systems that help ensure our food is safe. Department employees must be able to access, manipulate, and communicate this information to deliver programs effectively. Additionally, the general public can apply for many program benefits and other services via the Internet. It is, therefore, critical that the Department protect the security, confidentiality, and integrity of its information technology (IT) infrastructure.

OIG determined the following:

- The current security program does not have a solid foundation because the Department has not fully deployed basic analytic tools that determine accurate system inventories, or performed appropriate risk assessments and timely vulnerability scans;
- USDA is not as prepared as it needs to be to prevent or respond to emergencies because it lacks adequate mechanisms to continuously monitor systems and recover from disasters;
- The Department has not: established a continuous program for monitoring IT security or contractor systems (including systems residing in the cloud); ensured that agencies securely configure their computers; mandated user multi-factor authentication; consistently reported security incidents; implemented a risk-based framework for handling security issues;

adequately remediated weaknesses; implemented adequate contingency policies and procedures; and adequately planned for security costs;

- The Office of the Chief Information Officer (OCIO) did not strategically plan, prioritize, and manage its efforts to improve USDA's IT systems;
- Several of OCIO's projects did not meet the purposes outlined in its request to Congress for additional funding or address the Department's most critical IT security concerns;
- OCIO needs to adequately develop oversight mechanisms, communicate and coordinate internally, plan projects, and determine how to effectively utilize it resources;
- Controls over the Department's eAuthentication system, which the Department uses to electronically authenticate employee access to its systems, do not meet some of the National Institute of Standards and Technology (NIST) requirements, and the Department did not incorporate them when maintaining the eAuthentication system.

Corrective Actions:

OCIO efforts toward continuous monitoring (CM) have been focused on continuous vulnerability assessment. OCIO continued to refine the security stack array (SSA), used to monitor network traffic, through implementation of security rules and conditions to proactively identify true attacks and compromises, and has greatly reduced the number of false positive scan results. In December 2012, USDA matured its traditional certification and accrediation (C&A) program to include an ongoing Assessment and Authorization (A&A) model in accordance with NIST Special Publications (SP) 800-37 Revision 1. USDA's ongoing A&A model includes an enterprisewide set of NIST controls. This set of controls includes the varied level of information security risks derived from the diverse business and mission objectives across the USDA enterprise.

In FY 2013, OCIO established clear objectives to remediate the longstanding compliance issues related to the USDA cybersecurity policies. Objectives established included the following: reduce the number of cybersecurity policies and manage them through a policy lifecycle; leverage existing OCIO and agency policy and include agencies and offices in the policy development reviews; focus on the corporate, enterprisewide mission, enabling interpretation by agencies and offices based on individual mission protection requirements; and set the foundation, and OCIO expectations, for agencies and offices to implement cybersecurity.

Key initiatives completed in FY 2013 include the following:

- establishing a 24/7 Operations and Threat Analysis Center;
- developing situational awareness capability for USDA;
- continuing efforts to fully staff the Monitoring and Analysis Division with highly technical support;
- correlating data from network and endpoint sensors; and
- conducting daily analysis and risk-based assessments of impact based on security profiles.

The Department published the Incident Management Playbook (Standard Operating Procedures), which details the steps for analyzing cybersecurity incident-related data and determining the appropriate responses for each incident in accordance with NIST guidance. USDA is actively engaged with the Department of Homeland Security (DHS) Continuous Diagnostics & Mitigation initiative. USDA is selecting a component agency to complete the comprehensive survey detailing USDA's environment, security tools, information assurance capbilities, and other IT management tasks.

OCIO issued the Risk Management Framework (RMF), which outlined the Department's program initiative for implementing the Continuous A&A of IT systems. USDA began transitioning its IT systems from the 3-year C&A cycle to the continuous assessment and authorization RMF model. Security controls are being monitored on a consistent basis in the following five domain areas: (1) vulnerability management—application version; (2) configuration management—U.S. Government Configuration Baseline (USGCB) compliance; (3) patch management—windows patch compliance; (4) malware detection—signature definition status; and (5) asset management—enumerate USDA assets.

In FY 2014, the Department will use business intelligence tools to aggregate and better leverage enterprise data to provide near real-time views of USDA's security posture and more quickly respond to potential and actual security threats. OCIO will continue the cybersecurity remediation process and development of a policy lifecycle management process to ensure continuous monitoring of compliance for cybersecurity policies. These actions by OCIO will include further revisions, additions, or retiring outdated cybersecurity-related policies.

The Department plans to continue addressing the longstanding OIG suggestion to properly plan and prioritize efforts to remediate the weaknesses with the highest risk to the Department. At the same time, it is essential for the Department to address the day-to-day demands of cybersecurity, as well as the requirements of the Office of Management and Budget (OMB), DHS and NIST. Collectively, OCIO and agencies will continue to collaborate in this effort to mitigate the ongoing IT security material weakness, and consequently improve the Department's overall IT security posture and FISMA compliance in FY 2014.

One of OCIO's primary activities for FY 2014 is the Operational Security Assessment project. This project is designed to analyze an agency's information architecture and related processes to develop a threat profile for the agency's IT security components, or its layers and sub-layers of security.

USDA's OCIO completed deployment of eAuth 2.0 (also known as Level 2 eAuth), which the Department uses to electronically authenticate employee access to its Web applications and is in the process of assisting USDA agencies in migrating their Web applications to the new infrastructure. eAuth 2.0 is compliant with NIST requirements. Once all agency applications have been migrated, eAuth 1.0 (also known as Level 1 eAuth), will be decommissioned in the 2nd Quarter of FY 2014.

CHALLENGE 4: Departmental Outreach Efforts Need to be More Transparent

USDA is dedicated to ensuring that its programs and benefits are accessible to all communities it serves. As the Department has vigilantly worked with affected communities to address past civil rights issues, an April 2009 memorandum from the Secretary of Agriculture to all USDA employees reiterated the importance of civil rights, emphasizing that there was significant progress to be made. The Department has received public attention with respect to various discrimination complaints that have been filed in Federal district court including *Pigford I,* the *Black Farmers Discrimination Lawsuit (BFDL), Keepseagle,* and *Garcia/Love. S*ettlements have been reached in *Pigford I, BFDL,* and *Keepseagle,* and a voluntary administrative claims process for Hispanic and female farmer claimants has been established.

OIG determined the following:

- The applicants that OAO initially selected to receive program grants may not have been the most meritorious and deserving candidates;
- OAO had no documentation to support their decisions and could not explain why some applicants that appeared more deserving were not selected to receive grant funds; and
- Officials were not monitoring how grant recipients used funds that were awarded in 2010 and 2011, primarily because they had not assigned monitoring duties to personnel and did not have procedures in place.

Corrective Actions:

OAO incorporated clearly defined roles and responsibilities into the Socially Disadvantaged Farmers and Ranchers Grant Program Staff position descriptions. The Program Director's position description has been modified to include a requirement to monitor staff in the performance of their specific program duties and responsibilities. Specific language has been added to the recommendation memorandum to the Secretary certifying the eligibility of each recommended grantee and is signed by the OAO Director.

The Standard Operating Procedures (SOPs) were revised during FY 2013 to incorporate the regulatory citations that authorized the operation of the Socially Disadvantaged Farmers and Ranchers Grant Program. The SOPs also include the requirement for the Director's signature to indicate final review and approval of any changes contained within new SOPs.

The SOPs have been revised to include the requirements as follows: 1) the requirement for the Funding Opportunity Announcement (FOA) must disclose any special criteria factored into the evaluation process; the maximum number of points available under the evaluation process, including the number of discretionary points that may be awarded as a result of a Secretarial initiative; 2) the requirement to review each Applicant's eligibility initially upon receipt of the application by the Grants Staff. A second review of eligibility is performed during the grant review process by the Independent Evaluation Review Panel and final certification of eligibility is performed by the Director of OAO; 3) the requirement to use an independent Evaluation Review Panel to perform the ratings and rankings of all applicants; 4) the requirement for the review panel and/or the lead panelist to inform the Director of any attempts to interfere with the review process by external sources; 5) the requirement for a detailed written rationale for any deviation from program guidance, which must include supporting documentation provided by external sources to the review panel; 6) the requirement for a second-level review of all mathematical computations used in the evaluating process and a final sample review by the Director or a designated representative; and 7) the requirement for a written final selection report detailing the review process used; written justification for point distribution, and a written rationale for the recommended funding amounts.

CHALLENGE 5: A Proactive, Integrated Strategy Is Necessary To Increase Agricultural Commerce and Trade

Given the importance of U.S. agriculture to the economy—in 2012, the Nation's farms and ranches produced $436 billion in goods—USDA has a deeply rooted and longstanding interest in promoting the export of our commodities worldwide. Over the last few years, the monetary total of U.S. agricultural exports has risen significantly because of several factors, including adverse weather conditions in major agricultural areas; the U.S. dollar's declining value, and increased demand in countries such as India and China. The value of U.S. agricultural exports has grown from $96.3 billion in FY 2009 to more than $135.7 billion in FY 2012.

OIG determined the following:

- USDA had not integrated its current country-specific marketing strategies into a focused, global strategy capable of responding effectively to international market trends; and
- The Foreign Agricultural Service's (FAS) updated Strategic Plan did include measurable goals and objectives; these goals and objectives (which measure the dollar value of exports) do not present the whole picture of how FAS' actions are affecting the global market for American agricultural goods.

Corrective Actions:

FAS will consult with the appropriate congressional committees to determine a collection of measures that together provide a more accurate illustration of how FAS' efforts are affecting global markets. In FY 2014, FAS will incorporate the new measures into agency planning sessions to better assess the effectiveness of FAS strategies and activities. FAS will incorporate clear, outcome-based performance measures into Country Strategy Statements. Written guidance that includes the recommended measures will be issued by March 2014. FAS will coordinate with the Department to update the current Global Market Strategy (GMS) primarily to reflect the two FAS strategic pillars relating to marketing and trade, and to provide discussion of the third pillar regarding capacity building. FAS will introduce the revised GMS into the Intra-Departmental Coordination Committee on International Affairs process by December 31, 2013.

CHALLENGE 6: Action Needed to Improve Natural Resources Stewardship

One of USDA's mission areas is ensuring the health of the land through sustainable management and conservation of the Nation's natural resources. Over the years, USDA's agencies, particularly the Forest Service (FS) and NRCS, have had to balance budgetary concerns with the increasing demands placed on our Nation's public lands. They also have logistical issues related to the management of vast and geographically diverse natural resources. These agencies now face growing concerns such as climate change, increasing land development, conservation measures that affect human safety, and drilling for oil and gas on National Forest System (NFS) land. Successfully managing these demands will continue to pose a challenge in future years.

OIG determined the following, regarding the Forest Service:

- FS allocated American Recovery and Reinvestment Act (ARRA) grants for wildland fire management (WFM) activities such as hazardous fuels reduction, forest health, and ecosystem improvements, without the necessary controls to ensure that the grant funds were both properly accounted for and used for their intended purpose;
- FS did not enhance its existing controls, despite the ARRA's requirements for greater transparency and accountability;
- FS staff did not take necessary steps to ensure that the Agency met the ARRA's overall objective of maximizing job creation and retention in the most cost-effective manner possible;
- FS needs to make greater improvements in managing the growing practice of drilling for oil and gas on NFS land;
- FS was not adequately safeguarding against environmental damage;
- FS could not validate whether all well sites were being inspected annually, as required;
- FS does not require operators to submit a spill plan that would ensure that operators are prepared to quickly respond to any spills;
- FS needs to work more closely with the Bureau of Land Management (BLM) in the Department of the Interior to regulate drilling operations including establishing a more formal means of communication;
- Without strong controls in place to ensure compliance and effective program operations, NRCS cannot ensure that its budget for conservation efforts — $4.34 billion in FY 2012 — is used efficiently or correctly;
- NRCS did not have the necessary controls in place, it did not always target funds to those easements most in line with program goals, or ensure easements were maintained consistent with conservation program goals; and
- NRCS did not always adequately communicate program rules to landowners, such as actions prohibited on easements.

Corrective Actions:

FS implemented several actions during FY 2013 to monitor grants provided under ARRA and to improve grant administration. FS reviewed ARRA equipment purchases and certified that the purchases of the equipment were necessary and that they were used primarily for the projects to which they had been charged. FS reviewed all active ARRA grant agreements to determine whether the required ARRA provisions were included, and if they were not, revised the agreements to include the provisions. FS also reviewed all existing non-Federal WFM ARRA and non-ARRA-funded grants to ensure that grant recipients claiming indirect costs had the OMB required approvals and supporting documentation. FS provided training for Program Managers, Grants and Agreements (G&A) Specialists, and agency partners. Training included webinars on financial management systems review, indirect costs, and A-133 audits; a webinar on the proper distribution of salary; and 3 week-long training sessions covering Uniform

Administrative Requirements; cost principles, and basic grant management in multiple locations around the country. The agency worked closely with the Wyoming State Forestry Division to improve its controls over sub-grant administration to ensure they reflect Federal requirements.

In FY 2014, FS will improve grant recipients' use of funds by enhancing pre-award and post-award controls and conducting training for staffs and grant recipients. FS will complete various reviews to determine whether recipient costs were charged to ARRA and Non-ARRA grants appropriately. FS will establish controls to correct processes that resulted in inadequate accounting, unsupported salaries, non-competitive procurements, and unauthorized indirect costs.

To enhance the exploration and development of FS oil and gas resources on NFS land, FS has taken steps to improve coordination with the BLM. FS Minerals and Geology staff began monthly meetings with the BLM to discuss the status of the oil and gas program and issues. These meetings will ensure better coordination and communication with the BLM to improve management of the FS oil and gas program. FS has requested access to the BLM's Automated Fluid Mineral Support System (AFMSS) to track FS nominations for oil and gas leasing, which will improve timeliness of processing lease nominations, track inspections, and incorporate fields to facilitate retrieval of information in AFMSS. FS will implement a training plan for their officials that will have access to the system. FS also issued a letter to the Regional Foresters, reiterating the guidance contained in the FS Manual, Section 2165 –*Response to Hazardous Material Releases*, to develop spill response plans.

To continue to improve management of the Oil and Gas Program, FS will work with the BLM to assess how well cooperative efforts are reducing leasing, permitting backlogs, and ensuring surface compliance. FS will update the existing regional mineral leasing file databases to generate a report that will do the following: identify the number of requests (lease offers and expressions of interest) for leasing NFS lands; record the acreage associated with each request; and track critical dates associated with individual nominations. FS will track leasing and permit processing times in the various program databases and use average processing times as a managerial tool for monitoring processing efficiency from year to year.

NRCS has updated the Emergency Watershed Protection Program Floodplain Easements (EWPP-FPE) Manual to provide guidance on the definition of "natural condition" as it relates to easement restoration; restoration measures that require future maintenance; significant differences in preliminary and final restoration plans; land eligibility determinations; EWPP-FPE applications for funding outside of strict rank order; and landowner offer.

NRCS issued easement monitoring policy in FY 2013. The National Easement Staging Tool (NEST) was upgraded to allow NRCS to enter and track easements electronically. This will aid in the detection and tracking of prohibited activities on EWPP-FPE easements. NRCS will review 100 percent of the closed and restored EWPP-FPE easements in FY 2013. This will include a review of the Warranty Easement Deed.

A new module was developed for NEST that will improve the tracking of landowner offers and will require users to review, adjust, and verify final acreage and payment amounts to help safeguard against improper payments. This module will be deployed when system upgrades are installed in FY 2014.

In FY 2014, NRCS will update the EWPP Manual to include the definitions and documentary support required for EWPP applications. The manual will include guidance on final ranking criteria to use in the final project selection process. NRCS will provide training on communicating the terms of the deeds to landowners and will implement upgrades to the NEST.

CHALLENGE 7: Food Safety Inspection Systems Need Improved Controls

Because foodborne pathogens and food contamination can put consumer health in jeopardy, USDA inspection systems work to protect the safety of the U.S. food supply. The Department provides a range of safety measures, from placing qualified inspectors in livestock slaughtering facilities to creating comprehensive inspection and testing programs that pinpoint likely risks at processing facilities. Additionally, the USDA grademark has come to stand as a symbol of safety and quality. To maintain the confidence of consumers, Congress, and other stakeholders, FSIS and AMS will continue to improve their technology systems, inspection processes, and enforcement efforts to accurately assess risk and effectively prevent contamination. USDA's challenge is to remain vigilant to ensure that American consumers receive safe, wholesome, properly labeled foods.

OIG determined the following:

- FSIS' shell egg refrigeration policy was not sufficient to decrease the risk of *Salmonella enteritidis* (SE) contamination in shell eggs;
- AMS had been placing the USDA grademark for quality on shell eggs without knowing whether or not the shell eggs were potentially adulterated with SE;
- FSIS has a comprehensive system for testing raw ground beef products or product likely to become raw ground beef, but it needs to reevaluate its *Escherichia coli (E. coli)* testing methodology as it relates to the downstream processing of boxed beef products;
- Retail exempt establishments, such as grocery stores and butcher shops, grind their own ground beef; but unlike federally-inspected plants, FSIS does not sample and test trim at these establishments for *E. coli*. Likewise, despite several recent recalls, FSIS does not test tenderized meat products for *E. coli*;
- FSIS enforcement policies do not deter swine slaughter plants from becoming repeat violators; and
- FSIS initiated a pilot program, the Hazard Analysis and Critical Control Point-based Inspection Models Project (HIMP), in order to streamline the inspection process and improve food safety. FSIS has never assessed whether HIMP plants have been successful in improving food safety.

Corrective Actions:

During FY 2014, FSIS will complete its assessment on the effect of temperature deviations, time, or other factors affecting the safety of shell eggs packed for the consumer and revise its directives to strengthen its shell egg surveillance and enforcement activities.

FSIS will clarify its procedures for sampling boxed beef as trim by revising FSIS Directive 10.010.1, *Verification Activities for Escherichia coli O157:H7 in Raw Beef Products* and issue relevant *AskFSIS* questions and answers. FSIS will also consider adjusting sampling frequencies when grinders maintain their own testing programs. FSIS will perform a survey using the Public Health Information System (PHIS) to identify establishments that grind whole primal or sub-primal cuts and update plant profiles as appropriate. FSIS will also conduct an assessment that will compare the level of Shiga toxin-producing *Escherichia coli* (STEC) O157 contamination in ground beef produced from boxed beef to the level of STEC O157 in ground beef produced from trim. This assessment will evaluate the likelihood of detecting positive lots of product under various testing schemes. If there is a significant amount of risk associated with grinding of boxed beef and store-generated bench trim in retail establishments, FSIS will develop a plan for a testing program. The plan will include milestones and reasonable timeframes to implement a testing program to sample and test bench trimmings. FSIS will also complete the non-intact beef risk assessment, the industry survey on industry practices related to tenderized products, and analyze the risk of tenderized products. If FSIS finds a significant amount of risk associated with the consumption of mechanically tenderized beef products, FSIS will develop a sampling and testing program for tenderized products or their components. FSIS will develop a plan to conduct annual reviews of its pathogen sampling databases and the procedures. FSIS will develop a report that lists the sampling programs for which an establishment is eligible based on its production and revise its policy. FSIS will ascertain the most common profile errors that are causing establishments to be placed in inappropriate sampling programs and revise agency policy to include a list of most common errors. FSIS will publish a proposed rule establishing requirements for all official establishments and retail stores that grind raw beef products for sale in commerce to maintain grinding logs. Should the grinding logs proposed rule become final, FSIS will develop procedures to verify that grinding logs can be used to trace back implicated product to the source supplier in the event that adulterated product has been produced, and FSIS will also develop actions to take when the logs are inadequate.

FSIS is developing a strategy for taking progressively stronger enforcement actions against plants with serious or repetitive violations to identify establishments that should be prioritized for food safety assessment. FSIS will issue a notice or directive with instructions on the Rules of Practice and decision criteria to enforce the public health decision criteria.

FSIS will update its training manual to document noncompliance and revise notices or directives on the regulatory requirements of 9 CFR 416(2). The FSIS Directive 5020.1 *Verification of Salmonella Initiative Program* will be updated to instruct inspectors to terminate waivers of regulations for repetitive noncompliance. FSIS will also update the policy on visual and manual inspections of viscera and develop the situation-based humane handling training modules for inspectors. There will be a database to track the review of noncompliance records, suspensions, and Notices of Intended Enforcement.

AMS will develop a revised definition of "condition" as it applies to shell eggs. The revision will plainly state whether it relates to quality, is fit for human food, or both.

CHALLENGE 8: Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs

USDA delivers approximately $144 billion in public services annually through more than 300 programs. In FY 2012, USDA reported that 16 of its programs were vulnerable to significant improper payments ("high risk" programs) and estimated that there were $5.5 billion in improper payments for that year—a 5.11 percent error rate. While this represents a reduction from FY 2011's 5.37 percent error rate, the Department will continue to realize considerable cost savings by identifying root causes, implementing corrective actions, and reducing its improper payments.

OIG determined the following:

- USDA needs to fully comply, particularly with requirements involving USDA's reporting practices and preventative measures;
- USDA agencies need to complete several actions (such as FNS completing its review of the National School Lunch Program's (NSLP) error rate calculation methods) which would better assess results and achieve compliance;
- USDA's FY 2012 quarterly reports on high-dollar overpayments and related actions did not always provide accurate, complete, and timely information;
- Quarterly reports included errors, did not include all reportable high-dollar overpayments, and were submitted to OIG after the due date;
- Many improper payments have occurred because of a lack of internal controls. FSA farm assistance payments identified 12 errors that led to $80,480 in improper payments which projects to about $17 million in potential improper payments; and
- The Farm Service Agency (FSA) needs to strengthen internal controls—particularly for the Supplemental Revenue Assistance Payments Program, which is the largest of its farm assistance programs. FSA needs to better protect against and identify manual payment calculation and input errors.

Corrective Actions:

USDA revised and strengthened improper payments guidance and worked with agencies to improve the accuracy of reporting on improper payments, corrective actions, categorizing root causes, and performing risk assessments. The Department published measurable milestones and completion dates for corrective actions in the USDA 2012 Agency Financial Report (AFR). USDA revised the Corrective Action Plan Guidance to provide examples of categorizing root causes of improper payments.

During FY 2013, USDA did the following:

- Conducted quarterly status meetings with managers of high-risk programs to discuss IPERA compliance requirements and reducing improper payments. Agencies developed an IPERA Compliance Plan and designated an accountable official;
- Provided IPERA compliance plans, timelines, and corrective actions to the Senate Homeland Security and Governmental Affairs Committee;
- Completed a secondary review of improper payment risk assessments;
- Revised the High-Dollar Overpayment Guidance to strengthen the reporting process; training in this guidance was provided to agencies;
- Required agencies with high-risk programs to document their High-Dollar Reporting process;
- Awarded a Supplier Credit Recovery Auditing (SCRA) services contract, which involved analyzing external vendor documentation to identify overpayment. USDA collected overpayments in three high-risk programs in the first phase of implementation; and
- Coordinated the Do Not Pay (DNP) on-boarding questionnaire process with agencies to obtain access to the DNP Portal for checking pre-award/eligibility. USDA received prepayment monthly results from the DNP Portal match against the public Death Master File and Excluded Parties List System. USDA is working on an efficient process to adjudicate the matches.

In FY 2014, USDA will strengthen the quality review process for accurate and complete agency information in the Improper Payments section of the AFR. This report will include the timeframe for overpayments recaptured and measurable milestones and completion dates for corrective actions that address root causes of improper payments. USDA will evaluate reasons for unmet reduction targets and will revise the risk assessment guidance to provide an adequate sample size for test of transactions. USDA will improve the timeliness for the High-Dollar Overpayment Quarterly Report and will work with OMB/Treasury to streamline the adjudication process for the Do Not Pay monthly prepayment matches.

During FY 2013, FSA provided program information and guidance to contractors regarding testing of two pilot programs: the Conservation Reserve Program (CRP) and Non-insured Crop Disaster Assistance Program (NAP). FSA conducted briefing sessions with program managers, financial managers, and information technology staff to enable contractors to start overpayment recovery efforts. FSA conducted a 2-day video teleconference.

FSA held a video teleconference call with State offices, alerting States of the importance of second-party reviews and highlighted the four areas of concern: share, acres, National Average Market Price, and data discrepancies for the Supplemental Revenue Assistance Program.

CHALLENGE 9: USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources

In the current economic climate, USDA, like most of the Federal Government, has been asked to accomplish more with fewer employees. For many agencies, this means appropriately training and utilizing their available staff. As USDA faces significant staff reductions that restrict the hiring of new employees, the Secretary announced in January 2012 that several agencies would soon be undergoing a major restructuring intended to build an efficient and modern agency by consolidating offices and reducing staff. While these decisions respond to the realities of USDA's current and future budgetary circumstances, as well as to changing demographics, agencies will be expected to accomplish an increasing number of program objectives with fewer employees—this may have significant consequences.

OIG determined the following:

- The review of the Recovery Act Rural Business Enterprise Grant (RBEG) program found that because the RBEG program is relatively small in comparison to other RBS programs, RBEG-specific information was not heavily emphasized during RBS staff training. Individuals responsible for administering the program were unaware of key program requirements. When personnel had to expeditiously disburse over $15.3 million in ARRA funding for 145 first-round RBEG projects, they did not sufficiently review projects and documentation—primarily because they were unfamiliar with all requirements;
- Issues with the Single Family Housing (SFH) Direct Loan Program were due to a lack of sufficient training and guidance. The field-level personnel were not sufficiently trained on conducting and documenting proper determinations, did not have an effective second-party review process, and did not have sufficient guidance on property eligibility; and
- The National School Lunch Program (NSLP), State agencies (SA) and school food authorities (SFAs) were unprepared to carry out their administrative functions due to a lack of guidance, information, and proper training.

Corrective Actions:

The Rural Business-Cooperative Service (RBS) recovered $14,940, but recovery of $18,228 is not possible since the recipient is no longer in business. State offices have supported disbursement of funds. The National Office provided training to all State Office Program Directors and Specialists concerning grant servicing that covered documentation, quarterly performance reports, and SF-270s for grants. SFH provided Direct Loan underwriting training along with sessions about data integrity, construction issues, and funds management. A series of presentations has been posted to the SFH Direct Training Hub SharePoint site. Rural Housing Service (RHS) has discussed new regulations, policies, and procedures during monthly teleconferences with housing staff nationwide. Transcripts of these teleconferences were posted to the SharePoint site.

RHS has revised Handbook-1-3550, *Direct Single Family Housing (SFH) Loans and Grants* to address how to determine and document the acceptability of seller completed repairs prior to loan closing and for publication during FY 2014.

FNS issued SP-23-2013 *Guidance Reaffirming the Requirement that State agencies and School Food Authorities Periodically Review the Food Service Management Company Cost-Reimbursable Contracts and Contracts Associated with USDA Foods.* This memorandum sets forth the requirements that SFAs must properly account for, and receive credit on, invoices for USDA-donated foods provided to Food Service Management Companies (FSMCs). SA must monitor SFAs to ensure compliance with FSMCs, providing supporting documentation of all credits received. SFAs are required to obtain documentation to allow it to identify allowable and unallowable costs, and reconcile the amount of all rebate credits and the value of USDA foods received on invoices presented for payment to the SFA. The memorandum also emphasizes the importance of procurement training, reminds States of the availability of FNS' Web-based training modules, and suggests that State and SFA officials establish a periodic training schedule for their staff with procurement responsibilities. FNS plans to issue periodic guidance to SAs to complete the Web-based procurement training tool.

FNS is currently working with USDA's Office of General Counsel to staff the working group and develop a work plan that will include collecting current FSMC practices and offering suggestions to improve compliance and oversight. FNS will develop an action plan to propose minimum requirements for SAs to follow, including alternative review methods for FNS regional and State agency officials to assess this operational area and make better use of limited resources. A new training module will provide technical assistance and guidance for the oversight and monitoring of FSMC contracts. FNS will mandate procurement training to assist SAs and SFAs in their oversight and monitoring of FSMC contracts. This requirement is included in the Child Nutrition Program Integrity Proposed Rule, which is currently going through the clearance process.

FNS will review SA prototype contracts during the Management Evaluation (ME) process. FNS will require the SAs to take corrective action to comply with specified timeframes. SAs will develop contracts in accordance with Federal and State regulations. These actions will be required and documented in the FY 2014 ME of the SA National School Lunch Program (NSLP) and the School Breakfast Program (SBP) Operations Guidance.

CHALLENGE 10: FNS Needs to Strengthen SNAP Management Controls

By far the largest program within USDA, SNAP provides monthly food assistance and nutrition for the health and well-being of more than 47 million low-income individuals. Due to the economic downturn, program participation has grown by 80 percent since 2007 and the program disbursed over $74.5 billion in benefits in FY 2012. Given the program's significance, fraud committed by both SNAP recipients and the retailers that redeem SNAP benefits is a critical concern. With increased participation comes increased risk, and past audit work has found that FNS needs to redouble its efforts not only to enforce its policies against such fraud as trafficking,[38] but also to establish strong internal controls to prevent it.

In recent years, FNS has taken measures to strengthen its oversight of SNAP in three key areas: (1) reducing improper payments and errors, (2) combating the abuse and misuse of benefits, and (3) better pursuing recipient and retailer fraud. FNS' efforts have included improvements to its anti-fraud retailer data system, further plans to upgrade retailer surveillance technology, and promotion of a trafficking hotline number. Moreover, FNS is in the process of developing stronger penalties and sanctions for small retailers. FNS has also sent letters to State Commissioners and Governors in 2011 expressing the importance of addressing recipient integrity issues.

While FNS has made progress, further efforts are needed to fully utilize available resources. OIG recently analyzed SNAP-related databases at Federal and State levels to identify potentially ineligible recipients. We found that 27,044 recipients (0.2 percent) in 10 States were receiving approximately $3.7 million a month in SNAP benefits, even though they were potentially ineligible. We attributed many of these issues to the fact that States do not make full use of tools and databases available to them for ensuring applicant eligibility and detecting fraud—primarily because FNS has not required their use. Also, States consider some databases' information to be unreliable, and must conduct further research before acting on data contained within them. Additionally, while research is often conducted by the States' fraud detection and prevention units, FNS officials stated that States face significant resource challenges and are relying on staffing cuts, as well as furloughs, to meet current financial challenges.[39] We also found that although FNS has a methodology for estimating a retailer trafficking rate, the method is based on a judgmental rather than statistical sample, and the results may not be representative of the retailer population. Therefore, the actual extent of trafficking could be over or underestimated. In addition, the agency has not established a process to identify or estimate the total amount of SNAP fraud occurring nationwide, either by recipients or by retailers.

As a result, FNS does not have the ability to effectively measure a total SNAP fraud rate over time. We recommended that FNS specify a set of tools that States are required to use, and establish associated guidelines. FNS has been responsive to our recommendations, reminding States of the importance of data matching and issuing guidance encouraging States to make greater use of USDA fraud data. FNS is also in the process of upgrading its technology to increase data reliability and enhance functionality for the States.

In many ways, FNS' technological advances have greatly improved FNS' ability to detect and prevent improper payments and fraud. However, as FNS updates this technology, FNS must ensure that it is making full use of gathered data, and that its agency policies and employee skill sets sufficiently supplement these automated efforts. For example, in a recent audit, OIG also

[38] Trafficking is the exchange of benefits for cash or other compensation.

[39] *Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts* (27002-0011-13, September 2012)

determined that FNS does not have clear procedures and guidance to carry out key oversight and enforcement to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud either by a particular owner or within a particular location. In addition, FNS regional offices put their limited resources towards other activities, such as retailer authorization, rather than assessing and enforcing retailer penalties.

Overall, these issues have occurred because FNS has not yet comprehensively updated its regulations and guidance to reflect the transition from a stamp-based benefit system to the electronic benefit transfer system. Finally, FNS does not require retailers to undergo criminal background checks. If FNS does not consistently provide deterrents for trafficking, the integrity of SNAP is at risk, and taxpayer dollars may go to fraudulent retailers. In January 2013, FNS reorganized its retailer management functions to streamline and enhance authorization, reauthorization, and compliance activities. We view these efforts as a positive step in strengthening enforcement, and believe FNS must also take a comprehensive look at its regulations and guidance related to retailer authorization and fraud to ensure that these are clear, effective, and updated.

Because we recognize that FNS cannot further strengthen its enforcement and detection efforts without some financial investment, we believe FNS could improve its compliance efforts if it were able to retain a portion of retailer penalties as a supplement to annual appropriations. We recommended that FNS comprehensively review its policies, procedures, and guidance; require background checks for retailers; make improvements to its automated retailer data system; create and strengthen safeguards for high-risk stores; and require more supervisory reviews. We reached management decision on 12 of the 20 recommendations; however, further action from the agency is needed to reach management decision on the other recommendations.[40]

Investigating SNAP fraud continues to be a priority for OIG based upon the level of funding this program receives. OIG has significantly increased the level of investigative resources allocated to combating SNAP fraud from 37 percent in FY 2010 to 52 percent in FY 2012. With this increase has come a high percentage of success: the conviction rate for investigations of SNAP fraud was 89 percent for FY 2012.

Typically, the focus of OIG's investigations has centered on retailers engaging in SNAP trafficking. After careful analysis of our investigative work and discussions with FNS, we concluded that in order to address fraud more effectively and ultimately protect USDA funds, States must also make a concentrated effort to deal with recipient trafficking. With this goal in mind, OIG is working with FNS on an initiative to address both the retailers and recipients identified through our investigations as engaging in SNAP trafficking. As we continue to review SNAP fraud detection and prevention efforts and investigate instances of fraud, we are dedicated to working with FNS to strengthen SNAP's internal controls.

[40] *Controls for Authorizing Supplemental Nutrition Assistance Program (SNAP) Retailers* (27601-0001-31, July 2013).

Corrective Actions:

The retailer management function was centralized at the FNS headquarters in January 2013. The potential number of ineligible SNAP recipients identified by OIG in their audits of 10 states, referenced above, represented 0.20 percent of the total sample of cases reviewed by the audit team. Subsequently, when each state followed up on the identified cases, it was determined that actual errors again turned out to be a small fraction again of the initial 0.20 percent of cases identified as potential anomalies. Where these actual errors were identified, the state pursued recovery of the improper payment. FNS takes program integrity very seriously. Any errors are of concern; however, FNS notes that the findings in these reports constitute an actual error rate well below 0.20 percent of the caseload, which suggests that while current processes can be improved, they are, in fact, working. FNS is committed to our continuing collaboration with our state partners to further reduce errors.

FNS released the Recipient Integrity Management Evaluation Module, and FNS conducted reviews of every State in FY 2013. The module is used by FNS to examine SA and local SNAP offices to determine compliance with Federal requirements governing recipient and benefit integrity. The ME Module focuses on four areas of recipient integrity, including the following: investigations, administrative disqualification hearings, prosecutions, and reporting. FNS will determine whether to create a uniform methodology for States to calculate their recipient fraud rate, to be incorporated into a national recipient fraud rate.

The retailer management function was centralized at the FNS headquarters in January 2013. The National Standard Operating Procedures provide a clear line of responsibility for all retailer management functions as of February 1, 2013.

The retailer management policy handbook will be replaced by issue-specific policy memoranda. A Quality Assurance Branch will be formed to address retailer management issues. The quality assurance process will be integrated into the retailer management function in FY 2014. FNS is working with its system contractor to address technology, security, and data integrity improvements to the Electronic Disqualified Recipient System. FNS plans to conduct a full Recipient Integrity ME review of all States in FY 2014.

Senior OIG officials have acknowledged that FNS has no statutory authority to directly access the National Crime Information Center (NCIC) directly for the purpose of obtaining criminal background checks for retailers. That being the case, FNS has agreed to initiate a proposed rule that would require any new high-risk applicants and current high-risk retailers being authorized who have not already completed such certification to provide FNS with a self-initiated NCIC background check prior to authorization or reauthorization. The requisite work plan to initiate this proposed rule will be completed in FY 2014.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

The U.S. Department of Agriculture's material weaknesses and financial system non-conformance, as related to management's assurance for the Federal Managers' Financial Integrity Act (FMFIA) and the certification for the Federal Financial Management Improvement Act (FFMIA), are listed in Exhibits 21 and 22.

Exhibit 21: Summary of Financial Statement Audit

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

* USDA reports *Improvements Needed in Overall Financial Management* as a financial system non-conformance in Exhibit 22.

Exhibit 22: Summary of Management Assurances

EFFECTIVENESS OF INTERNAL CONTROL OVER FINANCIAL REPORTING (FMFIA § 2)						
Statement of Assurance	Qualified					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Information Technology	1					1
Estimated Losses for Insurance Claims Calculation		**1**				**1**
TOTAL MATERIAL WEAKNESSES	**1**					**2**

EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)						
Statement of Assurance	Unqualified					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
TOTAL MATERIAL WEAKNESSES	**0**					**0**

CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)						
Statement of Assurance	**Systems do not conform to financial management system requirements**					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
Funds Control Management*	1					1
TOTAL NON-CONFORMANCES	**1**					**1**

COMPLIANCE WITH FFMIA		
	Agency	**Auditor**
1. System Requirements	No noncompliance noted	No noncompliance noted
2. Accounting Standards	Noncompliance noted	Noncompliance noted
3. U.S. Standard General Ledger at Transaction Level	Noncompliance noted	Noncompliance noted

* USDA also reports this *Funds Control Management* weakness as noncompliance with FFMIA.

Improper Payments

Since fiscal year (FY) 2000, agencies have reported efforts to reduce improper payments through the Office of Management and Budget's (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget." Under the Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA) and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), executive agencies must identify any of their programs that may be susceptible to significant improper payments, estimate the annual amount of improper payments, and submit those estimates to Congress. A program with significant improper payments (a high-risk program) has both a 2.5-percent improper payment rate of the total program outlays, and at least $10 million in improper payments, or exceeds $100 million dollars in improper payments. Implementing guidance for IPERA is located in OMB Circular No. A-123, "Management's Responsibility for Internal Control," Appendix C, "Requirements for Effective Measurement and Remediation of Improper Payments."

Measuring and reporting improper payments is mandatory for five high-risk programs under the former Section 57 of OMB Circular No. A-11. The U.S. Department of Agriculture (USDA) also has identified an additional 11 high-risk programs through its risk-assessment process. This risk-assessment process is used to review USDA programs and activities, and identify those susceptible to significant improper payments.

Fiscal Year 2013 Results

The Department's improper payment rate increased to 5.36 percent for FY 2013 from 5.11 percent for FY 2012. Outlays for the high-risk programs increased $7.3 billion from FY 2012 to FY 2013. The largest increase in outlays was attributable to the Federal Crop Insurance Corporation Program, which increased outlays by over $6 billion. The food and nutrition assistance programs increased outlays by over $4 billion. USDA improper payment measurement FY 2013 results are as follows:

- Six USDA high-risk programs reported improper payment rates for FY 2013 that met the programs' reduction targets for FY 2013.
- Four USDA high-risk programs reported improper payment rates for FY 2013 that were below the programs' improper payment rates reported for FY 2012.
- The Forest Service's (FS) Wildland Fire Suppression Management Program reported an improper payment rate of 0.00 percent — less than the FY 2013 reduction target of 0.02 percent.
- The Food and Nutrition Service's (FNS) Supplemental Nutrition Assistance Program (SNAP) reported an improper payment rate of 3.42 percent — less than the FY 2013 reduction target of 3.81 percent, and less than the 3.80 percent improper payment rate reported for FY 2012. The SNAP improper payment rate is a historic low for the program.
- The Farm Service Agency's (FSA) Market Assistance Loan Program reported an improper payment rate of 0.34 percent — less than the FY 2013 reduction target of 0.49 percent.
- FSA's Noninsured Assistance Program (NAP) reported an improper payment rate of 5.23 percent — less than the 7.00 percent improper payment rate reported for FY 2012.
- FSA's Milk Income Loss Contract (MILC) reported an improper payment rate of 0.17 percent — less than the FY 2013 reduction target of 1.80 percent, and less than the improper payment rate of 2.00 percent for FY 2011, the last year the program was measured.
- FNS' Child and Adult Care Food Program (CACFP) reported an improper payment rate of 1.09 percent, which met the FY 2013 reduction target and was less than the 1.53 percent improper payment rate reported for FY 2012.
- Rural Development's (RD) Rental Assistance Program (RAP) reported an improper payment rate of 1.79 percent — less than the FY 2013 reduction target of 2.50 percent, and less than the 3.44 percent improper payment rate reported for FY 2012.

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

For FY 2013, the root causes of USDA's improper payments were categorized as follows:

- More than 93 percent attributable to administrative error.
- More than 7 percent attributable to verification error.

In FY 2013, the Department took the following actions to address improper payments:

- Awarded a Supplier Credit Recovery Auditing (SCRA) services contract to a private sector recovery auditing contractor to identify vendor unapplied credits owed to USDA.
- Recovered RD's RAP overpayments identified through the PRRA initiative, continued the testing phase of two FSA programs in Phase One implementation, and began requirement gathering for programs in Phase Two of the PRRA initiative.
- Enrolled USDA agencies with the Do Not Pay Portal through the on-boarding process for pre-award and eligibility checks at an applicable point in the program's business process to prevent improper payments.
- Developed a process to adjudicate and report on Do Not Pay Portal prepayment matches to identify ineligible recipients and establish processes and business rules to prevent future improper payments.
- Revised its High-Dollar Quarterly Report guidance to provide additional clarification and transparency, held training for USDA agencies, and requested agency documentation of their high-dollar overpayment reporting processes.
- Provided semi-annual reporting of additional error measurements for USDA's two high-priority programs, SNAP and National School Lunch Program (NSLP).
- Provided its improper payments information for the governmentwide PaymentAccuracy.gov Web site that includes key indicators and statistics by program.
- Completed risk assessments for 39 programs in FY 2013 as scheduled on a 3-year cycle. No new programs were declared high-risk as a result of the risk assessments.

USDA plans to continue reducing improper payments and expand the implementation of the PRRA initiative during FY 2014. In addition to meeting requirements and addressing issues of IPERA, the Department will continue to implement the requirements of IPERIA.

USDA's FY 2014 actions planned to address improper payments include the following:

- Complete the implementation of Phase One of the PRRA initiative to identify, prevent, and recover overpayments made in the applicable agency programs.
- Develop and implement PRRA Phase Two programs, and identify additional agency programs and gather requirements for implementation of future phases of the PRRA initiative.
- Continue the implementation of the SCRA initiative to perform recovery auditing on vendor contract payments.
- Refine the adjudication and reporting of Do Not Pay pre-payment monthly matches and work with agencies to establish processes and business rules to prevent future improper payments.

- Create aggressive correction action plans that target the root causes of improper payments and address internal control issues for each program by meeting quarterly with agency Chief Financial Officers on the status of each action.

Compliance with IPERA Requirements

The Office of Inspector General (OIG) conducts a compliance review of IPERA requirements annually. OIG's initial USDA IPERA Compliance Review for FY 2011 found that USDA agencies did not fully comply with four of seven IPERA requirements. Information on the findings, accomplishments, and planned actions by agency were included in the USDA FY 2012 Agency Financial Report (AFR), Section 1: Management's Discussion and Analysis (MD&A), Compliance with Laws and Regulations.

OIG's USDA IPERA Compliance Review for FY 2012, dated March 14, 2013, found that USDA agencies did not fully comply with three of seven IPERA requirements. Information on the findings, accomplishments, and planned actions by agency are included in Section 1: MD&A, Compliance with Laws and Regulations of this report (USDA FY 2013 AFR).

IPERA requires a graduated progression of actions for IPERA non-compliant programs to become compliant over a 3-year period. Programs non-compliant for one fiscal year must submit a plan to Congress describing the actions that the agency will take to become compliant. For programs non-compliant for 2 consecutive fiscal years, OMB is to review the program and determine if additional funding would help the agency come into compliance. For programs that are non-compliant for 3 consecutive fiscal years, the agency must submit to Congress a reauthorization proposal for each discretionary program or proposed statutory changes necessary to bring the mandatory program into compliance.

FY 2013 Status of Non-Compliant Programs Based on USDA Agency Information Provided for USDA FY 2013 Annual Financial Report

Based on information provided by the program agencies for the FY 2013 AFR, it appears that USDA will be non-compliant for three of the seven IPERA requirements for FY 2013. The programs are listed below by whether they were non-compliant for one fiscal year, two consecutive fiscal years, or three consecutive fiscal years. OIG will conduct the USDA IPERA Compliance Review for FY 2013 and publish their determination on compliance with the seven IPERA requirements during FY 2014.

1. Two programs did not report sufficient improper payment estimates.
    a. Non-compliant for two consecutive fiscal years:
        i. RMA's FCIC Program.
    b. Non-compliant for three consecutive fiscal years:
        i. FNS' CACFP.
2. Eight programs did not meet their annual reduction targets.
    a. Non-compliant for one fiscal year:
        i. FNS' NSLP.
        ii. FSA's Conservation Reserve Program (CRP).
        iii. FSA's Miscellaneous Disaster Programs (MDP).
        iv. RMA's FCIC Program.

v. NRCS' Farm Security and Rural Investment Program.

b. Non-compliant for three consecutive fiscal years:

i. FNS' SBP.

ii. FNS' WIC.

iii. FSA's NAP.

3. Two programs did not report improper payment rates of less than 10 percent.

a. Non-compliant for three consecutive fiscal years:

i. FNS' NSLP.

ii. FNS' SBP.

I. Risk Assessment.

The Office of the Chief Financial Officer (OCFO) issued detailed guidance for the risk-assessment process, including templates, and performed extensive reviews of drafts. Programs with larger outlays were required to perform more detailed assessments than smaller programs.

For USDA's largest programs, the risk-assessment process includes the following:

- Amount of improper payments needed to meet the reporting standards.
- Description of the program including purpose and basic eligibility requirements.
- Definition of improper payments specific to the program.
- Program vulnerabilities linked to improper payments.
- Internal controls designed to offset the program vulnerabilities.
- Internal controls testing for selected programs.
- Listing of significant reviews and audits.
- Final determination of risk level.
- Planned future enhancements.
- Description of how improper payments are recovered.

USDA has identified the following 16 programs as susceptible to significant improper payments.

Exhibit 23: Programs Susceptible to Improper Payments

Selection Methodology	Agency	Program
Former Section 57 of Office of Management and Budget (OMB) Circular No. A-11, "Preparation, Submission, and Execution of the Budget" (Circular No. A-11).	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Marketing Assistance Loan (MAL) Program
	Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)
		National School Lunch Program (NSLP)
		School Breakfast Program (SBP)
		Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)
USDA Identified as Susceptible to	FSA, CCC	Milk Income Loss Contract (MILC)

Selection Methodology	Agency	Program
Significant Improper Payments		Program
		Loan Deficiency Payments (LDP)
		Direct and Counter-Cyclical Payments (DCP)
		Conservation Reserve Program (CRP)
		Miscellaneous Disaster Programs (MDP)
		Noninsured Assistance Program (NAP)
	FNS	Child and Adult Care Food Program (CACFP)
	Forest Service (FS)	Wildland Fire Suppression Management (WFSU)
	Rural Development (RD)	Rental Assistance Program (RAP)
	Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC) Program Fund
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIP)

II. Statistical Sampling.

An exhibit describing each program's sampling process is below:

Exhibit 24: Program Sampling Process

Agency	Program	Sampling Process
Farm Service Agency (FSA)/Commodity Credit Corporation (CCC)	Marketing Assistance Loan (MAL) Program	MAL information reported for FY 2013 is based on FY 2012 outlays. A statistical sample of high-risk programs is conducted by the FSA County Office Review Program (CORP) under the direction of the Operations Review and Analysis Staff (ORAS). ▪ Testing is conducted using statistically valid samples. A professional statistician, under contract to FSA, designs the sampling approach, defines the sample size, and identifies the sample items. Sample size is chosen to achieve a 90 percent confidence level. ▪ The list of selected payments is provided to FSA County Operations Reviewers who verify whether the payments were properly issued based on applicable program. Findings of non-adherence to the criteria related to the individual contracts, loans, or payments in the sample will identify potential improper payments made. The results of that review are summarized and submitted to ORAS to be analyzed. The improper payment rates are determined by the statistician using the data provided by ORAS
Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)	SNAP information reported for FY 2013 is based on FY 2012 outlays. The improper payment rate calculation process was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
FNS	National School Lunch Program (NSLP)	▪ The NSLP information reporting for FY 2013 is based on the improper payment rate for School Year (SY) 2011-12 times the FY 2012 outlays. ▪ The NSLP sampling process information was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
FNS	School Breakfast Program (SBP)	▪ The SBP information reporting for FY 2013 is based on the improper payment rate for SY 2011-2012 times the FY 2012 outlays. ▪ The statistical sampling process for this program is similar to NSLP. See the NSLP description.
FNS	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	WIC information reported for FY 2013 is based on FY 2012 outlays and on two components of the program: ▪ Vendor Error — The vendor error sampling process was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm; and ▪ Certification Error — The WIC certification error sampling process was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
FNS	Child and Adult Care Food Program (CACFP)	CACFP information reported for FY 2013 is based on FY 2012 outlays. The CACFP sampling process information was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
FSA, CCC	Milk Income Loss Contract Program (MILC)	The same sampling process used for MAL was used to measure this program.
FSA, CCC	Loan Deficiency Payments (LDP)	FSA did not perform a statistical sample for FY 2013 reporting because of very low volume of outlays and consistent improved performance leading to low improper payment rates during previous years. OMB and USDA will evaluate LDP annually to determine the type of measurement and Agency Financial Report (AFR) reporting to be done for a specific fiscal year.

Agency	Program	Sampling Process
FSA, CCC	Direct and Counter-Cyclical Payments Program (DCP)	FSA did not perform a statistical sample for FY 2013 reporting because of the uncertainty of the Farm Bill. DCP authority was to end on September 30, 2012. The authority was later extended.
FSA, CCC	Conservation Reserve Program (CRP)	The same sampling process used for MAL was used to measure this program, except the statistical sample was drawn from program payments made from October 2012 through December 2012.
FSA, CCC	Miscellaneous Disaster Programs (MDP)	The MDP sampling process information was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm. The same sampling process used for MAL was used for this program, except the statistical sample was drawn for the Livestock Forage Disaster program (LFP) payments made from October 2011 through September 2012, representing 12 percent of the MDP annual outlays and the Supplemental Revenue Assistance Payments (SURE) program payments made from October 2011 through September 2012, representing 82 percent of the MDP annual outlays. OMB and USDA will evaluate MDP components annually to determine if measurement and AFR reporting will be done for a specific fiscal year.
FSA, CCC	Noninsured Assistance Program (NAP)	The same sampling process used for MAL was used to measure this program.
Forest Service (FS)	Wildland Fire Suppression Management (WFSU)	FS information reported for FY 2013 is based on FY 2012 outlays. The FS sampling process information was described in the FY 2011 PAR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
Rural Development (RD)	Rental Assistance Program (RAP)	RAP FY 2013 reporting is based on FY 2012 outlays. The RAP sampling process information was described in the FY 2012 AFR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC) Program Fund	RMA completed the measurement of 2009, 2010, and 2011 crop year indemnities reviewed during 2010, 2011, and 2012. For FY 2013 reporting, RMA sampled and reviewed the 2011 crop year, using those results to replace the 2008 crop year results. The RMA sampling process information was described in the FY 2012 AFR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.
Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIA)	NRCS information reported for FY 2013 is based on FY 2012 outlays. The NRCS sampling process information was described in the FY 2012 AFR, which can be found at https://www.ocfo.usda.gov/usdarpt/usdarpt.htm.

III. Corrective Actions.

Each program is required to develop a Corrective Action Plan. The following exhibit describes actions taken and planned.

Exhibit 25: Program Corrective Action Plans

Agency	Program	Corrective Actions
Farm Service Agency (FSA)/Commodity Credit Corporation (CCC)	Marketing Assistance Loan Program (MAL)	All of the estimated $7.9 million in MAL improper payments were attributable to administrative and documentation errors. **Causes of improper payments include:** ▪ Signature on note obtained after loan disbursement; ▪ Note not signed by producer or producer's representative; and ▪ Incorrect loan rate used. **Actions planned to reduce improper payments:** Issue a notice to remind field offices of policy regarding required signatures before MAL disbursement. Completion Date: September 2013. Issue a notice to remind field offices of policy regarding acceptable signatures. Completion Date: September 2013. Issue a notice to remind field offices of policy regarding the applicable MAL rate. The correct MAL rate is where the commodity is stored when the initial MAL is disbursed. Completion Date: September 2013.
FNS	Supplemental Nutrition Assistance Program (SNAP)	All of the estimated $2.5 billion in SNAP improper payments were attributable to administrative and documentation error. **Causes of improper payments include:** An improper payment occurs when a participating household is certified for too many or too few benefits compared to the level for which they are eligible. This can result from incomplete or inaccurate reporting of income and/or assets by participants at the time of certification and from changes subsequent to certification, or errors in determining eligibility or benefits by caseworkers. Eligibility worker delays in action or inaction taken on client reported changes are also a cause of improper payments. An analysis of the FY 2012 completed statistical sample revealed that approximately 70.16 percent of all variances occurred before or at the most recent certification/recertification. In addition, 65.92 percent of the errors were agency-caused. More than half of the errors (56.13 percent) were income related and were caused by misreporting by the client or misapplying the reported income by the agency. Misreporting or misapplying deductions was the second largest source of errors at 28.53 percent. **Actions planned to reduce improper payments:** States with a high error rate will develop a quality control corrective action plan to address deficiencies revealed through an analysis of its own quality control data. States with an excessive error rate will invest a specified amount designated specifically to program improvements. Completion Date: Annually FNS will develop a pilot system that will allow States to detect duplicate participation in SNAP across State boundaries and within the same State. Completion Date: September 2013.

<table>
<tr><th>Agency</th><th>Program</th><th>Corrective Actions</th></tr>
<tr><td>FNS</td><td>National School Lunch Program (NSLP)</td><td>All of the estimated $1.8 billion in NSLP improper payments were attributable to administrative and documentation error.
Causes of improper payments include the following:
▪ Misclassification by the schools of the meal eligibility status of participating students (certification error); and
▪ Improper meal counting and meal claiming by schools and school districts (non-certification error).
Actions taken to reduce improper payments are as follows:
▪ FNS issued applications and other materials for households with limited English proficiency. The translated materials are now available in 33 other languages and lead to greater accuracy in application data and fewer certification errors. Completion Date: 2011.
▪ FNS issued a revised Eligibility Manual that contains information on determining students' eligibility for free and reduced-price meals for the NSLP and the SBP. Completion Date: August 2012.
▪ FNS issued an updated Coordinated Review Effort (CRE) Procedures Manual and Forms and Instructions in January 2012. The CRE guidance was updated in 2013 to include current procedures used during the CRE reviews. This update reflects recent legislation and policy aimed at strengthening the monitoring process. Completion date: Manual, January 2012. Guidance, 2013.
▪ FNS required annual training for schools on certification and accountability issues. Completion Date: SY 2012-2013.
▪ FNS established the Child Nutrition (CN) Division's State Systems Support Branch to provide support and technical assistance to State Agencies to assist them in working toward successful program outcomes in the implementation of automated systems to improve: (1) CN program administration and performance; (2) access to CN program benefits through direct certification, direct verification, and other automated means to establish children's eligibility for free and reduced-price meals; and (3) Federal reporting on program outcomes. Completion Date: 2010.
▪ FNS contracted with consultants to provide technical assistance directly to States in the areas of training and automation to assist States in identifying and targeting LEAs that are at high risk for operational errors. Completion Date: February 2011.
▪ FNS awarded a contract to provide technical assistance to support States in the area of direct certification improvements, including the collecting and sharing of State and Local Education Agency (LEA) best practices. Completion Date: August 2012.
▪ FNS provided funding to State agencies to implement the new meal pattern requirements. The funding was used to support training, technical assistance, and conducting performance-based reimbursement certification activities and validation reviews, and administrative reviews. Completion date: FY 2012-2013.
▪ FNS issued a policy memo detailing the school district's ability and responsibilities to verify NSLP applications beyond the required sample size when there is cause. Completion Date: 2012.
Actions planned to reduce improper payments are as follows:
▪ FNS will provide performance awards for States making the greatest improvement in the rate of children in SNAP households who are directly certified for School Years (SY) 2011-2012 and SY 2012-2013. Estimated Completion Date: SY 2013-2014.
▪ FNS will require annual training for schools on certification and accountability issues. Estimated Completion Date: SY 2013-2014.
▪ FNS will review requests for funding to SAs to perform administrative reviews and training in local education agencies that demonstrated a high level of administrative error, or who are at high risk for administrative error, in NSLP. Estimated Completion Date: Fall 2013.
▪ FNS will establish professional standards for school food service personnel, requiring professional education and training standards for certification of local school food service directors and staff, and criteria and standards for the selection of State Directors. Estimated Completion Date: 2013.
▪ FNS will allow for State agencies to fine local program operators and FNS to fine both State agencies and local program operators for gross</td></tr>
</table>

Agency	Program	Corrective Actions
		mismanagement and violation of program requirements. Estimated Completion Date: 2013. ▪ FNS will strengthen program compliance by prohibiting any school, institution, or individual that is terminated from one of the Child Nutrition Programs and on a list of disqualified institutions and individuals from participating in or administering any of the Child Nutrition Programs. Estimated Completion Date: 2013. ▪ FNS will provide alternatives to paper application systems in low-income areas. Community Eligibility is an alternative to collecting household applications and is being phased in over a period of 3 years in a limited number of States selected by FNS. Estimated Completion Date: SY 2014-2015. ▪ FNS will reinforce requirements on the monitoring of SFAs to ensure accuracy of household applications, application processing, meal count tabulation, and the identification of a reimbursable meal by requiring the development of a unified monitoring system to review NSLP and SBP, including a nutritional assessment for both programs; and States to conduct administrative reviews of all SFAs on a 3-year cycle. Estimated Completion Date: Unified monitoring system, late 2013 and State administrative reviews, SY 2013-2014. ▪ FNS will implement a State monitoring process to determine an SFA's compliance with school meal programs' requirements, which includes review instruments and training to headquarters, regional office, and State agency staff on the new monitoring process. Estimated Completion Date: SY 2013-2014. ▪ FNS will require an independent review of applications in order to increase the accuracy of eligibility determinations in school districts that demonstrate high levels of administrative error. Estimated Completion Date: SY 2014-2015. ▪ FNS will implement a revised FNS-742 "Verification Summary Report" form that requests additional data, simplifies the form's instructions, and provides a more user-friendly layout. The revised form also captures direct certification data broken out by type, data on direct verification, and additional information related to verification and program participation, as well as data on verifications for cause. Estimated Completion Date: SY 2013-2014. ▪ FNS will implement a phased-in project to test the potential of direct certification using Medicaid data. Estimated Completion Date: 10 percent of students will be certified for free and reduced price meals nationwide by SY 2014-2015 and ongoing.
FNS	School Breakfast Program (SBP)	All of the estimated $831 million in SBP improper payments were attributable to administrative and documentation error. **Causes of improper payments include the following:** The causes for this program are similar to NSLP. See the NSLP description. **Actions taken and planned to reduce improper payments are as follows:** The corrective actions for this program are similar to NSLP. See the NSLP description.
FNS	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	All of the estimated $198.2 million in WIC improper payments were attributable to administrative and documentation error. **Causes of improper payments include the following:** ▪ Participant is certified erroneously (i.e. deemed eligible though the participant's actual income was not within eligibility guidelines); and ▪ Overpayments and underpayments to WIC vendors. **Actions taken to reduce improper payments are as follows:** FNS conducted a vendor training that covered fundamental WIC vendor management requirements and practices. This vendor traning included the following: vendor selection criteria; peer group definitions and classifications; guidelines/criteria for setting competitive prices and maximum allowable reimbursement rates; and effective vendor monitoring. Completion Date: August 2012. **Actions planned to reduce improper payments are as follows:** Vendor monitoring will be the priority functional area for management

Agency	Program	Corrective Actions
		evaluations of WIC SAs. Program integrity training and oversight efforts are designed to strengthen WIC SA vendor management weaknesses, and discourage vendor attempts to defraud or overcharge the program. Estimated Completion Date: Late FY 2014.
FNS	Child and Adult Care Food Program (CACFP)	All of the estimated $10 million in CACFP improper payments were attributable to administrative and documentation error. **Causes of improper payments include the following:** Family Day Care Homes (FDCH) improper payments are caused by sponsor error in determining a participating home's reimbursement tier (tiering error), or by FDCH error in reporting the number of meals that are eligible for reimbursement (claiming error). **Overall actions taken to reduce improper payments include the following:** FNS conducted a study relating to the CACFP, examining best practices of States in soliciting sponsors for an afterschool supper program. This study will strengthen the financial integrity process and work toward improving the balance of erroneous payments. Completion Date: November 2011. **Actions taken to reduce improper payments are as follows:** ▪ FNS implemented the Targeted Management Evaluation (TME) process to examine State agency administration of the CACFP in identified areas of management weakness. One aspect of the TME process involves Regional Office staff reviewing the State agency's implementation of previously required corrective action and following up on suggestions made in previous management evaluations. A database was created to serve as a tool to enable FNS to review and report on many TMEs over an extended period of time and evaluate trends in the TME data. This allows FNS to highlight areas in need of improvement and/or focus on data in any specific areas within a TME. Completion Date: FY 2010-2011. ▪ FNS implemented changes from the Final CACFP Integrity Rule that affect institutions by clarifying application requirements as they pertain to funding, who comprises its board of directors, and what must be in the budget. The changes also modify the monitoring process to enable institutions to better identify problematic facilities and makes changes to the serious deficiency process by defining new unappealable actions and clarifying certain steps in the process. Completion Date: July 2011. ▪ FNS developed a 2-year work plan to address ongoing integrity concerns in the CACFP. The plan recognized that results from FNS' TME approach can be used to develop resources and training for CACFP State and local agencies. This plan combined monitoring and resource development activities to address program weaknesses. In addition, Regional Office staff followed up on all 2010 and 2011 CACFP TMEs to ensure State agencies had properly implemented the required corrective actions. Completion date: FY 2012-2013. ▪ FNS required sponsoring organizations to conduct periodic unannounced site visits at not less than 3-year intervals to sponsored child and adult care and family or group day care homes; at least one scheduled site visit each year at these centers and homes; and that the timing of unannounced reviews be varied in such a way that it makes the reviews unpredictable to sponsored facilities. Completion Date: April 2011. ▪ FNS simplified area eligibility determinations in CACFP, allowing the use of all levels of school data (elementary and secondary) for tiering determinations. Completion Date: February 2013. ▪ FNS issued policy memos, which are intended to minimize errors in meal count and claiming, thus decreasing improper payments: • Guidance on income eligibility determinations and the duration of eligibility, issued 2/10/11; • Eligibility based on census data, issued 2/21/13; • Eligibility based on school data, issued 11/23/12; • FDH administrative reimbursements and carryover reporting, issued 3/19/12; • Guidance on reallocation of CACFP audit funds and SAE funds, issued 3/21/12; • Tax exempt status for private non-profit organizations, issued 1/24/13; • Guidance on requirements for additional state agency requirements,

Agency	Program	Corrective Actions
		issued 3/29/13; • Automatic revocation of tax exempt status, issued 7/25/11; • Clarification of the eligibility status of children evacuated from Japan and Bahrain, issued 4/01/11; • Categorical eligibility of foster children, revision issued 4/16/13; • Area eligibility for FDCHs, issued 12/22/10; • Categorical eligibility for participants of Temporary Assistance to Needy Families (TANF), issued 4/19/10; • Extending categorical eligibility to additional children in a household, issued 5/03/10; and • Meal disallowance policies for FDCHs and record maintenance requirements for FDCH providers, issued 3/31/09 and 2/24/09. **Actions planned to reduce improper payments:** FNS workgroups are developing guidance materials to expand existing regulation, policy, and instruction, in order to provide resources to new Program staff and to assist States, and institutions in developing or improving existing policies and resources. Guidance materials being developed are focused on the following areas: ▪ Multi-State sponsors instruction; ▪ Effective monitoring (SA level only; local monitoring guidance is in process); ▪ Serious deficiency guidance (includes SA and sponsoring organization implementation); ▪ Budget review and approval guidance; ▪ A revision of FNS Instruction 796-2, Financial Management: Child and Adult Care Food Program; ▪ Independent center handbook; and ▪ Management evaluation guidance. FNS, with the assistance of State agency staff, will conduct orientation and refresher training on the guidance handbooks. The training will provide an overview of the guidance handbooks, refresher training on critical requirements of the Program, and post-implementation discussions. Discussion, Q&As, scenarios, and case studies will be used to provide State agencies the opportunity to share administrative strengths and work through operational weaknesses. Estimated Completion Date: FY 2014. Provide more CACFP audit funding in FY 2016, making additional monies available to State agencies for program improvement. The State agency must demonstrate it can effectively utilize this funding for program improvement. Estimated Completion Date: This provision will be addressed in a proposed rule to be published in Fall 2013. ROs will conduct management evaluations of each State agency to ensure successful implementation of TME corrective actions and/or to address State agency compliance with the Healthy, Hunger-Free Kids Act of 2010 and the Integrity Rule provisions and new issues of concern that have surfaced and impact the integrity of State agency CACFP operations. Estimated Completion Date: FY 2014-2015. **Actions planned to reduce improper payments:** The first 7 work products were completed by December 31, 2012. The management evaluation guidance and regional office site training was completed by September 30, 2013. FNS workgroups drafted guidance materials on the following areas: ▪ Multi-State sponsors instruction; ▪ Effective monitoring (SA level only as local monitoring guidance is in process); ▪ Serious deficiency guidance (includes SA and sponsoring organization implementation); ▪ Budget review and approval guidance; ▪ A revision of FNS Instruction 796-2, “Financial Management: Child and Adult Care Food Program;”

Agency	Program	Corrective Actions
		▪ Independent center handbook; ▪ Sponsored center handbook; and ▪ During FY 2013, regional offices (ROs) will provide onsite training and technical assistance visits for State agency (SA) and local agency staff, as needed, to ensure successful implementation of targeted management evaluations (TME), corrective actions, and/or address new issues of concern that have surfaced and impact the integrity of SA CACFP operations. Monthly RO/Child Nutrition Division (CND) CACFP conference calls (facilitated by ROs) will include TME corrective actions as an agenda item to allow ROs/CND to discuss findings/corrective actions by category to promote implementation of best practices and consistency across regions. ▪ Management evaluation guidance. Beginning in FY 2013, FNS required sponsoring organizations to conduct periodic, unannounced site visits at not less than 3-year intervals to sponsored child and adult care and family or group day care homes, and at least 1 scheduled site visit annually at these centers and homes. The timing of unannounced reviews will be varied in such a way that the reviews will be unpredictable to sponsored facilities.
FSA, CCC	Milk Income Loss Contract (MILC) Program	All of the estimated $0.7 million in MILC improper payments were attributable to administrative and documentation errors. **Cause of improper payments include the following:** Start month is unauthorized based on rules. **Actions taken to reduce improper payments are as follows:** Provided a notice to State and county offices providing detailed findings including referencing established policy and procedure for each finding. Completion date: August 2013.
FSA, CCC	Loan Deficiency Payments (LDP)	FSA did not perform a statistical sample for FY 2013 reporting because of very low volume of outlays and consistent improved performance leading to low improper payment rates during previous years. OMB and USDA will evaluate LDP annually to determine the type of measurement and AFR reporting to be done for a specific fiscal year.
FSA, CCC	Direct and Counter-Cyclical Payments (DCP)	FSA did not perform a statstical sample for FY 2013 reporting because of the uncertainty of the Farm Bill. DCP authority was to end on September 30, 2012. The authority was later extended.
FSA, CCC	Conservation Reserve Program (CRP)	All of the estimated $6.3 million in CRP improper payments was attributable to administrative and documentation errors. **Causes of improper payments include the following:** ▪ Applicable payment reduction was not made; ▪ Incorrect rental rate was used; ▪ Payee exceeds Adjusted Gross Income (AGI) limitation; and ▪ No valid CRP contract was on file. **Actions planned to reduce improper payments are as follows:** Issue a notice to State and county offices providing detailed findings including referencing established policy and procedures for each finding. Estimated Completion date: September 2013. All certifications made by participants of compliance with the average Adjusted Gross Income (AGI) limitations are subject to a verification process with the Internal Revenue Service (IRS). This verification process does not provide USDA with specific income information; instead, IRS indicates to USDA whether it appears that an individual or entity may have exceeded an average AGI limitation. If, upon further FSA review of a case questioned through the IRS process, it is determined an individual or entity did, in fact, exceed the applicable AGI limitation, the individual or entity will be determined ineligible, unless the exception or waiver applies in regard to a conservation program. Although a notice was disbursed March 2013, these activities are a part of the normal compliance procedures and are ongoing.
FSA, CCC	Miscellaneous	All of the estimated $22 million in SURE improper payments were attributable

Agency	Program	Corrective Actions
	Disaster Programs (MDP)	to administrative and documentation errors. All of the $2.3 million in LFP improper payments were attributable to administrative and documentation errors. **Causes of improper payments include the following:** ▪ Workbook entries were incorrect (SURE); ▪ Payment was based on incorrect forage information (LFP); ▪ Producer did not meet Risk Management Purchase Requirement (LFP); ▪ Documentation was not on file to support grazing losses (LFP); ▪ Payee exceeded applicable Adjusted Gross Income limitation (LFP); and ▪ Monthly feed cost was calculated incorrectly (LFP). **Actions taken to reduce improper payments are as follows:** A handbook amendment directive was issued reminding State and county offices of the importance of second-party reviews. A National notice was issued that emphasized reviewing requirements of second-party review to help prevent improper payments. A video teleconference was held with all State offices pertaining to data load errors (SURE). Completion date: May 2013. **Actions planned to reduce improper payments are as follows:** A notice will be issued to field offices to reinforce program policies and procedures (LFP). Completion date: September 2013. All certifications made by participants of compliance with the average AGI limitations are subject to a verification process with the Internal Revenue Service (IRS). This verification process does not provide USDA with specific income information; instead, IRS indicates to USDA whether it appears that an individual or entity may have exceeded an average AGI limitation. If, upon further FSA review of a case questioned through the IRS process, it is determined that an individual or entity did, in fact, exceed the applicable AGI limitation, the individual or entity will be determined ineligible, unless the exception or waiver applies in regard to a conservation program. Although a notice was disbursed March 2013, these activities are a part of the normal compliance procedures and are ongoing.
FSA, CCC	Noninsured Assistance Program (NAP)	All of the estimated $13.4 million in NAP improper payments were attributable to administrative and documentation errors. **Causes of improper payments include the following:** ▪ Application for payment was not signed by producer before payment was issued; ▪ Unit yield is not properly calculated; ▪ Incorrect crop acreage used to calculate payment; ▪ Incorrect total production is used to calculate payment; ▪ Notice of loss filed late; ▪ Application for payments is not on file; ▪ Payee exceeded AGI requirements; ▪ Application for coverage is not on file; ▪ Incorrect crop type used to calculate payment; ▪ Payee share is incorrect; and ▪ Acceptable production evidence is not on file. **Actions taken to reduce improper payments are as follows:** Enhance payment software to retrieve acres information from the automated acre reporting data file. Completion date: June 2012. A notice will be issued to field offices to reinforce current program policies and procedures. Completion date: August 2013 **Actions planned to reduce improper payments are as follows:** All certifications made by participants of compliance with the average AGI limitations are subject to a verification process with the IRS. This verification process does not provide USDA with specific income information; instead, the IRS indicates to USDA whether it appears that an individual or entity may have exceeded an average AGI limitation. If, upon further FSA review of a case questioned through the IRS process, it is determined an individual or entity did, in fact, exceed the applicable AGI limitation, the individual or entity

Agency	Program	Corrective Actions
		will be determined ineligible, unless the exception or waiver applies in regard to a conservation program. Although a notice was disbursed March 2013, these activities are a part of the normal compliance procedures and are ongoing.
FS	Wildland Fire Suppression Management (WFSU)	FS corrective actions have reduced the potential for errors, resulting in the WFSU reporting a 0-percent improper payment rate. These actions include the following: improved internal controls; internal monitoring and reviews for potential improper payments; centralization of accounting functions; improved communications; and follow-up prior to payment authorization.
RD	Rental Assistance Program (RAP)	All of the estimated $19.9 million in RAP improper payments were attributable to administrative and documentation error. **Causes of improper payments include the following:** ▪ Documents that were not signed or dated; and ▪ Borrower/agent calculation errors. **Actions taken to reduce improper payments are as follows:** RD met with key industry groups to discuss this year's audit findings. Completion date: July 2013. **Actions planned to reduce improper payments are as follows:** ▪ RD State office staff is required to follow up on each instance of error found in the audit, and either obtain appropriate supporting documentation for the subsidy amount paid, or begin recovery of unauthorized assistance amounts. Estimated Completion Date: December 2013. ▪ RD will participate with key industry groups' training sessions to discuss typical IPIA errors. Estimated Completion Date: September 2014.
RMA	Federal Crop Insurance Corporation (FCIC) Program Fund	Of the estimated $566.3 million in FCIC improper payments, a total of $453 million or 80 percent were attributable to verfication error, and a total of $113.3 million or 20 percent were attributable to administrative and documentation error. **Causes of improper payments include the following:** ▪ Producer miscertification of yield, acreage, share, and other insurance data submitted in error; and ▪ Improper processing of producer-supplied information that includes data entry, calculation, and other third-party errors. **Actions taken to reduce improper payments are as follows:** RMA will monitor producers, administrative actions, and potential penalties for reinsurance company noncompliance. Completion Date: July 2013. **Actions planned to reduce improper payments are as follows:** Implement new actual production history procedures. Estimated Completion Date: 2015.

Agency	Program	Corrective Actions
NRCS	Farm Security and Rural Investment Act Programs (FSRIP)	Of the estimated $157.9 million in FSRIP improper payments, a total of $4.7 million or 3 percent were attributable to verfication error, and a total of $153.1 million or 97 percent were attributable to administrative and documentation error. **Causes of improper payments were the following:** ▪ Modification to extend period of performance was not executed in a timely manner; ▪ Entity participants not registered in SAM; and ▪ Funds to closing agents released prior to 7 days before anticipated closing date. **Actions taken to reduce improper payments are as follows:** ▪ NRCS conducted training for program staff, reminding them that all entity participants must be registered in SAM and that their registration must remain current. Completion date: June 2013. ▪ NRCS conducted reminder training for program staff on the current easement policy regarding advance payments. Completion date: June 2013. ▪ NRCS issued a National Bulletin requiring states to review all open easement obligations and to process modifications necessary to prevent period of performance expirations. Completion date: August 2013. ▪ NRCS provided training to financial management and program staff on newly issued National Bulletin, and instructed staff on how to populate the period of performance data element in FMMI. Completion date: August 2013. ▪ NRCS drafted revised Wetland Reserve Program (WRP) policy to align with other advance payment policies. Completion date: September 2013. **Actions planned to reduce improper payments are as follows:** ▪ NRCS will work with the Department to ensure that the period of performance data element is available for all payment types and is available when reports are run and viewed; Develop and implement easement payment checklist that includes checking the status of obligations prior to payment; Publish revised WRP policy. Estimated Completion Date: March 2014 ▪ NRCS will conduct training on revised policy for program and financial management staff. Estimated Completion Date: December 2013

IV. Improper Payment Reporting

The following exhibit shows USDA's high-risk programs. See the notes for an explanation of the program's measurement period and other applicable information.

Exhibit 26: Improper Payments Reporting Results

Improper Payments (IP) Reporting Results ($millions)								
	Results Reported in FY 2012				Results Reported in FY 2013			
Program	Target IP %	Outlays	IP %	IP $	Target IP %	Outlays	IP %	IP $
Marketing Assistance Loan Program, FSA/CCC [Note #3]	0.51%	2,878	0.08%	2	0.49%	2,344	0.34%	8
Supplemental Nutrition Assistance Program, FNS [Note #8]	3.81%	71,813	3.80%	2,729	3.81%	74,639	3.42%	2,553
National School Lunch Program, FNS [Note #1]								
Total Program	15.53%	10,024	15.53%	1,557	15.10%	11,304	15.69%	1,774
Certification Error			8.65%	867			8.81%	996
Counting/Claiming Error			6.88%	690			6.88%	778
School Breakfast Program, FNS [Note #1]								
Total Program	24.15%	2,987	25.18%	752	24.36%	3,290	25.26%	831
Certification Error			9.39%	280			9.47%	312
Counting/Claiming Error			15.79%	472			15.79%	519
Women, Infants, and Children, FNS [Note #2]								
Total Program	4.05%	4,886	4.13%	202	4.00%	4,520	4.38%	198
Certification Error			2.98%	146			2.97%	134
Vendor Error			1.15%	56			1.41%	64
Child and Adult Care Food Program, FNS [Note #2]								
Total Program	1.48%	2,653	N/A	N/A	1.53%	2,817	N/A	N/A
FDC Homes – Tiering Decisions		900	1.58%	14		917	1.09%	10
FDC Homes – Meal Claims			N/A	N/A			N/A	N/A
Milk Income Loss Contract Program, FSA	1.90%	1	N/A	N/A	1.80%	401	0.17%	1
Loan Deficiency Payments, FSA [Note #5]	0.44%	0.1	N/A	N/A	0.40%	0.1	N/A	N/A
Direct and Counter-Cyclical Payments, FSA [Note #4]	0.05%	3,867	0.50%	19	0.35%	0	N/A	N/A
Conservation Reserve Program, FSA [Note #3]	0.69%	1,686	0.36%	6	0.35%	1,651	0.38%	6

Improper Payments (IP) Reporting Results ($millions)								
	Results Reported in FY 2012				Results Reported in FY 2013			
Program	**Target IP %**	**Outlays**	**IP %**	**IP $**	**Target IP %**	**Outlays**	**IP %**	**IP $**
Miscellaneous Disaster Programs, FSA [Note #6]								
Total Program	2.80%	477	2.16%	10	2.10%	655	3.78%	24
Livestock Forage Disaster Program (LFP)		477	2.16%	10		85	2.72%	2
Supplemental Revenue Assistance Payments (SURE)		N/A	N/A	N/A		570	3.94%	22
Noninsured Assistance Program, FSA [Note #3]	6.97%	69	7.00%	5	4.97%	256	5.23%	13
Wildland Fire Suppression Management, FS [Note #11]	0.02%	694	0.00%	0.0	0.02%	835	0.00%	0.0
Rental Assistance Program, RD [Note #9]	1.45%	1,078	3.44%	37	2.50%	1,108	1.79%	20
Federal Crop Insurance Corporation Program Fund, RMA [Note #7]	4.40%	4,249	4.08%	173	4.00%	10,828	5.23%	566
Farm Security and Rural Investment Act Programs, NRCS [Note #9]	0.03%	2,088	0.02%	0.4	0.03%	2,277	6.93%	158
USDA Total	5.25%	107,696	5.11%	5,507	5.04%	115,024	5.36%	6,163

The following exhibit shows USDA's high-risk programs and provides a detailed breakdown of the annual amount of improper payments. It shows overpayments and underpayments, improper payments due to disbursement errors, and incomplete paperwork. See the notes for an explanation of the program's measurement period and other applicable information.

Exhibit 27: Detailed Breakout of Improper Payments Reporting

Detailed Breakout of Improper Payments Reporting for FY 2013										
	Total Improper Payments $millions	**IP %**	**Over-Payment $millions**	**Over-Payment %**	**Under-Payment $millions**	**Under-Payment %**	**Incorrect Disburse-ment $millions**	**Incorrect Disburse-ment %**	**Incomplete Paperwork $millions**	**Incomplete Paperwork %**
Marketing Assistance Loan Program, FSA/CCC [Note #3]	8	0.34%	8	0.34%	0	0.00%	4	0.17%	4	0.17%
Supplemental Nutrition Assistance Program, FNS [Note #8]	2,553	3.42%	2,068	2.77%	485	0.65%	2,553	3.42%	0	0.00%
National School Lunch Program, FNS [Note #1]	1,774	15.69%	1,347	11.91%	427	3.78%	1,774	15.69%	0	0.00%
School Breakfast Program, FNS [Note #1]	831	25.26%	716	21.77%	115	3.49%	831	25.26%	0	0.00%
Special Supplemental Program for Women, Infants, and Children, FNS [Note #2]	198	4.38%	147	3.25%	51	1.13%	198	4.38%	0	0.00%
Child and Adult Care Food Program, FNS [Note #2]	10	1.09%	10	1.09%	0	0.00%	10	1.09%	0	0.00%
Milk Income Loss Contract Program, FSA	1	0.17%	1	0.17%	0	0.00%	1	0.17%	0	0.00%
Loan Deficiency Payments, FSA [Note #5]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Detailed Breakout of Improper Payments Reporting for FY 2013										
	Total Improper Payments $millions	**IP %**	**Over-Payment $millions**	**Over-Payment %**	**Under-Payment $millions**	**Under-Payment %**	**Incorrect Disburse-ment $millions**	**Incorrect Disburse-ment %**	**Incomplete Paperwork $millions**	**Incomplete Paperwork %**
Direct and Counter-Cyclical Payments, FSA [Note#4]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Conservation Reserve Program, FSA [Note #3]	6	0.38%	6	0.38%	0	0.00%	6	0.38%	0	0.00%
Miscellaneous Disaster Programs, FSA [Note #6]	24	3.78%	17	2.66%	7	1.12%	22	3.75%	2	0.05%
LFP	2	2.72%	2	2.43%	0.3	0.29%	0.3	0.29%	2	2.43%
SURE	22	3.94%	15	2.70%	7	1.24%	22	3.94%	0	0.00%
Noninsured Assistance Program, FSA [Note #3]	13	5.23%	10	4.11%	3	1.11%	13	5.23%	0	0.00%
Wildland Fire Suppression Management, FS [Note #11]	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Rental Assistance Program, RD [Note #9]	20	1.79%	17	1.55%	3	0.24%	13	1.18%	7	0.61%
Federal Crop Insurance Corporation Program Fund, RMA [Note #7]	566	5.23%	524	4.84%	42	0.39%	566	5.23%	0	0.00%
Farm Security and Rural Investment Program, NRCS [Note #9]	158	6.93%	158	6.93%	0	0.00%	10	0.43%	148	6.50%

The following exhibit shows future year outlays and improper payment estimates for USDA's high-risk programs.

Exhibit 28: Improper Payments Reduction Outlook

Improper Payment Reduction Outlook ($millions)									
	FY 2014 Reporting			FY 2015 Reporting			FY 2016 Reporting		
Program	Outlays	IP %	IP $	Outlays	IP %	IP $	Outlays	IP %	IP $
Marketing Assistance Loan Program, FSA/CCC [Note #10]	28	0.48%	1	28	0.40%	1	28	0.39%	1
Supplemental Nutrition Assistance Program, FNS [Note #8]	79,880	3.80%	3,035	79,471	3.80%	3,020	77,624	3.80%	2,950
National School Lunch Program, FNS	12,683	15.30%	1,941	12,682	15.17%	1,924	12,798	14.79%	1,893
School Breakfast Program, FNS	3,700	24.43%	904	3,809	23.62%	900	3,973	22.84%	907
Women, Infants, and Children, FNS	4,467	4.28%	191	4,887	4.18%	204	5,081	4.08%	207
Child and Adult Care Food Program, FNS [Note #2]	936	1.48%	14	956	1.43%	14	957	1.38%	13
Milk Income Loss Contract Program, FSA [Note 13]	370	1.80%	7	0	1.80%	0	0	1.80%	0
Loan Deficiency Payments, FSA [Note #5]	0	0.40%	0	0	0.40%	0	0	0.40%	0
Direct and Counter-Cyclical Payments, FSA [Note #4]	4,958	0.33%	16	4,958	0.31%	16	4,958	0.31%	16
Conservation Reserve Program, FSA	2,153	0.34%	7	2,160	0.33%	7	2,160	0.32%	7
Miscellaneous Disaster Programs, FSA [Note #6]	911	3.50%	32	NA	NA	NA	NA	NA	NA
LFP	0	2.05%	0	0	2.04%	0	0	2.03%	0
SURE	911	3.50%	32	N/A	N/A	N/A	N/A	N/A	N/A
Noninsured Assistance Program, FSA	225	4.97%	11	168	4.90%	8	168	4.80%	8
Wildland Fire Suppression Management, FS [Note #11]	993	0.02%	0	1,016	0.02%	0	1,036	0.02%	0
Rental Assistance Program, RD	1,163	1.70%	20	1,221	1.60%	20	1,283	1.50%	19
Federal Crop Insurance Corporation Program Fund, RMA	10,145	5.15%	522	9,716	5.08%	494	8,017	5.0%	401
Farm Security and Rural Investment, NRCS [Note #12]	2,844	6.70%	191	2,759	6.50%	179	3,084	6.20%	191

Note #1: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error. NSLP and SBP estimated improper payment amounts reported for FY 2013 are based on improper payment rates for School Year (SY) 2011/2012, multiplied by the FY 2012 outlays.

Note #2: WIC and CACFP currently test components of their programs measuring FY 2012 outlays for FY 2013 reporting. CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting. A CACFP reduction target lower than the improper payment rate of 1.09% is not realistic and likely not achievable for CACFP in future years.

Note #3: MAL and NAP information for FY 2013 reporting is based on total outlays for FY 2012. CRP information for FY 2013 reporting is based on January 2012 through December 2012 outlays. The estimated improper payment dollar amounts for MAL, CRP, and NAP may reflect variances from the relationship between the improper payment percentage and the outlays amount. These variances result from the stratified, single-stage statistical sampling methodology developed by the contract statistician in calculating the independent projections of the dollars and percentages in error. The variances represent a complex ratio estimate weighted with respect to the payments within their applicable county stratification. They reflect the variability within the payment data and occur with a 90-percent confidence level.

Note #4: FSA did not perform a statistical sample for FY 2013 reporting because of the uncertainty of the Farm Bill. DCP authority was to end on September 30, 2012. The authority was later extended. OMB and USDA will evaluate DCP annually to determine the type of measurement and AFR reporting to be done for a specific fiscal year.

Note #5: An LDP statistical sample was not performed due to low outlays during FY 2012 and low improper payment rates in previous years, and the justification for not measuring LDP was discussed with OMB. OMB and USDA will evaluate LDP activity annually to determine if measurement for a specific fiscal year is cost effective.

Note #6: FSA measured two components of the several MDP components for FY 2013 reporting. A full statistical sample of all MDP components was not cost effective. The Supplemental Revenue Assistance Payments (SURE) and Livestock Forage Disaster Program (LFP) FY 2012 outlays (94 percent of all MDP outlays) were statistically sampled. MDP program components are reported separately to provide detail error rate trends for specific program components. The authority for LFP was limited to disaster events that occurred through 9/30/2011. It is anticipated that program activity will continue with the passage of the new Farm Bill. There has been no statutory authority to issue SURE payments in FY 2015 and FY 2016. To date, the Farm Bill signed by the U.S. Senate and the Farm Bill passed by the House both eliminate the SURE program.

Note #7: RMA uses a 3-year running average to calculate its improper payment rate. FY 2012 is based on the measurement of 2009, 2010, and 2011 crop year outlays.

Note #8: SNAP FY 2013 reporting information is based on FY 2012 outlays. SNAP reduction targets may be reduced and adjusted in consideration of increased need resulting from further growth in the program, which has been unprecedented during the past few years, and which has been affected by State budget constraints, and other related factors. The SNAP improper payment rate trend line goes from 5.99 percent in FY 2007 to 3.42 percent in FY 2013. Due to the above issues, it is not realistic and likely not achievable for SNAP to consistently have an improper payment rate of 3.42 percent or less for future years. The SNAP reduction target rates for FY 2014, FY 2015, and FY 2016 in Exhibit 28, are more realistic and achievable in relationship to the SNAP trend line from FY 2007 through FY 2012.

Note #9: The FSRI, RAP, and WFSU programs' information for FY 2013 reporting is based on FY 2012 outlays.

Note #10: The MAL improper payment rate trend line goes from 7.52 percent in FY 2007 to 0.08 percent in FY 2012. The 0.34 percent rate for FY 2013 is an outlier compared to rates of the previous 5 years. Due to the inherent variables in the statistical sampling measurement process, a FY 2014 reduction lower than 0.34 percent is not realistic and likely not achievable. The MAL reduction target rates for FY 2014, FY 2015, and FY 2016 in Exhibit 28 are more realistic and achievable in relationship to the MAL trend line from FY 2007 through FY 2012.

Note #11: The WFSU program has reported a 0.00 percent improper payment rate for the past 5 years. Due to the inherent variables in the statistical sampling measurement process, it is not realistic and likely not achievable for the WFSU program to consistently have a 0.00 percent improper payment rate for future years.

Note #12: The FSRI program adjusted its testing criteria to include testing for registration of participants in the System for Award Management (SAM), payments made too far in advance of the anticipated easement closing date, and easements closed after the period of performance of the purchase agreement. Due to these changes in the testing criteria, the FSRI program experienced an increased error rate, and therefore, the future year reduction targets were adjusted to reflect the changes made in the testing criteria.

Note #13: A MILC reduction target lower than the improper payment rate of 0.17% is not realistic and likely not achievable for the program to consistently reduce improper payment rates in future years.

V. Recapture of Improper Payments Reporting.

The Department awarded a payment recapture/recovery auditing (PRRA) services contract in FY 2012 and a supplier credit recovery audit (SCRA) services contract in FY 2013 to private sector contractors to identify program overpayments.

Under USDA's phased implementation of the PRRA initiative, Phase One consisted of three Department programs: the Farm Service Agency's (FSA) Conservation Reserve and Noninsured Assistance Programs, and Rural Development's Rental Assistance Program (RAP). FSA and RD worked with contractor staff to help them understand how the programs operate and how improper payments occur within each program. It allowed the contractor to tailor its software to each program to reduce false positives and assist in identifying overpayments made to ineligible recipients. USDA plans to implement additional agency programs to the PRRA initiative during FY 2014.

RAP is the only Phase One program that identified improper payments and recovered overpayments in 2013, which are shown in Exhibit 29. FSA Phase One programs continue to work with the contractor to identify improper payments. USDA anticipates reporting FSA recovery information in future AFRs. The Department is developing a process to report information on PRRA/SCRA for Exhibit 31, Aging of Outstanding Overpayments; and Exhibit 32, Disposition of Recaptured Funds. USDA anticipates reporting aging of outstanding overpayments and disposition of recaptured funds in future AFRs. The SCRA became active in August 2013, and, therefore, has no collection activity to report. USDA expects to include SCRA recovery information in future AFRs.

The following exhibits are designed to illustrate payment recapture audit (or recovery auditing) efforts.

The following exhibit shows how recovery payments are reported for audits.

Exhibit 29: Payment Recapture Audit Reporting

Payment Recapture Audit Reporting ($ in millions)								
Program or Activity	**Type of Payment (contract, grant, benefit, loan, or other)**	**Amount Subject to Review for Calendar Year (CY) Reporting**	**Actual Amount Reviewed and Reported (CY)**	**Amount Identified for Recovery (CY)**	**Amount Recovered (CY)**	**% of Amount Recovered out of Amount Identified (CY)**	**Amount Outstanding (CY)**	**% of Amount Outstanding out of Amount Identified (CY)**
Rental Assistance Program*	Benefit	$1,108	$0.323	$0.174	$0.106	60.78%	$0.068	39.22%

Payment Recapture Audit Reporting ($ in millions)							
Amount Determined Not to be Collectible (CY)	**% of Amount Determined Not to be Collectible out of Amount Identified (CY)**	**Amounts Identified for Recovery in Previous Years (PYs)**	**Amount Recovered (PYs)**	**Cumulative Amount Identified for Recovery (CY+PYs)**	**Cumulative Amount Recovered (CY+PYs)**	**Cumulative Amount Outstanding (CY+PYs)**	**Cumulative Amount Determined Not to be Collectible (CY+PYs)**
$0	0.0%	N/A	N/A	$0.174	$0.106	$0.068	$0

*Exhibit 29 represents the one-year period September 1, 2012 – August 31, 2013. The column titled "Amount Subject to Review for CY Reporting" represents the FY 2012 program outlays. The column titled "Actual Amount Reviewed and Reported (CY)" represents the amount the recovery auditing contractor reported as potential improper payments.

The following exhibit shows how these annual targets, based on the rate of recovery, are used to drive performance.

Exhibit 30: Payment Recapture Audit Targets

Payment Recapture Audit Targets							
Program or Activity	**Type of Payment (contract, grant, benefit, loan, or other)**	**CY Amount Identified**	**CY Amount Recovered**	**CY Recovery Rate (Amount Recovered/Amount Identified)**	**CY +1 Recovery Rate Target**	**CY + 2 Recovery Rate Target**	**CY +3 Recovery Rate Target**
Rental Assistance Program	Benefit	$0.174	$0.106	60.78%	65%	70%	75%

The following exhibit shows an aging schedule of outstanding overpayments and 6-month periods.

Exhibit 31: Aging of Outstanding Overpayments

Aging of Outstanding Overpayments				
Program or Activity	**Type of Payment (contract, grant, benefit, loan, or other)**	**CY Amount Outstanding (0 – 6 months)**	**CY Amount Outstanding (6 months to 1 year)**	**CY Amount Outstanding (over 1 year)**
Rental Assistance Program	Benefit	$0.068	N/A	N/A

The following exhibit shows a summary of how recovered amounts have been used.

Exhibit 32: Disposition of Recaptured Funds

Disposition of Recaptured Funds							
Program or Activity	**Type of Payment (contract, grant, benefit, loan, or other)**	**Agency Expenses to Administer the Program**	**Payment Recapture Auditor Fees**	**Financial Management Improvement Activities**	**Original Purpose**	**Office of Inspector General**	**Returned to Treasury**
Rental Assistance Program	Benefit	N/A	N/A	N/A	N/A	N/A	N/A

Exhibit 32 shows disposition of recaptured funds as Not Applicable (N/A) because recoveries reported in Exhibit 29 for the one-year period September 1, 2012 – August 31, 2013, had not been disbursed as of August 31, 2013.

The following exhibit includes amounts of USDA improper payments identified and recovered by source from 4th Qtr FY 2012 to 3rd Qtr FY 2013, prior years, and cumulative. The prior year's column includes recoveries from FY 2004 through FY 2012.

Exhibit 33: Overpayments Recaptured

Overpayments Recaptured Outside of PRRA Initiative ($millions)						
Agency Source	**FY 2013 Amount Identified**	**FY 2013 Amount Recovered**	**Prior Years Amount Identified**	**Prior Years Amount Recovered**	**Cumulative (Current & Prior Years) Amount Identified**	**Cumulative (Current & Prior Years) Amount Recovered**
Statistical Samples Under IPIA	$12.88	$1.23	$894.62	$892.57	$907.50	$893.80
Identified Internally & Post Payment Reviews	$207.43	$181.97	$547.06	$516.22	$754.49	$698.19
Identified by OIG & GAO Audits	$91.77	$0.00	$10.07	$0.13	$101.84	$0.13
Self-reported by recipient	$0.23	$0.11	$0.00	$0.00	$0.23	$0.11
Reports from the Public	$0.01	$0.01	$6.06	$6.00	$6.07	$6.01
Other Sources	$2.03	$1.80	$3.79	$3.32	$5.82	$5.12
USDA Total	**$314.35**	**$185.12**	**$1,461.60**	**$1,418.24**	**$1,775.95**	**$1,603.36**

VI. Accountability.

The following steps were taken to ensure that agency managers are held accountable for reducing and recovering improper payments:

FSA

- FSA operates a performance-management program designed to improve individual and organizational effectiveness in accomplishing its mission and goals. This program provides for improper payments to be included in the State Executive Directors Performance Plan;
- National and State office (STO) managers are held accountable for ensuring that program policies and procedures are provided to the STO and county office (COF) employees accurately and in a timely manner. National office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration. FSA employees' performance elements are directly related to its strategic plan;
- COF employees, including the county executive director, must pay producers and follow all administrative steps in doing so. Employees will be evaluated on program delivery, as

well as compliance with regulations, policies, and procedures through their performance plans;

- In order to effectively prevent improper payments, SEDs' having field offices with high improper payment error rates may require, within specific field offices, additional:
  - Supervisory follow-up or performance actions;
  - Payment review or approval levels; and
  - County Office Review Program reviews targeting MAL beginning with FY 2014.
- The Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability; and
- FSA has incorporated the priority of reducing improper payments into its FY 2012-2016 Strategic Plan, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with IPIA.
- The FSA Financial Services system was enhanced to include role-based security. The role-based functionality was implemented in December of 2008 to differentiate roles between those individuals responsible for creating/revising producer personal data from those having access to update any other program/payment application.

FNS

An agency priority is to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high-risk for improper payments. The goal for SNAP is to maintain a high standard of integrity in SNAP. The goal for CACFP and WIC is to reduce the improper payment rates by continuing management improvements. The goal of NSLP and SBP is to improve the accuracy of school administration processes that certify children for school meals. The agency goals and priorities are incorporated into each manager's performance plan.

FS

Management will be made aware of improper payments and held accountable for reduction and recoveries of improper payments. The FS handbook directs managers and payment staffs to manage and monitor the implementation of payment policies in accordance with direction issued by the Chief Financial Officer in order to provide an appropriate control environment that effectively prevents, detects, and recovers improper payments. The FS utilizes IPIA statistical testing, review of improper payments and recoveries, and the Quarterly High Dollar Report to detect improper payments. These analytics assist in identifying the number and dollar value of improper payments that have been identified and recovered by the FS.

Dissemination of audit findings, recovery efforts and identification of root causes ensure management's awareness. Quarterly monitoring and corrective actions will improve accountability, identification, and resolution of improper payments in a timely manner.

RD

RD State offices with improper payments will develop corrective action plans. The plan includes procedures to train field staff, borrowers, and property managers in appropriate required documentation and follow-up with tenants and income-verifiers.

- State Office Directors and program managers' performance plans do include appropriate performance elements regarding IPIA and recovery of unauthorized assistance;
- Deputy Administrator of Multi-Family Housing Programs will facilitate monthly meetings with the State and area office program areas to discuss any additional action necessary for senior management to address accountability and program administration for improper payments and unauthorized assistance;
- The National office staff performance plan agreements contain position-corresponding mission-area strategic objective element goals and priorities, and are incorporated into each manager's performance plan. Staff managing the RA program have appropriate performance elements regarding IPIA and recovery of unauthorized assistance included; and
- RD has a performance management program in place to improve individual and organizational effectiveness in accomplishing its mission and goals.

RMA

RMA revised its strategic plan and also reviews annual performance to ensure agency management takes future corrective actions to address program vulnerabilities to reduce program errors and increase efficiency. Additionally, every employee's performance plan agreement has a generic strategic objective element aligned with RMA's major goals since FY 2005. For example, compliance personnel have a generic standard tied to the goal associated with improving program integrity.

NRCS

NRCS incorporated specific language regarding the prevention, identification, and recovery of improper payments into the current State Conservationists' performance plans.

VII. Agency Information Systems and Other Infrastructure.

Although USDA is creating information systems and infrastructure to reduce improper payments, especially for programs susceptible to significant risk, efforts in some programs are constrained by limited resources. The Department has worked closely with the Office of Management and Budget to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

FNS

The School Breakfast, National School Lunch, and Child and Adult Care Food Programs (CACFP) do not have administrative infrastructure or methods for producing yearly estimates of improper payment rates and dollar values. To establish and maintain effective internal controls to reduce improper payments, FNS needs the following:

- Training and Technical Assistance — Effective and continual training and technical assistance are necessary to support the CACFP oversight activities and help States properly administer the Child Nutrition Program to ensure they are equipped to identify and prevent fraud and abuse. This is especially critical because of the changes made to these vital programs by the Healthy Hunger Free Kids Act of 2010 (P.L. 111-296), which reauthorized these programs and instituted new requirements on State agencies;
- Child Nutrition Payment Accuracy — FNS believes that robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of improper payments; and
- Coordinated Review Program — Providing training and technical assistance for State agencies responsible for reviewing local school food authorities that participated in the school meal programs. The Coordinated Review Effort helps ensure that school children are offered meals that meet regulatory standards and that the financial claims associated with those meals are appropriate.

In FY 2011, significant updates to both the State and Federal subsystems of the SNAP Quality Control systems (SNAP-QCS) were deployed. The improvements to this system continue with the addition of an electronic version of the Worksheet for SNAP Quality Control Reviews scheduled for implementation on October 1, 2013. The goal of these efforts is to simultaneously reduce administrative burden while expanding Federal/State data sets and analysis capacity to combat improper payments.

FSA

FSA needs to do the following to reduce improper payments:

- Develop a system that will collect improper payment data for both overpayments and underpayments at the disbursing office level. These data will be used to develop collection goals and better identify what receivables and additional payables are directly related to improper payments;
- FSA must have a sufficient budget for staff, equipment, and supplies to continue to support software, eligibility checks, field spot checks, and compliance reviews; and
- Infrastructure improvements must include enhancements to support Web-based software and the necessary Federal staffing to define, design, develop, and maintain Web-based software. These enhancements will help to ensure better compliance reviews and eligibility validation through mainframe centralized databases. The time savings will allow field office employees to review and document other manual program-related issues in more detail.

- Through FSA's information technology modernization effort, FSA is working to improve the delivery of its programs through the re-engineering of FSA's business processes and the adoption of enhanced and modernized information technology. This modernization effort is a collaborative, cross-functional effort within FSA to advance and streamline business processes, and to achieve compliance by oversight, management, and accountability in the administration of FSA programs. Web-based software that is projected to be deployed in FY 2015 will provide numerous eligibility checks and maintain effective internal controls, and should aid in reducing improper payments. As these new processes are under development, budgeted allocations are vital to incorporate these efficiencies:
  - Include the cost-share payment functionality into a single system with the CRP contract data and replace the two-system method that is currently in production. This system is currently in testing, and the migration to a single system is targeted to begin in FY 2013.
  - Reduce the number of manually calculated payment reductions and adjustments by incorporating the management of all contract activities, such as managed haying and grazing, into the contract software. Requirements gathering and development is underway for the CRP Contract Maintenance and migration, and implementation of this enhanced functionality is targeted for FY 2014.
  - Utilize the most current Financial Management Division (FMD) payment and financial control services including National Payment System (NPS) and the included obligation service provided the NPS service is made useful for long-term contracts that CRP manages by recognizing obligations for future fiscal years and by allowing financial controls to be managed at the State or National level rather than at the current county level. FSA is implementing a yearly process to obligate the CRP annual rental payment for the current payment year, which was used when issuing payments in October 2013. Management of CRP rental payment funds at the national level in eFunds was implemented in FY 2012 and continues to be utilized. FMD/NPS does not handle obligations for future years for CRP.
  - Include the calculation of Signup Incentive Payments (SIP) and Practice Incentive Payments (PIP) incentives into the contract system to eliminate manual calculation and management of the program payments. Automation of SIP and PIP payments began in FY 2012, and requirements gathering and development is underway for the CRP Contract Maintenance and migration. Implementation of this enhanced functionality is targeted for FY 2014.

RD

The FY 2013 President's Budget included a legislative proposal to allow property owners and management agents' access to the Department of Health and Human Services' New Hires database, a resource that will enable confirmation and verification of household income reported by property tenants. Access to the database is estimated at $1.7 million for the first year of use. Access to the database will be through a Web-based portal managed by the U.S. Department of Housing and Urban Development.

RMA

While the program has seen significant growth, the Risk Management Agency's (RMA) administrative budget has remained relatively flat. Compliance has gained significant efficiencies through data mining and other technology applications used to identify program vulnerabilities. These improvements have been made without additional staff to review and recover improper payments. Thus, progress will be restricted. RMA has effective internal controls in place; however, the performance problems of a single company identified in the 2011 crop year reviews showed weaknesses that must be corrected. Compliance considers this a reportable condition and has identified the appropriate corrective action that is pending completion by the responsible program areas. Additionally, Compliance staff has been unable to perform all the work assigned based on the sheer size of the current program. For FY 2014, RMA proposed a budget to increase the number of Compliance staff in order to review premium dollars not associated with indemnities for improper payments. While this request was not approved, the current pending Farm Bill contains an authorization to use program funding for Compliance staffing to combat waste, fraud, and abuse.

VIII. Barriers.

FSA/Commodity Credit Corporation

The Department of Agriculture Reorganization Act of 1994, Section 281, provides that "[E]ach decision of a State, county, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This statute, commonly referred to as the "Finality Rule," will affect the Farm Service Agency/Commodity Credit Corporation's ability to recover improper payments.

The Food, Conservation, and Energy Act of 2008, Section 1506(e)(2)(B), provides that the Secretary shall apply the same standards as were applied in implementing the dairy program under Section 805 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2001. This provision precludes the Agency from developing a definition of a single unit dairy operation that can be applied consistently among States.

FNS

The Farm Security and Rural Investment Act of 2002 (FSRIA/2002 Farm Bill) restricts the liability levels States can be sanctioned due to high improper payment rates and also restricts the amount of bonus funding available to States that do a good job reducing and maintaining a low improper payment rate. While the Healthy, Hunger-Free Kids Act provided new tools to promote strong management and integrity in the school meals programs, statutory authority continues to limit USDA's ability to act in this area because of concerns about potential barriers to participation. In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper payments. In addition, program administration is highly decentralized, involving a myriad of Governmental and non-Governmental organizations. There are approximately 100,000 school meal locations at which benefits are provided. Many of these benefit providers simply do not have the capacity to develop robust accountability processes. For these reasons, any approach to reducing school meal improper payments must:

- Improve accuracy without compromising access for low-income families. A process that keeps eligible children from participating would undermine the program;
- Not unduly increase burden on schools. Many schools consider the program burdensome now. Adding burden could discourage schools from participating;
- Be cost effective. Improving accuracy is potentially resource intensive; and
- Answer the needs of other users of program data. Certification data are often used to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

RD

The RD program does not have the statutory authority, similar to the U.S. Department of Housing and Urban Development, to gain access to data from the U.S. Department of Health and Human Services Directory of New Hires, the U.S. Internal Revenue Service (IRS), the U.S. Social Security Administration, and the U.S. Department of Labor to be shared with field offices and management agents. Having these resources would better enable borrowers and management agents to confirm and verify income information from tenants, on whose behalf rental assistance subsidy is provided.

NRCS

Verification of eligibility continues to be an ongoing challenge for NRCS. Certain farm and conservation programs have statutory provisions that limit the provision of assistance to persons with income levels above specified amounts. The “Adjusted Gross Income (AGI)” eligibility requirements that are applicable to NRCS-administered programs have been delegated to FSA. NRCS has successfully coordinated with FSA to implement FSA’s validation of AGI certifications so that any FSA changes in eligibility determinations are effective for NRCS’ conservation program payments. However, while FSA is working to be more current in their validation process, improper payments related to AGI noncompliance cannot be avoided if participants misrepresent their income.

Additionally, CCC’s Conservation Security Program, which is administered by NRCS, must pay participants in advance of the implementation of conservation practices. The Conservation Security Program has now been replaced by the Conservation Stewardship Program. Under the former program, CCC was statutorily required to pay participants at the beginning of the fiscal year in which the conservation practice is scheduled to be implemented. Since these payments were made in advance, improper payments were sometimes detected via annual quality assurance reviews but could not always be prevented. Under the Conservation Stewardship Program, payments are not made in advance of performance.

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

Background

The Inspector General Act Amendments of 1988 (P.L. 100-504), require that each agency head submit semi-annual reports to Congress on the actions taken in response to Office of Inspector General (OIG) audit, evaluation, and inspection reports. Consistent with the Reports Consolidation Act of 2000 (P.L. 106-531), the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer (OCFO) consolidates and annualizes the required semi-annual Inspector General Act Amendments' reporting elements for inclusion in the annual Agency Financial Report.

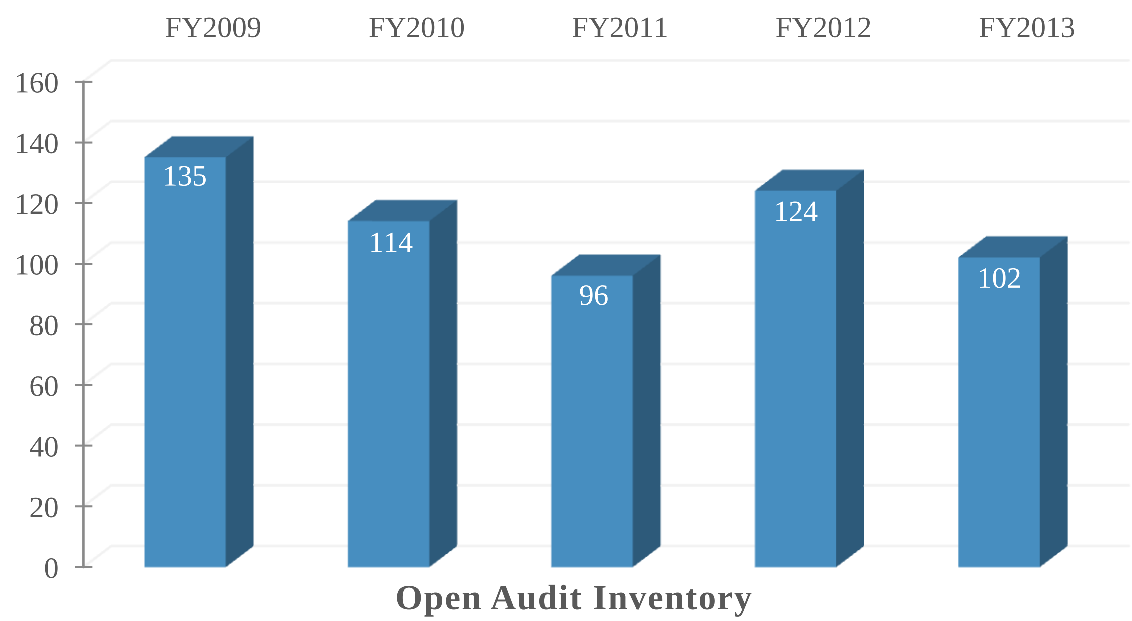
OIG audits USDA's programs, systems, and operations. It then recommends improvements to management based on its findings. Management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan is then submitted to OIG for concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, a management decision is concluded for that recommendation.

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

Fiscal Year Results (as of August 30, 2013)

USDA agencies closed 67 audits in fiscal year (FY) 2013. As of August 30, 2013, OIG and USDA agencies reached management decision on 44 audits. As shown in the following exhibit, the Department's inventory of open audits decreased in FY 2013 by 22 percent from 124 to 102.

Exhibit 34: Open Audit Inventory



Note: The FY 2012 ending balance was revised from 114 to 124 to include 10 audits transmitted from the Office of Inspector General after the reporting period. These adjustments are also reflected in the beginning balances for audits with disallowed costs (DC) shown in Exhibit 36.

Audit Follow Up Process

The Inspector General Act Amendments of 1988 require an annual report to Congress providing the status of resolved audits that remain open. Resolved audits are those for which management decision has been reached for all recommendations. Reports on resolved audits must include the elements listed in the bullets below:

- Beginning and ending balances for the number of audit reports and dollar value of disallowed costs (DC) and funds to be put to better use (FTBU) (see Exhibit 35 for definitions);
- The number of new management decisions reached (see Exhibit 35);
- The disposition of audits with final action (see Exhibit 35);
- Resolved audits that remain open one year or more past the management decision date and which require an additional reporting element; and
- The date issued, dollar value, and an explanation of why final action has not been taken.

Exhibit 35: Audit Follow-Up Definitions

Term	Definition
Disallowed Cost (DC)	An incurred cost questioned by the Office of Inspector General (OIG) that management has agreed should not be chargeable to the Government.
Final Action	An action that management has agreed will address the audit findings and recommendations when completed.
Funds To Be Put to Better Use (FTBU)	An OIG recommendation that funds could be used more efficiently if management completes the recommendation, including: ▪ Reductions in outlays or other savings; ▪ De-obligation of funds from programs or operation, or withdrawal of subsidy costs on loans, guarantees, or bonds; and ▪ Implementation of recommended improvements for grants or contracts or unnecessary expenditures noted in pre-award reviews of contract or grant agreements.
Management Decision	Agreement between management and OIG on corrective action needed to address audit findings and recommendations.

Beginning and Ending Inventory for Audits with Disallowed Costs and Funds to Be Put to Better Use

Of the 67 audits that achieved final action during the fiscal year, 18 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 26 with a monetary value of $68,569,092. See Exhibit 36 below.

Exhibit 36: Inventory of Audits with Disallowed Costs

Audits with Disallowed Costs (DC)	# of Audits	Amount ($)
Beginning of the Period	40	$63,504,284
Plus: New Management Decisions	4	$12,136,681
Total Audits Pending Collection of DC	44	$75,640,965
Adjustments (see Exhibit 37)		$1,464,298
Revised Subtotal		$74,176,667
Less: Final Actions (Recoveries)	18	$5,607,575
Audits with DC Requiring Final Action at the End of the Period	26	$68,569,092

Exhibit 36 and Exhibit 38 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 36 and Exhibit 38 does not equal the total resolved audit inventory balance in Exhibit 34.

As shown in Exhibit 36 above, for DC audits that achieved final action in FY 2013, OIG and management agreed to collect $7,071,873. Adjustments were made totaling $1,464,298 (21 percent of the total) because of the following: (1) USDA agencies' inability to provide sufficient documentation to substantiate DC; (2) legal decisions; (3) other changes (4) contracting officer's decision; and (5) agency discovery. Management recovered the remaining $5,607,575.

Exhibit 37: Distribution of Adjustments to DC

Category	Amount ($)
Agency Documentation	$16,395
Legal Decisions	$945,508
Other changes	$442,683
Contracting Officer's Decision	$4,625
Agency Discovery	$55,087
Total	$1,464,298

Final action occurred on 2 audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is 11 with a monetary value of $18,332,894 (see Exhibit 38).

Exhibit 38: Inventory of Audits with Funds To Be Put to Better Use (FTBU)

Audits with FTBU	# of Audits	Amount ($)
Beginning of the Period	7	$106,905,411
Plus: New Management Decisions	6	$8,927,483
Total Audits Pending	13	$115,832,894
Less: Final Actions	2	$97,500,000
Audits with FTBU Requiring Final Action at the End of the Period	11	$18,332,894
Disposition of FTBU:		
FTBU Implemented		$97,500,000
FTBU Not Implemented		$0
Total FTBU Amounts for Final Action Audits		$97,500,000

Exhibit 36 and Exhibit 38 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 36 and Exhibit 38 does not equal the total resolved audit inventory balance in Exhibit 34.

The numbers of audits open 1 or more years without final action in FY 2013 decreased from 66 to 60 audits, a 10-percent decrease. The 60 audits include an additional 14 audits that reached 1 year past management decision date during FY 2013. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits.

Exhibit 39: Decrease in the Number of Audits Open 1 or More Years Past the Management Decision Date (MDD)

Audits One Year or More Past MDD	# of Audits
Beginning of the period	66*
Less: FY 2012 audits closed	20
Subtotal FY 2012 audits one year or more past MDD	46
Plus: Audits that turned one year during FY 2012	14
End of the Period*	60*

** End of the Period includes 1 audit in appeal not listed in Exhibit 40. In addition, one audit was omitted from the FY 2011 ending balance.*

Agencies have completed all planned corrective actions on 16 audits that are pending collection of associated DC (see Exhibit 40 below).

Exhibit 40: Distribution of Audits Open One Year or More Past the Management Decision Date (MDD)

Audits On Schedule			Audits Behind Schedule			Audits Under Collection		
No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)	No.	DC ($)	FTBU ($)
3	$0	$0	42	$15,869,752	$5,595,324	14	$14,106,856	$3,240,563

Management's Report on Audit Follow Up

With the exception of one audit that is in appeals, audits without final action 1 year or more past MDD and behind schedule are listed individually in the Exhibit 41. The audits are categorized by the reason final action has not occurred. More detailed information on audits on schedule, in appeals, and under collection, is available from OCFO.

Exhibit 41: Audits Open 1 Year or More, Past the MDD, and Behind Schedule

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Agricultural Marketing Service (AMS)						
01601-1-32	2/27/12	12/30/13	National Organic Program - Organic Milk	$0	$0	Internal monitoring
AMS Subtotal (1)				**$0**	**$0**	

Animal and Plant Health Inspection Service (APHIS)						
33002-0004-SF	5/14/10	11/30/13	Inspection of Problematic Dealers	$0	$177,980	Issuance of policy guidance & legislation
33601-0003-CH	2/20/03	4/30/14	Safeguards to Prevent Entry of Prohibited Pests And Diseases into The United States	$0	$0	
33601-0007-CH	8/14/07	4/30/14	Review of Customs and Border Protection's Agricultural Inspection Activities	$0	$0	
33601-0011-CH	8/13/10	4/30/14	USDA's Controls over Animal Import Centers	$0	$0	
33601-0012-CH	8/24/12	4/30/14	Effectiveness of the Smuggling, Interdiction, and Trade Compliance Unit	$0	$0	
50601-0008-TE	1/28/05	11/30/13	Controls over APHIS Issuance of Genetically Engineered Organisms Release Permits	$0	$0	
50601-0016-TE	5/31/11	4/30/14	Controls over Genetically Engineered Animal and Insect Research	$0	$0	
APHIS Subtotal (7)				-	**$177,980**	
Agricultural Research Service (ARS)						
02601-1-CH	9/30/05	12/31/13	ARS Adequacy of Controls to Prevent the Improper Transfer of Sensitive Technology	$0	$0	Pending administrative action

Agricultural Research Service (ARS)						
50601-6-TE	3/4/04	12/31/13	ARS Controls Over Plant Variety Protection and Germplasm Storage	$0	$0	Conclusion of external action
50601-10-AT	3/8/04	12/31/13	ARS Follow Up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	$0	$0	Issuance of policy guidance & legislation
50601-17-TE	12/12/08	12/31/13	ARS Control over Importation of Transgenic Plants and Animals	$0	$0	
ARS Subtotal (4)				**$0**	**$0**	
Commodity Credit Corporation (CCC)						
06401-20-FM	11/9/05	9/30/14	CCC's Financial Statements for FYs 2004 and 2004	$0	$0	Pending administrative action
CCC Subtotal (1)				**$0**	**$0**	
Food and Nutrition Service (FNS)						
27002-10-13	6/14/12	11/29/13	Analysis of New York's Supplemental Nutrition Assistance Program Eligibility Data	1,268,260	$0	Pending administrative action
27099-49-TE	3/10/08	5/31/14	Disaster Food Stamp Program for Hurricanes Katrina and Rita, Louisiana, Mississippi and Texas	$0	$0	Issuance of policy guidance & legislation
27601-12-SF	11/18/11	6/30/14	Review of Management Controls for the Child and Adult Care Food Program	$2,486,633	$0	

Food and Nutrition Service (FNS)						
27601-16-AT	3/31/08	1/31/14	FNS Food Stamp Employment and Training	$0	$0	
FNS Subtotal (4)				**$3,754,893**	**$0**	
Forest Service (FS)						
08601-55-SF	6/16/11	2/28/14	Forest Service Administration of Special Use Program	$0	$5,387567	Issuance of policy guidance & legislation
FS Subtotal (1)				**$0**	**$5,387,567**	
Farm Service Agency (FSA)						
03601-17-CH	9/29/08	12/31/13	Controls Over Guaranteed Farm Loan Interest Rates and Interest Assistance	$0	$0	Issuance of policy guidance & legislation
50601-15-KC	8/1/11	12/31/13	FSA, NASS Establishment of Average Yields	$0	$0	Pending administrative action
FSA Subtotal (2)				**$0**	**$0**	
Food Safety and Inspection Service (FSIS)						
24601-0001-CH	6/21/2000	12/31/2013	FSIS Food Safety and Inspection Service Laboratory Testing of Meat and Poultry Products	$0	$0	Issuance of policy guidance & legislation
24601-0008-CH	8/23/2007	12/31/2014	FSIS Egg Products Processing Inspection	$0	$0	Pending IT system implementation & enhancements
24601-0008-HY	8/4/2008	12/31/2013	FSIS Follow Up Review of Food Safety and Inspection Service's Controls Over Imported Meat and Poultry Products	$0	$0	

Food Safety and Inspection Service (FSIS)						
50601-0006-HY	7/15/2009	12/31/2013	FSIS Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	$0	$0	Issuance of policy guidance & legislation
24601-0001-31	5/9/2012	12/31/13	Application of FSIS Sampling Protocol for Testing Beef Trim for *E. Coli* O157:H7	$0	$0	Issuance of policy guidance & legislation
FSIS Subtotal (5)				**$0**	**$0**	
Natural Resources Conservation Service (NRCS)						
10401-1-11	11/8/11	1/31/14	Financial Statements for FY 2011	$0	$0	Issuance of policy guidance & legislation
10401-2-FM	11/13/08	10/31/13	Financial Statements for FY 2008	$0	$0	Pending IT system implementation & enhancements
10401-3-FM	11/4/09	5/30/14	Financial Statements for FY 2009	$0	$0	Pending internal monitoring/program reviews
10401-4-FM	11/8/10	7/31/14	Financial Statements for FY 2010	$0	$0	
10601-6-KC	3/30/11	12/31/13	Emergency Disaster Assistance: Emergency Watershed Protection Program	$0	$29,777	
10703-1-KC	9/8/10	12/31/13	NRCS ARRA Emergency Watershed Protection Program Floodplain Easement Phase I	$0	$0	Pending administrative action

Natural Resources Conservation Service (NRCS)						
10703-3-KC	3/14/12	12/31/13	ARRA, Emergency Watershed Protection Program Floodplain Easements, Easement Applications on Non-Agricultural Land	$0	$0	Issuance of policy guidance & legislation
NRCS Subtotal (7)				**$0**	**$29,777**	
Office of the Chief Information Officer (OCIO)						
50501-1-IT	8/15/11	12/31/13	OCIO USDA's Management and Security Over Wireless Handheld Devices	$0	$0	Pending IT system implementation & enhancements
50501-2-IT	11/19/10	12/31/13	OCIO FY 2010 Federal Information Security Management Act	$0	$0	
50501-15-FM	11/18/09	12/31/13	OCIO FY 2009 Federal Information Security Management Act	$0	$0	
OCIO Subtotal (3)				**$0**	**$0**	
Rural Development (RD)						
04601-0020-CH	9/19/2011	7/31/2015	Rural Rental Housing Program - Midwest Apartment and Management Group, Inc.	$152,970	$0	Issuance of policy guidance & legislation
04703-0002-CH	9/28/2011	9/30/2013	Controls over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase 2)	$0	$0	

Rural Development (RD)						
34099-0002-AT	9/14/2011	10/31/2013	Business and Industry Loan Program Omnivest Resources Inc.	$4,052,351	$0	
34601-0004-AT	1/10/2003	10/31/2013	RBS Lender Servicing of Business and Industry Guaranteed Loans in Georgia	$0	$0	
34601-0006-AT	6/25/2010	12/30/2013	Rural Business-Cooperative Service's Intermediary Relending Program	$7,909,538	$0	Pending issuance of policy guidance & legislation
34601-0015-TE	9/30/2003	10/31/2013	RBS National Report on the Business and Industry Loan Program	$0	$0	
34703-0002-TE	12/5/2011	10/31/2013	American Recovery and Reinvestment Act - Business and Industry Guaranteed Loans, Phase 2	$0	$0	
RD Subtotal (7)				**$12,114,859**	**$0**	
Total Number Audits (42)			**Total**	**$15,869,752**	**$5,595,324**	

Freeze the Footprint

As part of the White House's OMB Memorandum-12-12, Promoting Efficient Spending to Support Agency Operations effort, USDA is implementing policy to "Freeze the Footprint," by which it has committed to "dispose of excess properties held by the Federal Government and make more efficient use of the Government's real estate assets." USDA and other agencies "shall not increase the size of their civilian real estate inventory except in certain exceptions."

Exhibit 42: Freeze the Footprint

Square Footage	Fiscal Year 2012 Baseline	Current Year 2013	Change (2012-2013)
	35,928,774	35,817,753	-111,021

USDA has issued an Agriculture Property Management Regulation (AGPMR NO. 13-05) providing policy and procedures for Freeze the Footprint. The Department has set forth processes and procedures to halt space needs at the FY 2012 baseline.

Acronyms

A	
A&A—Assessment and Authorization AARC—Alternative Agricultural Research and Commercialization Corporation ADA—Antideficiency Act AFMSS—Automated Fluid Mineral Support System AFR—Agency Financial Report AGI—Adjusted Gross Income	AGPMR—Agriculture Property Management Regulation AMS—Agricultural Marketing Service APHIS—Animal and Plant Health Inspection Service APR—Annual Performance Report AQI—Agricultural Quarantine Inspection ARRA—American Reinvestment and Recovery Act of 2009 ARS—Agricultural Research Service
B	
BDO—Barter Delivery Obligation BFDL—Black Farmers Discrimination Lawsuit	BLM—Bureau of Land Management
C	
C&A—Certification and Accreditation CACFP—Child and Adult Care Food Program CBO—Certificates of Beneficial Ownership CCC—Commodity Credit Corporation CFR—Code of Federal Regulations CI—Condition Index CM—Continuous Monitoring CN—Child Nutrition CND—Child Nutrition Division	CNPP—Center for Nutrition Policy and Promotion CoC—Cushion of Credit COF—County Office CORE—Core Accounting System CORP—County Office Review Program CRE—Coordinated Review Effort CRP—Conservation Reserve Program CY—Calendar Year
D	
DAFP—Deputy Administrator Farm Programs DC—Disallowed Costs DCP—Direct and Counter-Cyclical Payments	DHS—United States Department of Homeland Security DM—Deferred Maintenance DNP—Do Not Pay
E	
E&T—Employment and Training eFMS—Electronic Funds Manaement System EO—Executive Order	ERS—Economic Research Service EWPP-FPE—Emergency Watershed Protection Program Floodplain Easements
F	
FAS—Foreign Agricultural Service FCIC—Federal Crop Insurance Corporation FDA—Food and Drug Administration FDCH—Family Day Care Homes FECA—Federal Employee Compensation Act FFAS—Farm and Foreign Agricultural Services FFB—Federal Financing Bank FFIS—Foundation Financial Information System FFMIA—Federal Financial Management Improvement Act FFMS—Federal Financial Management System FISMA—Federal Information Security Management Act FMD—Financial Management Division FMFIA—Federal Managers' Financial Integrity Act FMMI—Financial Management Modernization Initiative	FNCS—Food, Nutrition, and Consumer Services FNS—Food and Nutrition Service FOA—Funding Opportunity Announcement FS—Forest Service FSA—Farm Service Agency FSFL—Farm Storage Facility Loan FSH—Forest Service Handbook FSIS—Food Safety and Inspection Service FSM—Forest Service Manual FSMC—Food Service Management Company FSRIA—Farm Security and Rural Investment Act FSRIP— Farm Security and Rural Investment Act Programs FTBU—Funds To Be Put to Better Use FY—Fiscal Year

G	
G&A—Grants and Agreements GAO—Government Accountability Office GIPSA—Grain Inspection, Packers, and Stockyards Administration	GMS—Global Market Strategy GSA—General Services Administration
H	
HIMP—Hazard Analysis and Critical Control Point-based Inspection Models Project	
I	
IP—Improper Payments IPAC—Intragovernmental Payment and Collection IPERA—Improper Payments Elimination and Recovery Act of 2010 IPERIA—Improper Payments Elimination and Recovery Improvement Act of 2012	IPIA—Improper Payments Information Act of 2002 IRS—Internal Revenue Service IT—Information Technology ITSD—Information Technology Services Division
L	
L&WCF—Land and Water Conservation Fund LDP—Loan Deficiency Payment	LEA—Local Education Agency LFP—Livestock Forage Disaster Program
M	
MAL—Marketing Assistance Loan MD&A—Management's Discussion and Analysis MDD—Management Decision Date MDP—Miscellaneous Disaster Programs	ME—Management Evaluation MILC—Milk Income Loss Contract MOU—Memorandum of Understanding MRP—Marketing and Regulatory Programs
N	
NAL—National Agricultural Library NAP—Noninsured Assistance Program NAP—Noninsured Crop Disaster Assistance Program NASS—National Agricultural Statistics Service NCIC—National Crime Information Center NEST—National Easement Staging Tool NFS—National Forest System	NIFA—National Institute of Food and Agriculture NIST—National Institute of Standards and Technology NPS—National Payment System NRCS—Natural Resources Conservation Service NRE—Natural Resources and Environment NRHP—National Register of Historic Places NSLP—National School Lunch Program
O	
OCFO—Office of the Chief Financial Officer OCIO—Office of the Chief Information Officer OIG—Office of Inspector General	OMB—Office of Management and Budget ORAS—Operations Review and Analysis Staff
P	
PAR—Performance and Accountability Report PHA—Priority Heritage Assets PHIS—Public Health Information System PIP—Practice Incentive Payments	PP&E—Property, Plant, and Equipment PRRA—Payment Recapture/Recovery Auditing PRV—Plant Replacement Value PY—Previous Year

R	
RAP—Rental Assistance Program RBEG—Recovery Act Rural Business Enterprise Grant RBS—Rural Business and Cooperative Service RC&D—Resource Conservation and Development RD—Rural Development REE—Research, Education, and Economics RHIF—Rural Housing Insurance Fund	RHS—Rural Housing Service RMA—Risk Management Agency RME—Risk Management Education RMF—Risk Management Framework RO—Regional Office RUS—Rural Utilities Service
S	
SA—State Agency SAM—System for Award Management SBP—School Breakfast Program SBR—Statement of Budgetary Resources SCRA—Supplier Credit Recovery Audit SDA—Socially Disadvantaged Farmers SER—Single Effective Rate SFA—School Food Authority SFH—Single Family Housing SIP—Signup Incentive Payments	SITC—Smuggling, Interdiction and Trade Compliance SNAP—Supplemental Nutrition Assistance Program SOP—Standard Operating Procedure SOS—Schedule of Spending SP—Special Publication SPA—Special Program Area SSA—Security Stack Array STO—State Office SURE—Supplemental Revenue Assistance Payments SY—School Year
T	
TANF—Temporary Assistance to Needy Families TB—Technical Bulletin	TME—Target Management Evaluations TPMC—Tucson Plant Materials Center
U	
ULO—Unliquidated Obligations USDA—United States Department of Agriculture	USGCB—U.S. Government Configuration Baseline USSGL—U.S. Standard General Ledger
W	
WebTA—Web-based time and attendance WEP—Water and Environmental Program WFM—Wildland Fire Management WFSU—Wildland Fire Suppression Management	WIC—Special Supplemental Program for Women, Infants, and Children WRP—Wetland Reserve Program