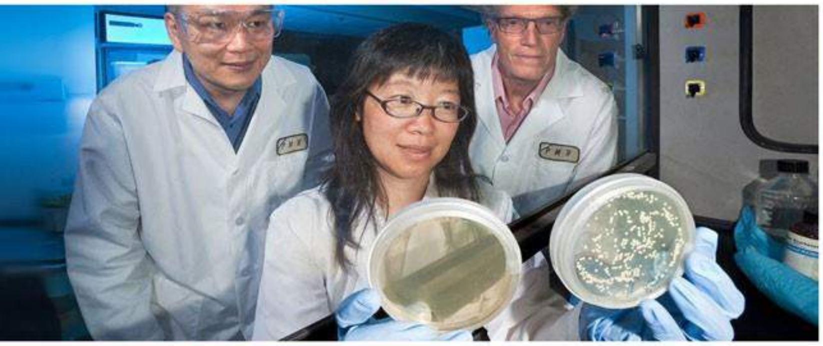
United States Department of Agriculture

AGENCY **FINANCIAL** REPORT



FISCAL YEAR 2014

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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) 2014 APR with its Congressional Budget Justification and will post it on the Department's Web site at USDA Performance when published.

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 (FY) 2014 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 support a strong American agricultural sector; bolstered agricultural trade; safeguarded the Nation's food supply; supported record soil and water conservation; grown the biobased economy; and expanded opportunity for farmers, ranchers, and rural communities nationwide. New tools and resources in the 2014 Farm Bill, passed earlier this year, will allow us to stretch the impact of our investments in rural America even further.

USDA has accomplished these results in a time of significant uncertainty. Federal budget reductions have challenged USDA leadership and employees alike to find new strategies for delivering modern, efficient service. In FY 2014, USDA enhanced our modernization and streamlining efforts, known as the *Blueprint for Stronger Service*, by focusing on better management of space resources and workers compensation cases. Overall, these activities have enabled USDA to better adapt to a constrained resource environment. In total, the Department has achieved over $1.2 billion in savings and cost avoidance as a result of Blueprint activities, while better serving the public through more efficient and effective operations.

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.

In 2014, USDA took a multitude of steps to provide innovative assistance for America's farmers and ranchers. For example, as a result of the 2014 Farm Bill, USDA was able to begin offering disaster assistance to producers who suffered livestock and grazing losses between October 2011 and passage of the 2014 Farm Bill. USDA had the program ready to serve producers within a record 60 days of the Farm Bill signing. As of October 15, 2014, USDA had provided critical disaster assistance to nearly 379,000 producers impacted by drought and severe weather.

USDA has also supported a Federal crop insurance program that has matured into the Nation's primary farm safety net. For some farming and ranching families, crop insurance is the difference between staying in business and going out of business after a natural disaster. When farmers and ranchers suffer covered losses, indemnity payments can replace lost income, which helps local rural communities remain economically viable. USDA's Risk Management Agency (RMA) has worked to ensure that crop insurance is available and meets the needs of as many producers as possible. Furthermore, producer education remains a priority so producers know how to access information about these products and how they work.

Since the 2014 Farm Bill was signed, RMA has been working to ensure that the programs authorized in the bill are available to producers as soon as possible. Specifically, the Actual Production History Yield Exclusion, Supplemental Coverage Option, Stacked Income Protection for Producers of Upland Cotton, Whole Farm Revenue Protection, and Beginning Farmer and Rancher Provisions for crop insurance were implemented after the signing of the 2014 Farm Bill.

In FY 2014, USDA also continued our strong support for markets for products grown and made in rural America. U.S. agricultural exports are forecast to reach $152.5 billion in FY 2014, the highest on record. Since 2009, USDA has helped approximately 70 U.S. agricultural producer organizations, each representing hundreds or thousands of producers, expand commercial export markets for their goods. And, working across the Federal Government, we continued efforts that have, since 2009, broken down hundreds of unfair barriers to U.S. farm and ranch exports.

USDA has also helped to expand new markets for agricultural products here at home. For example, consumer demand for locally-produced food is strong and growing, and farmers and ranchers are positioning their businesses to meet that demand. Under the 2014 Farm Bill, USDA has awarded approximately $30 million in grants through the Farmers Market and Local Food Promotion Program to support new markets for farm and ranch products. In August 2014, we announced that the USDA's National Farmers Market Directory now lists 8,268 markets, an increase of 76 percent since 2008.

In FY 2014, USDA also 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. The 2014 Farm Bill consolidated 23 existing conservation programs into 13 programs while strengthening tools to protect and conserve land, water, and wildlife.

USDA's Natural Resources Conservation Service (NRCS) appropriately focused its initial Farm Bill implementation efforts to minimizing disruption to agricultural producers. To accomplish this transition, NRCS expedited the policy development, training, and business tool deployment necessary for an unprecedented mid-year Conservation Title program delivery concurrent with its longer-term program implementation efforts. This expedited implementation enabled NRCS to process approximately 53,000 applications and obligate nearly $900 million in financial assistance funds for producers to implement conservation practices through the Environmental Quality Incentives Program. Additionally, NRCS enrolled around 9.6 million acres in the Conservation Stewardship Program, obligated almost $250 million for watershed rehabilitation projects, and accepted applications in Agricultural Conservation Easement Program (ACEP) to protect an estimated 129,000 acres of farmland, grassland, and wetlands.

The Department also launched another 2014 Farm Bill program, the Regional Conservation Partnership Program, a way for private companies, tribes, local communities and non-government partners to collaborate and invest in cleaner water and air, healthier soil, and enhanced wildlife habitat. Nearly 5,000 organizations partnered together to submit nearly

600 pre-proposals by the July 2014 deadline. We look forward to working with those organizations invited to move on to the next step in the process and submit full proposals.

Meanwhile, in America's national forests and grasslands, USDA is hard at work to improve resilience, reduce the risk of devastating wildfire, and improve soil and water quality. In 2014, the Forest Service has proposed a new funding strategy based on the recognition that catastrophic wildfires are like other disasters and should be funded accordingly. We have proposed discretionary funding for fire suppression at a level sufficient to suppress 99 percent of the wildfires we fight; a disaster funding cap adjustment would meet suppression needs above the base appropriation. This strategy provides increased certainty in addressing growing fire suppression needs and protects funding for other critical programs.

We continued our multipronged, multiyear approach to protect producers from the negative impacts of climate change and provide them with tools and techniques to protect their bottom line and ensure the future food security of our Nation. In 2014, we established seven regional Climate Hubs and three sub-hubs to serve as a source of regional data and information for hazard and adaptation planning in the agriculture and forest sectors.

USDA continues to lead the way for renewable energy by supporting the infrastructure we will need in a new energy economy. In FY 2014, more than 500 new awards under the Rural Energy for America Program helped USDA to reach a milestone of more than 8,000 projects around the country that are helping producers and rural businesses save energy and grow their bottom line. Meanwhile, we took new steps to support biobased product manufacturing that promises to create new jobs across rural America. We added and approved new categories of qualified biobased products for Federal procurement and Federal Acquisition Regulation on reporting by Federal contractors of biobased product purchases through the Sustainable Acquisition Management system. The Department also began the implementation of the energy title of the 2014 Farm Bill.

The Department also 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 nearly 19,000 grants and loans to help approximately 78,000 rural small businesses grow, creating or saving more than 390,000 jobs. In addition, we have helped more than 900,000 families achieve the dream of homeownership.

USDA has also continued its delivery of critical nutrition assistance to millions of Americans who are working hard but struggling to put food on the table, including nutritious meals to about 30 million children each school day. We continued to work with schools across the Nation to implement the healthier meals standards authorized under the Healthy, Hunger-Free Kids Act of 2010, and to implement 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 reduce obesity. We also developed a program of grants for award next year to improve the

Supplemental Nutrition Assistance Program's ability to promote work among its participants as it provides critical nutrition support.

In addition, we placed a special focus on expanding access to meals for low-income children during the summer months when school meals are not widely available. In 2014, we set an aggressive goal to serve 10 million more meals than we served in 2013. Our preliminary data shows that the availability of summer meals increased significantly. The number of summer sponsors—those organizations administering the meal programs—increased by a national average of 107 percent of our goal. Summer sites—those locations where meals were served—increased by a national average of 121 percent of our goal. These increases represent significant progress towards closing the summer nutrition gap for children who depend on free and reduced price meals when they are in school.

This year, USDA's support for critical agricultural research remained strong. USDA researchers have partnered with others, including universities and private industry, across the country to develop the next generation of solutions to some of America's greatest scientific challenges. For example, scientists at the Agricultural Research Service have been working diligently to combat citrus greening, a disease that threatens the citrus industry in Florida. USDA researchers recently released five new citrus rootstocks with tolerance to citrus greening. In FY 2014, we also created a new Foundation for Food and Agricultural Research. The new foundation will leverage public and private resources to increase the scientific and technological research, innovation, and partnerships critical to boosting America's agricultural economy.

In addition to conducting innovative research, USDA has also taken measures to share findings and data with the research community. In FY 2014, 47 new Cooperative Research and Development Agreements were executed, 109 patent applications were filed, 78 patents were received, and 28 new license agreements were executed. We also successfully launched a new PubAg system that provides open access to scholarly publications arising from unclassified research and programs funded in whole or in part by USDA. This system was designed to implement the Office of Science and Technology Policy's memo titled "Increasing Access to the Results of Federally Funded Scientific Research" dated February 22, 2013, Office of Management and Budget's memo titled "Open Data Policy" dated May 9, 2013, and the America COMPETES Reauthorization Act of 2010.

USDA has contributed the technical skills of its employees and university partners and program funding to support the Administration's Feed the Future Initiative, which strives to improve food security around the world. Over the past year, USDA agencies have assisted in the implementation of projects to improve food safety, help subsistence farmers, develop markets, and conduct agricultural research. USDA also provided more than $300 million of funding through the Food for Progress and McGovern-Dole programs to address short-term food needs and to support rural development and education projects in partner countries. USDA has also led the charge against livestock disease by completing missions in 10 countries to train and deploy an effective global biosurveillance workforce: Tanzania, Kenya, Uganda, South Africa, Georgia, Russia, Kazakhstan, Ukraine, China, and Vietnam.

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's Food Safety and Inspection Service (FSIS) has implemented a number of actions to further protect the food supply. To combat *Salmonella*, FSIS implemented the *Salmonella* Action Plan (SAP), which focuses on reducing the number of foodborne *Salmonella* illnesses associated with FSIS-regulated products. The SAP includes actions with aggressive 2014 timelines, such as enhancing *Salmonella* sampling and testing programs, developing new strategies for inspection, and focusing the agency's education and outreach tools on *Salmonella*.

Another way FSIS is accomplishing the actions in the SAP is through the implementation of the New Poultry Inspection System, an updated, science-based inspection system that positions food safety inspectors throughout poultry facilities in a smarter way. Changes include moving some inspectors away from quality assurance tasks—namely checking carcasses for non-food safety-related defects like bruises and feathers—to focus on food safety tasks, such as ensuring sanitation standards are being met and verifying testing and antimicrobial process controls. This science-based approach means our highly-trained inspectors will spend less time looking for obvious physical defects that do not impact public health and more time making sure steps that poultry processing facilities take to prevent contamination and to better control invisible food safety hazards posed by harmful bacteria are working effectively. Estimates show that this modernization of inspection activities is likely to result in a reduction of 5,000 *Salmonella* and *Campylobacter* foodborne illnesses per year in the United States.

On March 19, 2014, the Government Accountability Office (GAO) initiated its most recent engagement of the High-Risk Series Update to review executive branch progress in addressing fragmentation in Federal oversight of food safety. Since GAO made its initial High-Risk Series recommendations, the U.S. Department of Health and Human Services and USDA have taken steps to implement the GPRA Modernization Act of 2010 requirements for addressing crosscutting efforts in strategic and performance planning. USDA promotes joint efforts to enhance food safety and has established goals and objectives requiring collaboration with the Centers for Disease Control and Prevention, the Food and Drug Administration (FDA), and other agencies that address food safety. In addition, numerous collaborative mechanisms have been established involving FDA and FSIS that enhance food safety, such as the Interagency Food Safety Analytics Collaboration, the Interagency Foodborne Outbreak Response Collaboration, the Interagency Risk Assessment Consortium, Healthy People 2020, the Foodborne Diseases Active Surveillance Network, the National Antimicrobial Resistance Monitoring System, and the Food Emergency Response Network. This interagency coordination has served the community well—mechanisms and processes have been put in place to allow for scientific collaboration and information exchange that occurs on a regular basis.

On May 2, 2014, Office of Management and Budget (OMB) and the U.S. Department of the Treasury designated USDA's National Finance Center (NFC) as a Federal Shared Service Provider. The designation allows NFC to provide financial management services to Federal agencies.

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 2014 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 18, 2014

Section I: 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 319 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 $144 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

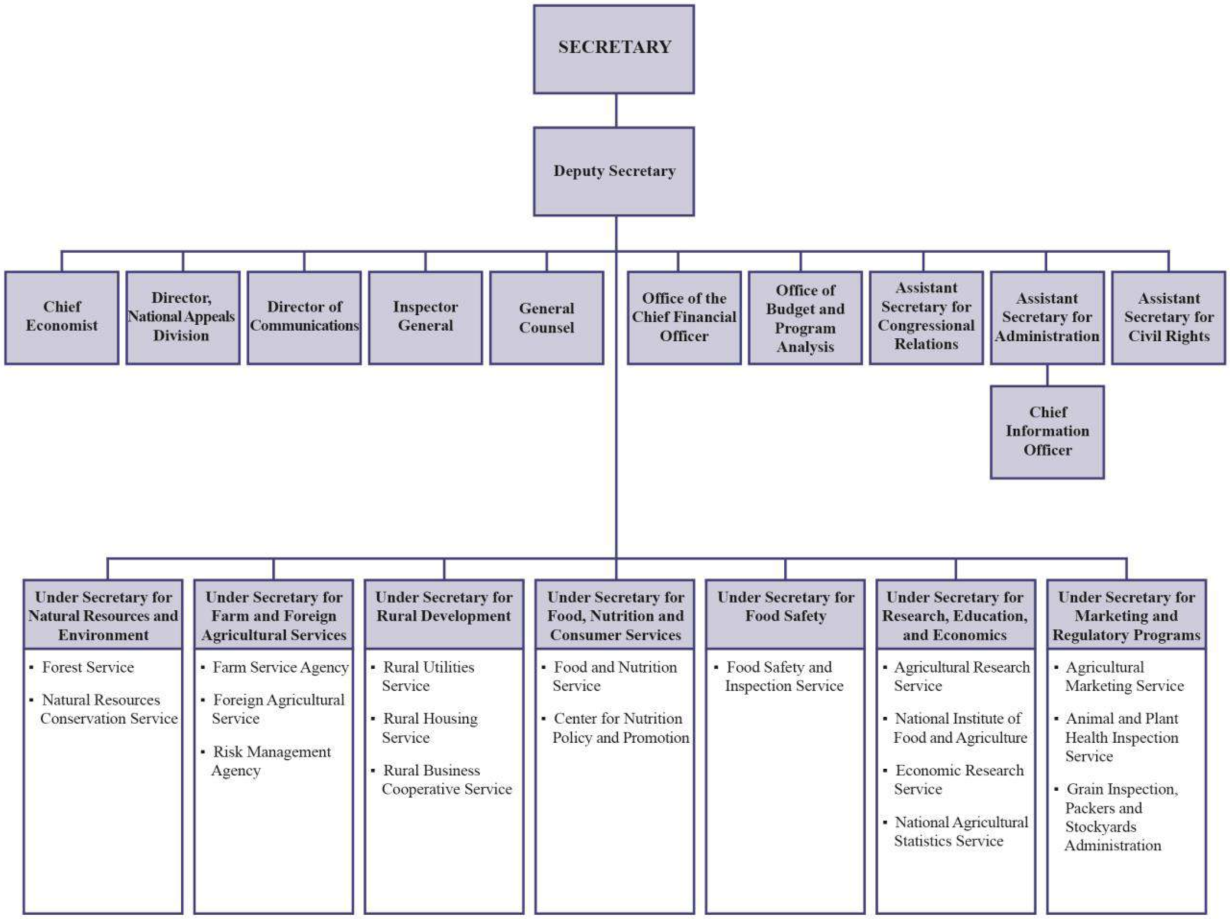
We provide leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management.

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, October 22, 2014

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, stimulating U.S. farm exports to spur the creation of jobs at home; 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 the following: 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 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 support the management of the forest lands.

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 and 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.

Strategic Plan and Program Performance

The U.S. Department of Agriculture's (USDA) mission is to 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. Through implementing our mission, the Department aspires to achieve five strategic goals as reflected in USDA's 2014-2018 Strategic Plan:

- Assist rural communities to create prosperity so they are self-sustaining, re-populating, and economically thriving;
- Ensure our national forests and private working lands are conserved, restored, and made more resilient to climate change, while enhancing our water resources;
- Help America promote agricultural production and biotechnology exports as America works to increase food security;
- Ensure that all of America's children have access to safe, nutritious, and balanced meals; and
- Create a USDA for the 21st century that is high performing, efficient, and adaptable.

USDA has also established three Agency Priority Goals (APGs) for fiscal years (FY) 2014 and 2015 that identify near-term goals to help USDA progress toward meeting our longer term strategic goals and objectives. USDA's APGs are:

- Create new economic opportunities;
- Improve soil health; and
- Reduce foodborne illnesses.

In addition, the Department utilizes annual key performance indicators as a mechanism to analyze USDA's year-over-year progress in achieving priorities, goals, and strategic objectives. In FY 2014, USDA had 40 key performance indicators, as reflected in the Department's FY 2014 Annual Performance Plan (https://www.obpa.usda.gov/budsum/FY14budsum.pdf).

The following provides a high-level description of key focus areas for the Department that are being tracked and managed through USDA's performance management process in alignment with the Department's strategic goals and objectives.

Rural Prosperity: A vibrant American economy depends on a prosperous rural America. Our four primary pillars of economic opportunity in agriculture are: exports, local food systems, conservation and outdoor recreation, and enhancing the biobased economy. USDA is making an impact on persistent poverty, out-migration, and rural income through increases in the number of homeownership opportunities provided in rural communities and the percentage of direct and guaranteed lending to beginning farmers.

Resource Conservation, Restoration, and Resiliency: A healthy and prosperous America relies on the health of our natural resources, and particularly our forests and agricultural working lands. Forests and other lands absorb approximately 14 percent of emissions. To help improve the health of our natural resources USDA has worked to increase the annual acres of public and private forest lands restored or enhanced and to increase the percentage of national forests and grasslands in compliance with a climate change adaption and mitigation strategy.

Increased Exports and Global Food Security: Working with other Federal partners, the Department is working towards reducing global food insecurity and increasing agriculture-led economic growth in developing countries. The Department continues to seek new trade opportunities for American agricultural producers and is also striving to bring products of new and emerging technologies to the worldwide marketplace. In addition, USDA is focused on improving efforts to reduce food insecurity across the world by providing technical assistance to people in food insecure countries.

Safe and Nutritious Food: A plentiful supply of safe and nutritious food is essential to the healthy development of every child in America and to the well-being and productivity of every family. In FY 2014, USDA has seen improvements in the reduction of foodborne *Salmonella* illnesses that are associated with USDA's Food Safety and Inspection Service-regulated products—meat, poultry, and processed egg products. Over the past 3 years, USDA's food assistance programs have contributed to the steady decrease seen in the prevalence of food insecurity in households with children.

Departmental Modernization: Through its Blueprint for Stronger Service, USDA is: building a modern workforce, implementing a modern workplace, and exercising good stewardship of the resources entrusted to the Department. During FY 2014, USDA implemented policies to achieve a more efficient use of funds through decreases in the amount of leased office and warehouse space controlled by USDA and to build a more effective workforce through process improvements and increased use of telework.

A detailed discussion of results for the Department's FY 2014 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the FY 2014 USDA Annual Performance Report, which will be released with the Department's FY 2016 budget. USDA's plans and reports are available at Performance.gov and USDA Performance.

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.

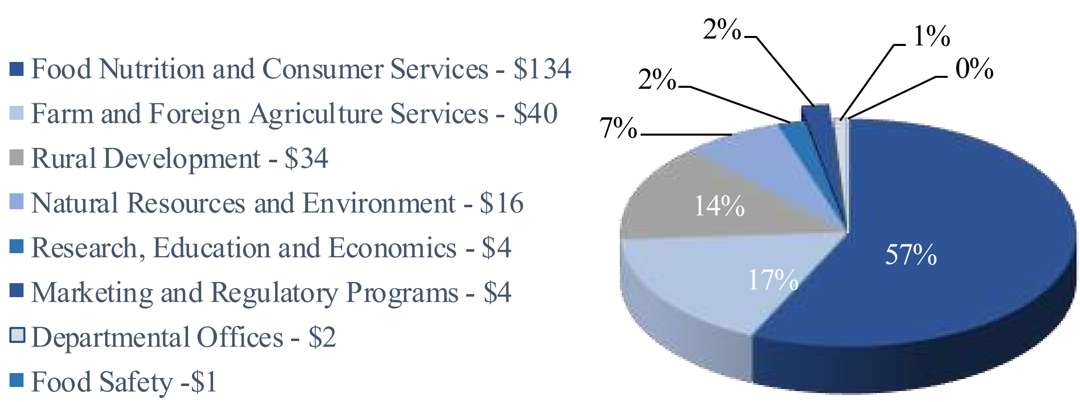
Analysis of Financial Information and Highlights

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) 2014 total budgetary resources by mission area.

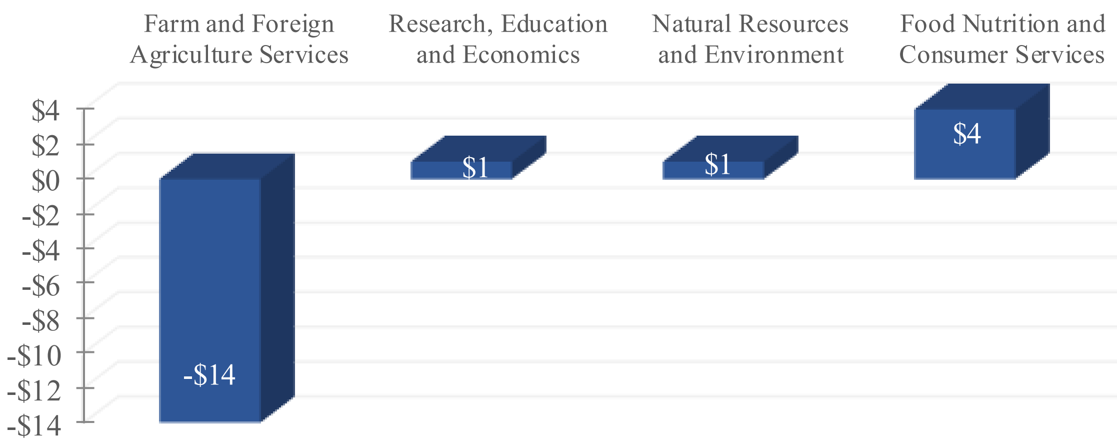
Exhibit 2: Total Budgetary Resources by Mission Area (In Billions)



Total budgetary resources were $235 billion for FY 2014 compared to $243 billion in FY 2013, a decrease of $8 billion, or -3 percent.

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

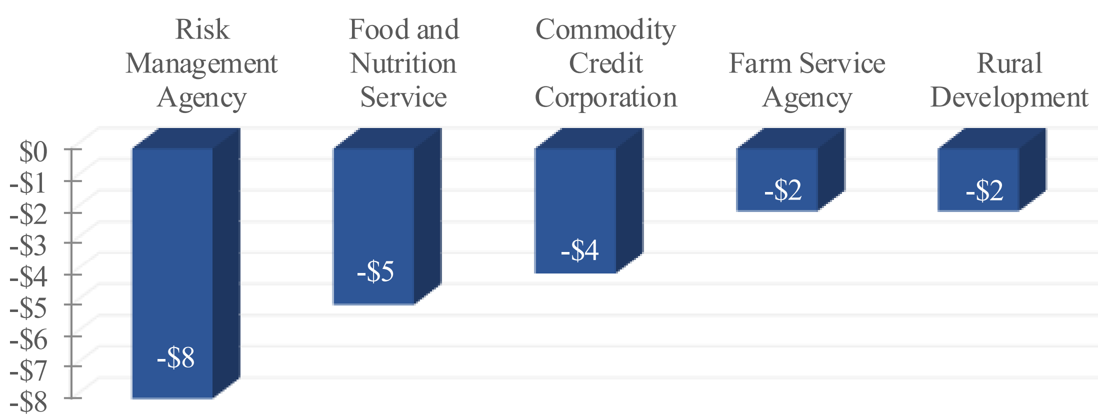
Exhibit 3: Significant Changes in Total Budgetary Resources by Mission Area (In Billions)



Obligations Incurred

Obligations incurred were $180 billion for FY 2014, compared to $201 billion in FY 2013, a decrease of $21 billion, or -10 percent. The following exhibit presents significant changes in obligations incurred.

Exhibit 4: Significant Changes in Obligations Incurred (In Billions)

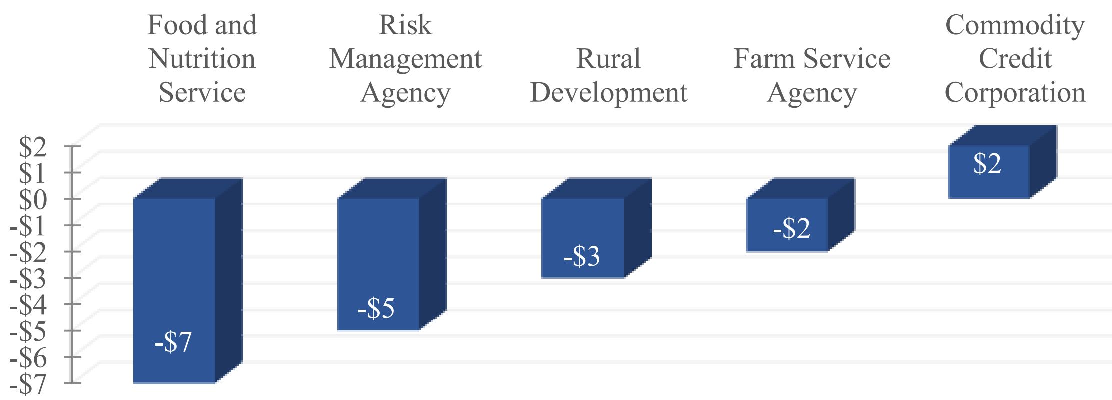


There were decreases at Risk Management Agency (RMA) for Crop Insurance; at Food and Nutrition Service (FNS) for Supplemental Nutrition Assistance (SNAP) and Child Nutrition (CN); at Commodity Credit Coporation (CCC) for Direct and Counter Cyclical Payments; at Farm Service Agency (FSA) for Disaster Relief Trust; and at Rural Development (RD) for Rural Electric and Telecommunications.

Net Outlays

Net Outlays were $144 billion for FY 2014, compared to $159 billion in FY 2013, a decrease of $15 billion or -9 percent. The following exhibit presents significant changes in net outlays.

Exhibit 5: Significant Changes in Net Outlays (In Billions)



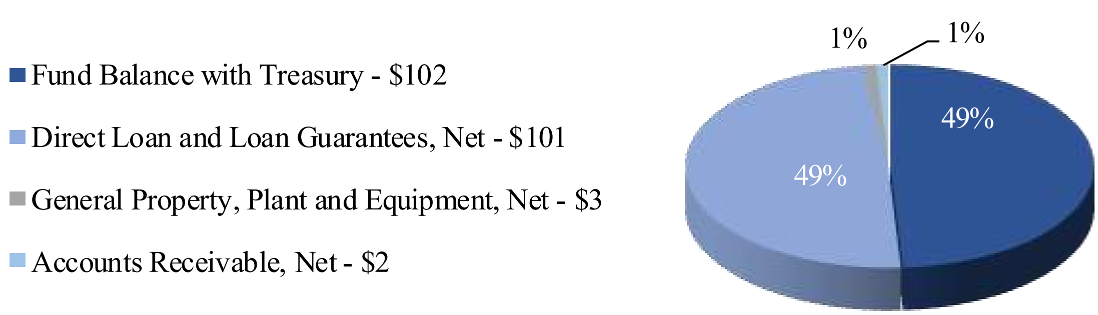
There were decreases at FNS for SNAP and CN; at RMA for Crop Insurance; at RD for Rural Electric; at FSA for Disaster Relief Trust and Pigford II; and an increase at CCC for Marketing Assistance Loans.

Balance Sheet

Total Assets

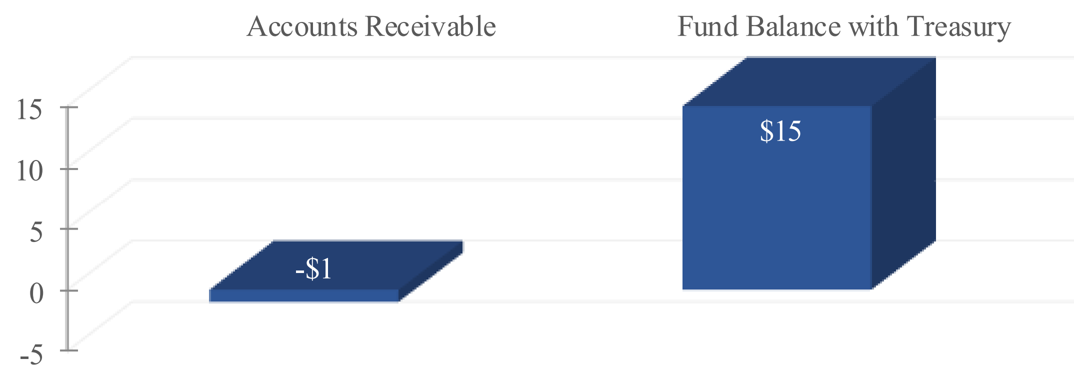
Total assets for FY 2014 were $208 billion, compared to $194 billion for FY 2013, an increase of $14 billion, or 7 percent. The following exhibit presents FY 2014 total assets.

Exhibit 6: Total Assets (In Billions)



Direct Loan and Loan Guarantees, Net, is one of the largest assets 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 8 percent of the total. FSA supports farmers who are temporarily unable to obtain private, commercial credit. The remaining 3 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.

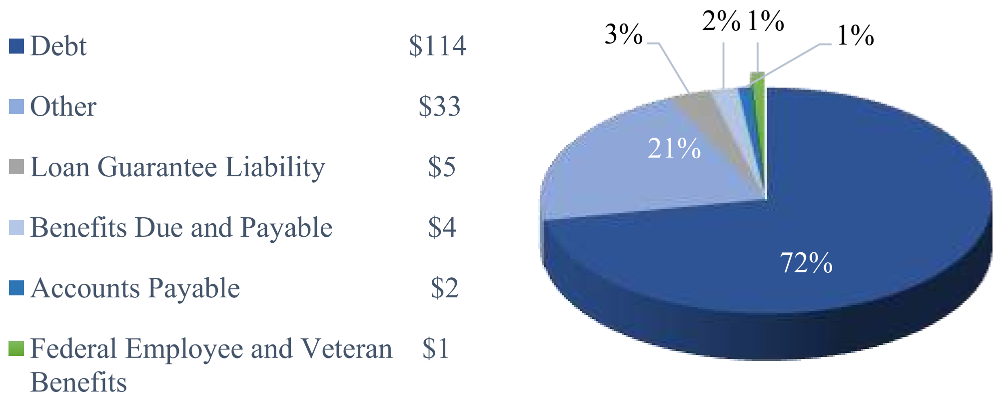
Exhibit 7: Significant Changes in Assets (In Billions)



Total Liabilities

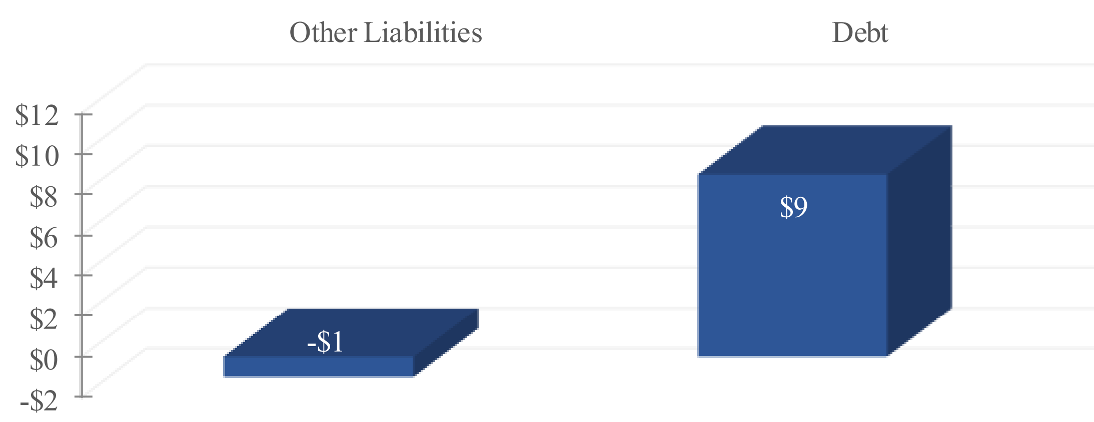
Total liabilities for FY 2014 were $159 billion, compared to $151 billion for FY 2013, an increase of $8 billion, or 5 percent. The following exhibit presents FY 2014 total liabilities.

Exhibit 8: Total Liabilities (In 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.

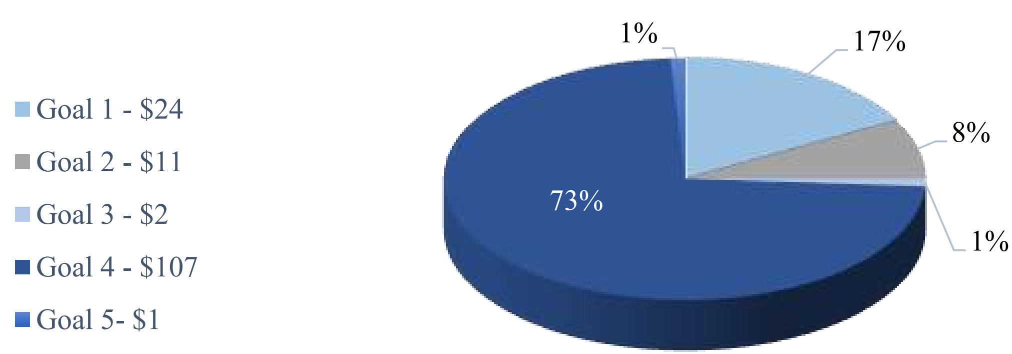
Exhibit 9: Significant Changes in Total Liabilities (In Billions)



Net Cost of Operations

Net cost of operations for FY 2014 was $145 billion, compared to $144 billion for FY 2013, an increase of $1 billion, or 1 percent. The following exhibit presents FY 2014 net cost of operations by strategic goal.

Exhibit 10: Net Cost of Operations by Strategic Goals (In 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.

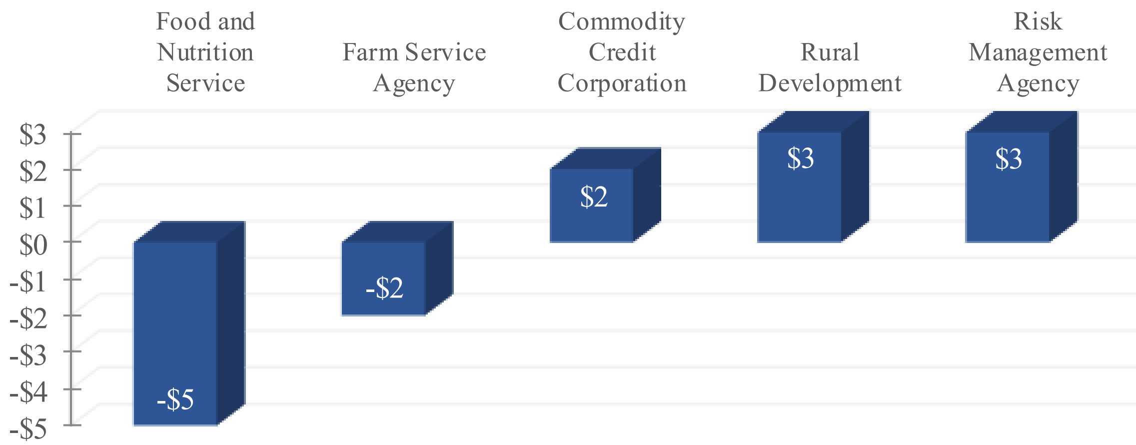
Goal 3: Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security.

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

Goal 5: Create a USDA for the 21st Century That Is High Performing, Efficient, and Adaptable.

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

Exhibit 11: Significant Changes in Net Cost of Operations (In Billions)

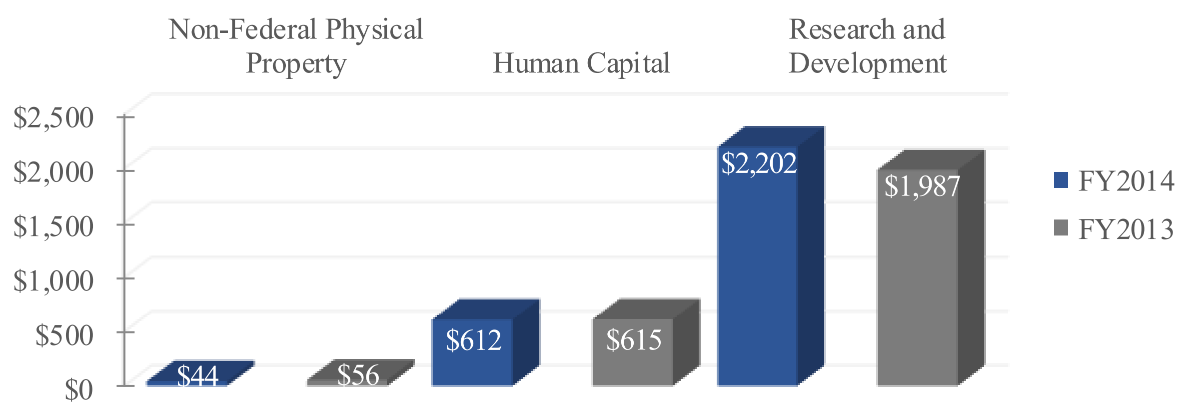


There were decreases at FNS for SNAP and CN; at FSA for Disaster Relief Trust, and increases at CCC for Supplemental Agricultural Disaster Assistance; at RD for Multi Family Housing; and at RMA for Crop Insurance.

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 12: Comparison of Stewardship Investments (In 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 noncompliance with two 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, 2014, and financial reporting as of June 30, 2014. 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 (OMB) 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 $72,000.00 carried over from fiscal year (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.

The Farm Service Agency (FSA) identified an ADA violation under 31 U.S.C. §1517(a). In September 2013, OMB approved an apportionment request for $1,000,000.00 from FSA for the purchase of guaranteed loans in FY 2014. On February 25, 2014, FSA made several loan purchases, obligating $1,302,823.57, thus exceeding the apportionment for such purchases. On March 7, 2014, FSA requested another apportionment to cover the deficiency. OMB approved the request and apportioned funds on March 31, 2014. FSA's Farm Loan Operations Office is taking corrective actions to ensure future payments are obligated only within approved apportionment limits. The ADA violation is in the process of being reported to Congress and the President.

The Office of Advocacy and Outreach (OAO) identified an ADA violation for FY 2011 under 31 U.S.C. §1517(a). The Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008) permitted OAO to award up to $19,000,000.00 in FY 2011 for Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers (Section 2501) Grants. OAO exceeded the amount available. The ADA violation is in the process of being reported to Congress and the President.

There may also be an ADA violation associated with the StrikeForce Initiative funded through transfers from USDA agencies for FY 2010 and FY 2011. This matter is under review by the Office of the General Counsel.

The Foreign Agricultural Service (FAS) identified a violation of the ADA that may have occurred in its FY 2009 appropriation. However, FAS 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, 2014, and (2) financial reporting as of June 30, 2014.

Thomas J. Vilsack
Secretary of Agriculture
December 18, 2014

Federal Manager's 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 in accordance with Office of Management and Budget (OMB) Circular No. A-123, "Management's Responsibility for Internal Control.

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 through 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 and other applicable laws and regulations.

Fiscal Year 2014 Results

The Department has two existing material weaknesses in internal control over financial reporting for Information Technology, and Estimated Losses on Insurance Claims Calculations and one existing system non-conformance related to Funds Control Management. Remediation activities are continuing for the Commodity Credit Corporation (CCC) and the Natural Resources Conservation Service (NRCS) to resolve the non-conformance by the end of FY 2017. The material weakness first reported in the FY 2013 AFR for Estimated Losses on Insurance Claims Calculations in the Risk Management Agency/Federal Crop Insurance Corporation (RMA/FCIC) has not yet been remediated.

The FS remediated and resolved its noncompliance with laws and regulations related to the Grants Management Program. The Food and Nutrition Service, RMA, FSA, and NRCS are noncompliant with laws and regulations related to the Improper Payments Information Act of 2002, as amended by the Improper Payments Elimination and Recovery Act of 2010 and the Improper Payments Elimination and Recovery Improvement Act of 2012.

Thus, the Secretary's Statement of Assurance provides qualified assurance that USDA's system of internal control 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 Weaknesses

The following exhibit provides FY 2014 accomplishments and FY 2015 planned actions toward resolving the outstanding material weaknesses.

Exhibit 13: Summary of Outstanding Material Weaknesses

<table>
<tr><th rowspan="2">Material Weaknesses Existing</th><th>1. USDA Information Technology (IT)</th><th>Overall Estimated Completion Date FY 2016</th></tr>
<tr><td colspan="2">Pervasive internal control design and operating effectiveness deficiencies occurred in two areas: logical access control/personnel security and configuration management. These deficiencies represent an overall IT material weakness. (Department)</td></tr>
<tr><th colspan="2">FY 2014 Accomplishments:</th><th>FY 2015 Planned Actions:</th></tr>
<tr><td colspan="2">Office of the Chief Information Officer (OCIO):
▪ Implemented 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;
▪ Completed necessary application changes to fully support the eAuth 2.0 transition and decommissioning of the eAuth 1.0 environment;
▪ Achieved 67 percent utilization of the PIV/HSPD (Personal Identity Verification/Homeland Security Presidential Directive)-12 credential for logical access to all USDA systems; and
▪ Monitored security controls in the following areas:
o Vulnerability management;
o Configuration management;
o Patch management;
o Malware detection; and
o Asset management</td><td>OCIO will:
▪ Continue transitioning Web applications from eAuth 1.0 to eAuth 2.0:
o Require agencies to create Plan of Action Milestones (POA&Ms) for each Web application not migrated after September 26, 2014. All new applications must be integrated within the eAuth 2.0 platform; and
o Continue decommissioning effort of eAuth 1.0 as Web applications are migrated to the new environment.
▪ Continue to monitor POA&Ms identified as part of the IT Material Weakness. Track and report on progress weekly to USDA leadership, and ensure proper and full remediation of weaknesses across the USDA enterprise;
▪ Continue to perform the Operational Security Assessment project to analyze component agencies' information architecture and related processes to develop a threat profile;
▪ Perform penetration testing of agencies that were assessed in FY 2013 to evaluate any changes in their security posture resulting from assessment findings and recommendations; and
▪ Expand use of PIV/HSPD-12 credential for logical access by implementing technical mandatory controls</td></tr>
</table>

<table>
<tr><th rowspan="2">Material Weaknesses Existing</th><th>2. Estimated Losses on Insurance Claims Calculations</th><th>Overall Estimated Completion Date
FY 2015</th></tr>
<tr><td colspan="2">Lack of adequate analysis, retention of supporting evidence, and properly designed internal controls over the agency's significant estimates could result in material misstatements to the financial statements. (Risk Management Agency/Federal Crop Insurance Corporation, or RMA/FCIC)</td></tr>
<tr><th colspan="2">FY 2014 Accomplishments:</th><th>FY 2015 Planned Actions:</th></tr>
<tr><td colspan="2">RMA/FCIC:
▪ Implemented procedures to ensure that manual processes of the indemnity projection model were performed and subsequently reviewed by FCIC/RMA management; and
▪ Ensured that documentation over the review process is maintained and reviewed.</td><td>RMA/FCIC will:
▪ Implement procedures to formally verify completeness and accuracy of underlying data and assumptions used to develop significant year-end estimates;
▪ Perform an Independent Verification and Validation review of the indemnity projection model every year in which a new model is implemented, or when a model has been substantially enhanced;
▪ Perform parallel calculations between prior and current year estimation models to ensure the reasonableness of assumptions and methodology of newly implemented models;
▪ Retain documentation to provide a detailed audit trail of all relevant computations and related data files used; and
▪ Perform additional risk assessments on the indemnity calculation aimed at the processes that have the greater risk of errors in the calculations.</td></tr>
</table>

Summary of Outstanding System Non-conformance

The funds control management non-conformance is also reported as a system noncompliance, and included in the FFMIA Report on Financial Management Systems (Exhibit 17). The weakness involves component agency-specific deficiencies for CCC and NRCS.

The following exhibit provides FY 2014 accomplishments and FY 2015 planned actions toward resolving the Department's outstanding system non-conformances.

Exhibit 14: 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
FY 2017</th></tr>
<tr><td colspan="2">System improvements needed in recording obligations at the transactions level. (Commodity Credit Corporation, or CCC)
Noncompliance with Federal Financial Management Improvement Act of 1996. (CCC and Natural Resources Conservation Service, or NRCS)</td></tr>
<tr><td colspan="2">FY 2014 Accomplishments:</td><td>FY 2015 Planned Actions:</td></tr>
<tr><td colspan="2">CCC:
▪ Established reconciliation processes to ensure obligation transactions are timely and accurately recorded in the general ledger system;
▪ Established a new reconciliation process to reconcile the Statement of Budgetary Resources (SBR) status of funds to the CCC general ledger Core accounting system (CORE) by program;
▪ Developed an automated report that summarizes the amounts allotted and obligated by fund and by program. The report supports the approved Standard Form-132;
▪ Implemented Fund Status Report process improvements to ensure undelivered orders, payables, and disbursements for all programs and treasury account symbols are reported and reconciled to the CORE General Ledger Trial Balance;
▪ Completed the Funds Control/Obligations requirements document that describes the obligation life cycle for all business events (includes: obligation establishments and related triggers; liquidations, cancellations; and upward and downward adjustments);
▪ Completed the assessment of program application compliance with the Obligation Life Cycle Business Events;
▪ Developed a system concept for a new Obligation Framework that will ensure compliance for funds control for CCC programs; and
▪ Updated an inventory list of all program application systems and their status of compliance with the Obligation Life Cycle.</td><td>CCC will:
▪ Implement reconciliation processes to ensure obligation transactions are timely and accurately recorded in the general ledger system;
▪ Implement the new reconciliation process to reconcile the SBR status of funds to the CCC general ledger CORE by program;
▪ Revise the reconciliation report to re-categorize the status of funds control and the percentage (%) of full funds control compliance (obligations at the transaction level);
▪ Modify the existing quarterly review and certification of CCC unliquidated obligations (ULOs) process to include the certification of all prior year ULOs;
▪ Establish tentative dates for the New Obligation Establishment shared service process, using “Gross Contract Model.” Phases I through III will bring the financial portion of the Electronic Funds Management System (eFMS) Obligation Framework functionality into full compliance; and
▪ Target legacy program applications to use the new obligations framework the third quarter of 2015, but may be extended through 2016.</td></tr>
</table>

<table>
<tr><td rowspan="2">System Non-Conformance Existing</td><td>1. Funds Control Management</td><td>Overall Estimated Completion Date
FY 2017</td></tr>
<tr><td colspan="2">System improvements needed in recording obligations at the transactions level. (Commodity Credit Corporation, or CCC)
Noncompliance with Federal Financial Management Improvement Act of 1996. (CCC and Natural Resources Conservation Service, or NRCS)</td></tr>
<tr><td colspan="2">FY 2014 Accomplishments:</td><td>FY 2015 Planned Actions:</td></tr>
<tr><td colspan="2">NRCS:
▪ Worked with the Department to update the posting models for prior year obligations paid and unpaid and nonproduction costs;
▪ Put in place enhanced processes to review recoveries of prior year obligations;
▪ Completed a review of accruals to ensure accuracy and adequate supporting documentation;
▪ Completed and passed A-123 testing related to accruals;
▪ Completed quarterly reviews of unliquidated obligations to ensure accuracy and adequate supporting documentation;
▪ Developed and shared job aids and training materials with States financial management personnel;
▪ Created a new SharePoint site to house the documentation related to revenue, accounts receivables, and unfilled customer orders;
▪ Created a checklist of documentation required to ensure all documentation is included in the files;
▪ Transitioned Unfilled Customer Order workload to the National Accounts Receivable Servicing Team to increase efficiency and effectiveness; and
▪ Developed template to track any revenue recognized in the current fiscal year that represents expenses incurred in the prior fiscal year. This is to assist in ensuring the accuracy of Changes in Net Position.</td><td>NRCS will:
▪ Continue to complete a more robust data analysis of abnormal balances, invalid entries, etc. to ensure that NRCS' financial statements are complete and accurate;
▪ Conduct an annual review of NRCS' financial reporting guidelines to ensure compliance;
▪ Enhance the design of management review of journal entries to include the proper use of appropriate posting models and inspecting supporting documentation based on transaction type;
▪ Perform internal sampling of expenses to ensure proper supporting documentation is being maintained and/provided by responsible offices;
▪ Develop a monthly scorecard to monitor completeness of material amounts and provide oversight for accrued expenses;
▪ Continue quarterly reviews of unliquidated obligations to ensure accuracy and adequate supporting documentation;
▪ Perform internal testing and monitor upward and downward adjustments;
▪ Continue to review and reconcile the unfilled customer order balances to ensure only valid orders are included; and
▪ Continue to research and review revenue and expenses to ensure revenue is recognized in the correct fiscal year.</td></tr>
</table>

Compliance with Laws and Regulations

USDA resolved one of the three noncompliances with laws and regulations in FY 2014. In 2012, the FS identified a material deficiency in the Grants Management Program during management's review of internal controls. Results of evaluations and audits of the program concluded that material deficiencies existed in the award and recipient management processes. To achieve compliance, FS needed to ensure that grantees' financial systems comply with applicable standards and that disbursements are allowable, accurate, and fully supported.

In FY 2013, internal and external audit teams were established to review the partners' external grantees financial management systems. These teams are responsible for providing training and education and remediate gaps identified in the internal FS process.

In August 2013, a pilot branch was created, now known as the Financial Compliance Oversight Branch. The branch covers all facets of grant and agreement management and has implemented several key initiatives in order to provide oversight and compliance. To date over 38 audits and 126 single audit act reviews have occurred. Training has been completed on "Cost Principles, and Administrative Uniformed Requirements," along with A-133 Single Audit specific training for FS and our external partners. Policies and procedures have been updated in conjunction with audit questionnaires that the program managers can use as tools and also risk assessments on how work is to be completed. Continued robust training and multiple financial reviews occur monthly and/or quarterly throughout the agency. This function is a permanent part of the audit and assurance organization and will continue to provide financial grants and agreements oversight and training on requirements, such as training for implementation of 2 CFR 200.

In FY 2013, FS identified an ADA under 31 U.S.C. §1517(a). The ADA violation is in the process of being reported to Congress and the President.

FS has reviewed and strengthened the normal controls of monitoring account balances to ensure that an ADA violation does not occur in the future. In the Budget Execution branch, each treasury symbol account now has an account manager who is responsible for monitoring daily account balances within the financial system, escalating any concerns to management for follow-up, and reviewing spending rates and balances with respective program managers. If budget authority is not available, program managers are notified and directed to cease spending until additional funding becomes available. In addition, program managers, budget analysts, and financial analysts are responsible for tracking spending on a daily basis outside of the financial system, so as not to overspend in any account. These controls were either established or reinstituted immediately upon identification of the ADA violation.

FSA identified an ADA violation under 31 U.S.C. §1517(a). In September 2013, the OMB approved an apportionment request for $1,000,000.00 from FSA for the purchase of guaranteed loans in FY2014. On February 25, 2014, FSA made several loan purchases, obligating $1,302,823.57, thus exceeding the apportionment for such purchases. On March 7, 2014, FSA requested another apportionment to cover the deficiency. OMB approved the request and apportioned funds on March 31, 2014. FSA's Farm Loan Operations Office is taking corrective action to ensure future payments are obligated only within approved apportionment limits. The ADA violation is in the process of being reported to Congress and the President.

The Office of Advocacy and Outreach (OAO) identified an ADA violation for FY 2011 under 31 U.S.C. §1517(a). The Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008) permitted OAO to award up to $19,000,000.00 in FY 2011 for Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers (Section 2501) Grants. OAO exceeded the amount available. The ADA violation is in the process of being reported to Congress and the President.

The following exhibit provides a summary of agency programs not compliant with the Improper Payments Act.

Exhibit 15: Outstanding Initiative to Achieve Compliance

<table>
<tr><th>Initiative</th><th>Section of Noncompliance</th><th>Agency/Program</th><th>Target Completion Date</th></tr>
<tr><td rowspan="11">Improper Payments Elimination and Recovery Act of 2010 (IPERA)</td><td>Publish improper payment estimates for all high-risk programs and activities</td><td>Food and Nutrition Service (FNS)/Child and Adult Care Food Program</td><td>12/2020</td></tr>
<tr><td rowspan="4">Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments</td><td>Risk Management Agency (RMA)/Federal Crop Insurance Corporation (FCIC) Program Fund</td><td>05/2015</td></tr>
<tr><td>Natural Resources Conservation Service (NRCS)/Farm Security and Rural Investment Act Programs</td><td>06/2015</td></tr>
<tr><td>FNS/School Breakfast Program (SBP)</td><td>09/2015</td></tr>
<tr><td>FNS/Special Supplemental Nutrition Program for Women, Infants and Children (WIC)</td><td>09/2015</td></tr>
<tr><td rowspan="2"></td><td>Farm Service Agency (FSA)/Direct and Counter-Cyclical Payments</td><td>N/A[1]</td></tr>
<tr><td>FSA/Loan Deficiency Payments (LDP)</td><td>N/A[2]</td></tr>
<tr><td rowspan="3">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 Performance and Accountability Report (PAR) or Agency Financial Report</td><td>FNS/National School Lunch Program and SBP</td><td>12/2020</td></tr>
<tr><td>NRCS/Farm Security and Rural Investment Act Programs</td><td>06/2016</td></tr>
<tr><td>FSA/LDP</td><td>N/A[2]</td></tr>
</table>

[1] This program was repealed by the Agricultural Act of 2014.

[2] In FY 2013, 50 payments were reviewed from the FY 2009-2010 LDP program. Errors were found for three payments. LDP payments were not issued for crop years 2011 through 2014. However, the Agricultural Act of 2014 authorizes LDPs for 2014 through 2018 if the current local price in a county is below the applicable county loan rate.

The following exhibit provides information on the status of corrective actions already completed and FY 2015 planned corrective actions related to the deficiency.

Exhibit 16: Summary of Corrective Actions/Noncompliance With Laws And Regulations

Improper Payments Elimination and Recovery Act of 2010 (IPERA)	Summary of Corrective Actions for Noncompliances with Laws and Regulations	Overall Estimated Completion Date: FY 2021
	IPERA noncompliance issues. (Food and Nutrition Service (FNS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), and Risk Management Agency (RMA))	

FY 2014 Accomplishments:	FY 2015 Planned Actions:
FNS: ▪ Implemented and supported a unified State monitoring process for compliance with school meal requirements; ▪ Implemented the Community Eligibility in all States and conducted outreach, education, and promotion efforts; ▪ Proposed 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 (the proposed rule was published on February 4, 2014); ▪ Strengthened local requirements for review of second applications (published final rule for second review for high-risk Local Educational Agencies (LEA)); ▪ Developed a system to provide State administering agencies and sponsoring organizations with the names of institutions, day care home providers and individuals that have been terminated or otherwise disqualified from participating in the Child and Adult Care Food Program (CACFP); ▪ Reported a FY 2014 improper payment rate of 1.05 percent for the CACFP, which met the reduction target of 1.48 percent; ▪ Held a series of seven regional Webinars in FY 2014, which provided training and technical assistance on the Income Eligibility Guidance and addressed specific questions and circumstances raised by WIC State agencies; ▪ Updated the FY 2014 notice was issued to the field offices WIC State Plan guidance for consistency with the Income Eligibility policy memorandum; and ▪ Created a WIC Program Integrity and Monitoring Branch responsible for vendor management oversight policy.	**FNS will:** ▪ Continue to implement direct certification with Medicaid in the fourth year; ▪ Develop reauthorization proposals to improve program operations and reduce error; ▪ Continue to implement and promote the expansion of the Community Eligibility Provision; ▪ Continue to strengthen and improve the direct certification process; ▪ Implement professional standards for hiring State and local staff as well as standards for training and certification requirements for food service personnel; ▪ Fund technological improvements through Administrative Review and Training Grants; ▪ Obtain updated error estimates for program's Access, Participation, Eligibility, and Certification (APEC) II study; ▪ Begin work on study to measure the levels and rates of improper payments in CACFP-participating child care centers due to certification and non-certification errors; ▪ Begin a new round of work on study to develop and test a reliable methodology to measure improper payments due to meal claim error in CACFP family day care homes; ▪ Conduct Management Evaluation (ME) Reviews in Certification/Eligibility for all 90 WIC States agencies during FYs 2015 and 2016; and ▪ Continue to work with WIC State agencies to strengthen vendor management policies, to address vendor management findings identified in the ME reviews.

<table>
<tr><th rowspan="2">Improper Payments Elimination and Recovery Act of 2010 (IPERA)</th><th>Summary of Corrective Actions for Noncompliances with Laws and Regulations</th><th>Overall Estimated Completion Date: FY 2021</th></tr>
<tr><td colspan="2">IPERA noncompliance issues. (Food and Nutrition Service (FNS), Farm Service Agency (FSA), Natural Resources Conservation Service (NRCS), and Risk Management Agency (RMA))</td></tr>
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FY 2014 Accomplishments:	FY 2015 Planned Actions:
FSA: ▪ Executed enhancement to the Web-based software initiatives on the Noninsured Crop Disaster Assistance payment software; ▪ Issued additional notices and handbook amendments to field offices strengthening and reinforcing program policies and procedures; ▪ Established statistically valid procedures to conduct targeted audits of persons or legal entities likely to exceed the Adjusted Gross Income limitations; ▪ Enhanced the Noninsured Crop Disaster Assistance Program payment software to retrieve acres from the automated acreage reporting data files; ▪ Issued a notice to remind field offices of policy regarding the applicable Marketing Assistance Loan rate. A handbook amendment directive was issued reminding State and County offices of the importance of second-party reviews; ▪ Issued a national notice that emphasized reviewing requirements of second-party review to help prevent improper payments. A Video Teleconference was held with all State Agencies (SAs) pertaining to data load errors; ▪ Supplied a Notice to State and County Offices providing the detailed findings discovered during the FY 2013 Milk Income Loss Contract Program review including referencing established policy and procedure for each finding; ▪ A notice was issued to the field offices on August 11, 2014, listing the specific eligibility requirements for LDPs; and ▪ A follow-up notice with additional eligibility requirements for this program was issued October 6, 2014. A table was included listing the applicable forms for each requirement.	**FSA will:** ▪ The Direct and Counter Cyclical Payments Program was repealed so no further action is planned for this program; and ▪ A notice will be issued to the field offices listing the results of the 50 samples reviewed in the LDP Program highlighting the cause of the improper payments found. Handbook paragraphs with the correct procedure will be referenced for each cause.

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<th>FY 2014 Accomplishments:</th>
<th>FY 2015 Planned Actions:</th>
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NRCS:

Provided the SAM.gov fact sheet to entity participants with broken internet links corrected. Completed August 2013;
Provided regular reminders of appraisal policy by the National Appraiser. Completed November 2013;
Added requirement for entity registration in SAM.gov to the practice reminder letter that is sent to all participants annually. Completed December 2013;
Added language to the program application reminding entity participants of the requirement to register to SAM.gov. Completed February 2014;
Tracked land ownership requirement in the National Easement Staging Tool (NEST) as a required data element for the Wetlands Reserve Program (WRP). The new Agricultural Conservation Easement Program (ACEP) wetland reserve easement enrollment option reduced the ownership requirement from 7 years to 24 months. Completed February 2014;
Provided reminder about SAM.gov registration requirement for entities at May video teleconference for program personnel. Completed May 2014;
Issued a National Bulletin to instruct program personnel to verify that entity participants have registered in SAM.gov prior to making obligations and payments. Completed August 2014;
Issued a National Bulletin regarding the new ACEP, enacted under the new farm bill. The bulletin included guidance and a reminder about the SAM.gov registration requirement for entities. Completed July 2014; and
Sent a State specific letter regarding the easement payment that was improperly made without the national headquarters (NHQ) national appraiser's approval—the NHQ easement program division reminded easement program personnel of the appraisal review requirements. Additionally, the NHQ appraiser reviewed the appraisal that was not approved before the easement payment was made. Completed September 2014.

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NRCS will:

Reinforce policies regarding appraisal review requirements and preliminary title opinions during an Easement Program Division net conference. Target date is December 2014;
Deploy payment functionality in the National Easement Staging Tool (NEST) that will provide additional controls related to payment type through cross referencing of programmatic and financial data. Target date is December 2014;
Implement a pre-payment checklist for easement acquisition transactions. Target date is December 2014; and
Implement recommendations from NRCS' cross-functional working group. These recommendations are currently under consideration by NRCS management. Target date is December 2014.

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</table>

FY 2014 Accomplishments:	FY 2015 Planned Actions:
RMA: Was party to an information exchange agreement between the Social Security Administration and the U.S. Department of Agriculture for the Death Master File. Completed May 2014.	**RMA will:** ▪ Design, develop and implement an improper payments program that is Improper Payments Information Act (IPIA) compliant for the FY 2016 reporting period; ▪ Implement Section 11021 of the 2014 Farm Bill by hiring in FY 2015 the following staff to improve program integrity efforts: o 6 field employees to conduct additional Large Claim Reviews and to review new program applicant reviews as well as additional operation evaluation and review of current Approved Insurance Providers; o 18 compliance field employees to conduct increased field compliance activities; and o 5 headquarters employees to improve improper payment sampling, reduce improper payments and audits; ▪ A headquarters and field person to provide one additional special investigator to the field and a coordinator in headquarters; and ▪ A contractor to re-design and implement the review process of partner company activity including: testing of payments; evaluation and testing of internal controls; and performance reporting. Study improper payments sampling method and design and deploy program.

Federal Financial Management Improvement Act Report on Financial Management Systems

Background

The FFMIA is designed to improve financial and program managers' accountability, provide better information for decision making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply substantially with (1) Federal Financial Management System (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 also reported as a material weakness and included in the Federal Managers' Financial Integrity Act (FMFIA) Report on Management Control (Exhibit 13). 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 17: Initiatives to Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance			
Initiative	**Section of Noncompliance**	**Agency**	**Target Completion Date**
Information Technology	Federal Financial Management System (FFMS) requirements, and Information security policies, procedures, and/or practices.	Multiple	9/30/2016
Funds Control Management	Federal accounting standards, and U.S. Standard General Ledger (USSGL) at the transaction level.	NRCS	9/30/2016
	USSGL at the transaction level.	CCC	9/30/2017

Fiscal Year 2014 Results

During FY 2014, 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 2013 Agency Financial Report. Due to the CCC's inability to record obligations at the transaction level in their program feeder system and NRCS' beginning balances, current activity, and accounting for obligations and revenue, 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 and Federal Financial Management Systems requirement 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.

Commodity Credit Corporation (CCC)

CCC is not in substantial compliance with Funds Control Management. 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 the transaction level.

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 USSGL at the transaction level.

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; undelivered orders; unpaid obligations, accrued expenses, recoveries of prior year; advance to others, accounts receivables, accrued revenues, and unfilled customer orders.
- USSGL at the transaction level: USSGL appropriate posting models were not used for recoveries of prior year obligations paid and unpaid, and nonproduction costs.

Financial Management Systems Strategy

On May 2, 2014, the Office of Management and Budget (OMB) and the U.S. Department of the Treasury designated USDA's National Finance Center (NFC) as a Federal Shared Service Provider (FSSP).

USDA is supporting OMB Memorandum M-13-08 Improving Financials through Shared Services, which directs agencies to:

- Move from agency-specific financial systems to FSSP;
- Consolidate financial management systems; and
- Use existing FSSP operations and maintenance teams to support system and infrastructures.

The designation allows NFC to provide financial management services to Federal agencies.

NFC's mission is to provide reliable, cost-effective, employee-centric systems and services to Federal organizations, thus allowing our customers to focus on serving this great Nation through their mission delivery. NFC's goal is to provide the necessary activities for executing the Financial Management Line of Business vision. The three key components are communication, governance, and operations. By executing these components, USDA will deliver a successful shared service offering.

NFC's activities are focused on financial management services. The list of financial management services includes:

- Budget execution;
- General ledger accounting;
- Financial reporting;
- Audit support;
- Payroll accounting;
- Investment accounting;
- Commercial vendor payments;
- Temporary duty travel payments;
- Permanent change of station employee relocation payments;
- Grant payments;
- Purchase card payments;
- Lease accounting;
- Intragovernmental payments;
- Intragovernmental collections;
- Receivable management; and
- Property accounting

USDA's primary objectives from this NFC shared services effort are to provide the following:

- An enterprise financial management service that allows customers to reap the benefits in less time and less money with less risk and increased service quality as compared to starting from scratch with a new Enterprise Resource Planning or financial management implementation. By offering a solution that is already proven and operating, and which meets all compliance requirements, a customer is jump-started in coming online with a state-of-the-art, fully financially configured ERP solution;
- Integration with NFC payroll processing services;
- A complete audit compliant financial solution with full documentation meeting financial requirements;
- Continuous process improvements, operational and organizational improvement, for those shared services retained in the future state portfolio;
- More powerful and flexible financial management and reporting;
- Administrative payments, collections, and certifications;
- Editing/auditing capabilities that are 100-percent computerized; and
- The best possible customer-focused service and support.

Future Roadmap

The Office of the Associate Chief Financial Officer for Financial Systems (ACFO-FS) will continue to provide operations and maintenance support to the new financial systems. Inclusive with the support, ACFO-FS will provide support to the corporate interfaces as well as address agency-specific requests for enhancements to the current financial system to address customer needs. During FY 2015, USDA plans the migration of the Financial Statement Data Warehouse (FSDW) from the legacy mainframe environment to private cloud computing in order to avoid cost increases.

Projected FY 2015 and FY 2016 planned releases and upgrades include the following:

- Systems, Applications, and Products (SAP) software release;
- General Financial Management Modernization Initiative enhancements;
- Grants.Gov integration;
- HANA business warehouse; and
- FSDW migration.

Other Management Information, Initiatives, and Issues

Eliminating Improper Payments

In fiscal year (FY) 2014:

- The U.S. Department of Agriculture (USDA) improper payment rate was 5.52 percent, an increase from the 5.36 percent improper payment rate reported for FY 2013.
- Eight USDA high-risk programs reported improper payment rates in FY 2014 that met the programs' reduction targets for FY 2014.

Significant actions taken by USDA during FY 2014 to address improper payments include:

- Determined that the Conservation Reserve Program and Marketing Assistance Loans have consistently reduced their improper payments to the point that they are no longer at high-risk for making improper payments. With concurrence from the Office of Inspector General and Office of Management and Budget (OMB), USDA has removed them from the list of programs at high-risk of improper payments.
- Improved the timeliness of the High-Dollar Overpayment Quarterly Report. While additional work needs to be done, improvements were noted in both the Office of Inspector General's Executive Order 13520, Reducing Improper Payments, High Dollar Report Review and USDA Management Challenges report. USDA implemented detailed second-party reviews to ensure that agency submissions are accurate.
- Conducted a study to evaluate the source of improper payments in the crop insurance program to more accurately test and report improper payment results.
- Launched an outreach campaign to inform USDA staff involved with programs and activities susceptible to improper payments about remedies available through the Department's recovery auditing contract.
- Implemented a system with the Department of Treasury to check all USDA payments against the Death Master File to verify payments. USDA and Treasury also implemented a new system that allows USDA to check multiple databases in the "Do Not Pay" Portal at the time of authorization as a preventative tool to prevent improper payments from occurring.

USDA's FY 2015 goals are to further strengthen the quality review process for accurate and complete agency information in the Improper Payments section of the Agency Financial Report (AFR). We will continue to improve the timeliness of the High-Dollar Overpayment Quarterly Report. USDA will seek ways to maximize the recovery of improper payments and accurately report the results of recovery efforts. USDA will implement updated guidance from OMB on evaluating, testing, and reducing improper payments. USDA will also expand agency use of USDA's program payments recovery auditing contract.

Detailed improper payment results and corrective actions are provided in Section III, Other Information, of this report.

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 II: Financial Information

Message from the Chief Financial Officer

As 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) 2014. 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 2014. Highlights of this progress include:

- Received another clean financial audit opinion;
- Designated Federal Shared Service Provider by the Office of Management and Budget and the U.S. Department of the Treasury. This designation allows USDA's National Finance Center to provide financial management services to Federal agencies; and
- Reduced administrative costs by approximately $192.5 million below FY 2010 levels, in accordance with Executive Order, Promoting Efficient Spending in the Federal Government.

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 2015. Ultimately our efforts will result in setting the highest achievable standard of excellence in managing taxpayers' dollars.

Jon M. Holladay

Jon M. Holladay
Chief Financial Officer
December 18, 2014

Independent Auditors Report

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

DATE: December 18, 2014

AUDIT NUMBER: 50401-0007-11

TO: Jon M. Holladay
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 2014 and 2013

This report presents the results of our audits of the Department of Agriculture's consolidated financial statements for the fiscal years ending September 30, 2014 and 2013. 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
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 2014 and 2013. 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, 2014. Exhibit A of this report identifies the audit reports related to the fiscal year 2014 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 previously reported instances of noncompliance with laws and regulations. USDA's response is presented in its entirety in Exhibit E.

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of the USDA, which comprise the consolidated balance sheets as of September 30, 2014 and 2013, and the related consolidated statements of net cost and 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 (hereinafter 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.); and 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 United States; the standards applicable to financial audits contained in government auditing standards, issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 14-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 14-02 require that we plan and perform audits 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 auditor 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. Our audits also included performing such other procedures as we considered necessary in the circumstances.

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

We are also responsible for applying certain limited procedures to the Required Supplementary Information (RSI) and all other accompanying information included in the financial statements.

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, 2014 and 2013, 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

As discussed in Note 1, the Statement of Net Cost, Note 19, and Schedule of Spending (included in the "Other Information" section) were reclassified to align with the strategic goals presented in the USDA Strategic Plan for fiscal years 2014 through 2018. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the U.S. issued by the Federal Accounting Standards Advisory Board (FASAB) require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Stewardship Information (RSSI), and RSI be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the FASAB, which considers it to be an essential part of financial reporting for placing the basic 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 basic financial statements, and other knowledge we obtained during our audit of the basic 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 basic financial statements as a whole. The "Message from the Secretary" and the "Other Information" sections are presented for purposes of additional analysis, and are not a required part of the financial statements or the required supplementary information. These sections contain a wide range of information, some of which is not directly related to 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 and provide no 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 audits 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 2014 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.
- Information technology (it) security program.
- Controls over financial reporting.
- IT controls in two financial systems.

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

We did not identify any material weaknesses that were not disclosed in USDA's *FMFIA 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, and 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 also 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 in the "Findings and Recommendations," Section 3, of this report, where USDA was not substantially compliant with Federal Financial Management System Requirements (FFMSR), applicable Federal Accounting Standards, and the U. S. Standard General Ledger (SGL) at the transaction level. Providing an opinion on FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. Also, as discussed in Finding 6 of the "Findings and Recommendations," Section 3, of this report, our tests disclosed instances of noncompliances with the Anti-Deficiency Act (ADA); these ADA violations are still in the process of being reported to Congress and the President.

Furthermore, in fiscal year 2014, USDA identified other potential ADA violations. In one instance, the Foreign Agriculture Service (FAS) determined that a violation of the ADA may have occurred involving the fiscal year 2009 appropriation. However, FAS has not completed its investigation to determine whether a violation has occurred. In a second instance, the Office of Advocacy and Outreach (OAO) has requested a legal opinion regarding the validity of transfers from USDA agencies in fiscal years 2010 and 2011, to fund Strike Force Program Cooperative Agreements.

Additionally, during fiscal year 2014, 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.[1]

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) complying 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, and (3) testing compliance with certain provisions of laws, regulations, contracts and grant agreements that have a direct and material effect on the financial statements and applicable laws for which OMB Bulletin 14-02 requires testing.

We did not evaluate all internal controls relevant to operating objectives as broadly established by the FMFIA, such as those controls relevant to preparing statistical reports and ensuring efficient 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, regulations, contracts, and grant agreements applicable to USDA. We limited our tests of compliance to certain provisions of laws, regulations, contracts, and grant agreements 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, 2014. We caution that noncompliance 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.

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

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 prior year noncompliance issues. The status of these items is 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 18, 2014

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 2014, the Department made further advances in its financial management. On May 2, 2014, OMB and the U.S. Department of the Treasury (Treasury) designated USDA's National Finance Center (NFC) as a Federal Shared Service Provider. The designation allows NFC to provide financial management services to Federal agencies. NFC's mission is to provide reliable, cost-effective, employee-centric systems and services to Federal organizations. However, we noted areas where further improvements are needed for three component entities.

- In fiscal year 2014, we again attempted to perform an audit of the Natural Resources Conservation Service's (NRCS) financial statements.[2] 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, 2014, particularly with respect to beginning net position balances and current year activity; obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations; and advances to others.

- In fiscal year 2014, we continue to report a material weakness for the Commodity Credit Corporation[3] (CCC) 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,* under its fiscal year 2014 results, the Department identified the CCC and NRCS issues described above as an existing (previously reported) financial management system non-conformance.

- For fiscal year 2014, we also reported a material weakness in internal control for the Federal Crop Insurance Corporation[4] (FCIC) related to supporting evidence for significant estimates.

In its FMFIA *Report on Management Control,* under the fiscal year 2014 results, the Department identified this issue as a material weakness first reported in fiscal year 2013.

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

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[2] Report 10401-0004-11, *NRCS' Financial Statements for Fiscal Year 2014* (November 2014).
[3] Report 06401-0004-11, *CCC's Financial Statements for Fiscal Years 2014 and 2013* (November 2014).
[4] Report 05401-0004-11, *FCIC's Financial Statements for Fiscal Years 2014 and 2013* (December 2014).

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).[5] 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 2014 FISMA report provides details on the material weaknesses we continue to note in the Department's IT security program. Specifically, the Department has not (1) developed policies, procedures, or strategies for risk management in accordance with Federal guidance; (2) monitored agencies for compliance with baseline configurations and ensured known vulnerabilities were fixed; (3) deleted separated employees' access to computer systems; and (4) developed and implemented a policy to detect and remove unauthorized network connections.

We also performed a review of the control structure of USDA's NFC located in New Orleans, Louisiana.[6] USDA's NFC sustained an unmodified opinion on its control environment.

In its FMFIA *Report on Management Control*, 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 fiscal year 2014 accomplishments included:

- implementation of a project to analyze agencies' information architecture and related process to develop a threat profile,
- completion of necessary changes to fully support the eauth 2.0 transition,[7]
- achieving 67 percent utilization of PIV/HPSD-12 credentials[8] for logical access, and
- monitoring security controls for vulnerability management, configuration management, patch management, malware detection, and asset management.

The Department has additional corrective actions planned in fiscal year 2015. Last year, the Department planned to complete corrective actions in fiscal year 2014. This year, the Department changed the completion timeframe to fiscal year 2016.

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

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[5] Report 50501-0006-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2014 Federal Information Security Management Act* (November 2014).
[6] Report 11401-0007-11, *Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center for October 1, 2013 to July 31, 2014* (September 2014).
[7] eAuthentication Application Services is a comprehensive solution that provides a single point of control for identity, credential, and access across the entire department including employees, contractors, and visitors.
[8] Specifically, PIV/HSPD-12 cards are used for multi-factor authentication.

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. Details follow are discussed below.

- Last year, our report identified deficiencies with controls over inactive Unliquidated Obligations (ULO).[9] This year, our review disclosed that additional improvements are needed for selected agencies.

We statistically selected 100 ULOs from 10 agencies and offices[10] for which no activity had occurred for over 1 year, as of March 31, 2014. We found that eight ULOs from two agencies[11] were invalid because no future expenditures were expected or because there were adjustments that lacked support.

We nonstatistically selected three agencies and reviewed their obligation certifications submitted to the Department for the third quarter of fiscal year 2014. To assess the appropriateness of the ULO certifications, we then selected 10 obligation balances nonstatistically from each of the three certifications. We found that one agency (FAS) inappropriately certified to the validity of the ULO balances, i.e., 6 of the 10 selected balances were invalid.

Additionally, the NRCS[12] financial statement audit report this year again discussed deficiencies in controls over unliquidated obligations.

The Treasury's annual closing guidance (Treasury Bulletin 2014-10, *2014 Yearend Closing*, dated September 11, 2014) requires an annual review of ULOs. Departmental Regulation (DR) 2230-1, *Reviews of Unliquidated Obligations*, dated April 21, 2009, further requires quarterly reviews and certifications as to the validity of ULO balances from agency Chief Financial Officers (CFO).

Ineffective monitoring and reviewing, as well as inappropriate 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.

- Our review again disclosed abnormal balances[13] in USDA's fiscal year end trial balance that were not fully researched and corrected. For fiscal year 2014, we noted 55 abnormal balances

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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] The universe covered 11 agencies and offices, but ULOs from only 10 agencies and offices were selected.
[11] FAS and Agricultural Research Service.
[12] 10401-0004-11, *NRCS' Financial Statements for Fiscal Year 2014* (November 2014).
[13] A balance that deviates from the standard balance as defined by Treasury's SGL.

with an absolute value of approximately $409 million. 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 prior recommendation concerning abnormal balances; therefore, no further recommendation is made in this report.

- We determined that controls over financial reporting were not adequate to ensure FAS funds were spent for the purposes intended by Congress. On October 3, 2014, FAS informed OIG of a potential ADA violation relating to fiscal year 2009. Specifically, FAS had a negative fund balance with Treasury exceeding $3 million, which potentially indicated that FAS exceeded authorized spending levels by the amount of the negative balance. FAS indicated it had been researching this situation, with the Office of the Chief Financial Officer (OCFO), for several months. FAS's research disclosed that the negative cash balance had been potentially caused by:

  - Improperly maintaining records outside of the financial system, resulting in gaps in transactional data.
  - Improper billing processes and lack of controls over collections to ensure collections were applied to the correct fiscal year and appropriation.
  - Payment for goods and services may have been posted to the wrong year.

OIG reviewed FAS' fund balances at the end of fiscal year 2014. In addition to the negative fund balance described above, we identified four other negative amounts for fund balance with Treasury. FAS could not provide sufficient information in a timely manner to explain how these negative balances occurred and if they also represented potential ADA violations. FAS indicated that it would provide more definitive information when it completed its research in December 2014.

Recommendation 1

Provide additional oversight to FAS to ensure that controls over financial reporting are strengthened and maintained, including those over ULOs and transactions resulting in negative (abnormal) fund balances.

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

Last year, we reviewed application controls related to two financial systems, Integrated Acquisition System (IAS) and Financial Management Modernization Initiative (FMMI). IAS is a web-based procurement system and FMMI is a web-based accounting and ledger system. We noted improvements were needed in controls over access accounts and change management practices for IAS, as well as the need for one over-arching security administration procedure for FMMI. Our review this year disclosed that appropriate corrective actions had been completed. Exhibit B, Summary of Prior Year Recommendations, provides further details about the actions taken.

This year, we again tested application controls in two financial systems. We assessed additional application controls in FMMI and also reviewed application controls in the Corporate Property Automated Information System (CPAIS). Asset acquisition, depreciation, disposal, and other needed data elements are recorded in CPAIS. OCFO is the owner of both systems. We found that controls over the management of access accounts and corrective actions could be further strengthened in both systems. Additionally, our testing disclosed that changes were sometimes implemented to FMMI without first completing required testing.

For both CPAIS and FMMI, we found that OCFO had not properly documented, monitored, or tracked corrective actions. OMB Memorandum 02-01, *Guidance for Preparing and Submitting Security Plans of Action and Milestones,* states that a plan of action and milestones (POA&M) is a tool that identifies tasks that need to be accomplished. POA&Ms should be established for security weaknesses and include resources needed, milestones, and scheduled completion dates. We noted that, for the first half of fiscal year 2014, both FMMI and CPAIS were missing required information for some PO&AMs, including due dates and remediation actions. Furthermore, our review disclosed that adequate documentation was not always received in advance to provide users access to CPAIS and required quarterly access reviews were not always performed. USDA DR 3180-001 requires active access accounts to be reviewed at least quarterly for general users. We nonstatistically selected access accounts for eight users and found that seven of the users' access forms lacked required information and/or authorizing signatures. Our review also disclosed that only 15 of 26 agencies using CPAIS validated user access accounts for the June 30, 2014, quarterly certification. Furthermore, we found that OCFO had not always appropriately monitored for segregation of duties and/or restriction of those with greater access capabilities.

We also noted that access controls for FMMI need improvement. USDA DR 3180-001 requires active access accounts to be reviewed at least quarterly for general users. FMMI's *Concept of Operations* sets forth guidance for the several steps required for approving access. However, we identified 16 users whose access roles were approved without following the official multi-step role approval process. (At the time of our review, the procedures did not address granting access outside of the multi-step approval process.) We found one access role which had a design defect that allowed a user to inappropriately see data from a different agency (i.e., not the employing agency). Until April 2014, one agency did not take any action (delete or lock access) based on quarterly FMMI reports provided by OCFO. At that time the agency requested a mass removal of access for over 972 and 305 users to two FMMI components. Another agency determined to review access semi-annually, instead of quarterly as required by the Department.

With regards to changes to the FMMI application, we nonstatistically selected for review 27 changes, which had been implemented (moved to production) in 2014. OCFO's *Standard Operating Procedures for Managing Changes to Production* provides guidance on the required testing needed. We found that required testing (system testing, quality assurance testing, and/or user acceptance testing) was not always performed prior to implementing the change. Specifically, we noted that changes were implemented without system testing quality assurance testing for nine changes or quality assurance testing for one change. Additionally, user acceptance testing was waived for nine requests, but the *Standard Operating Procedures* did not address waivers.

These conditions occurred because OCFO technical staff was unaware of POA&M documentation requirements while management did not monitor the process. In addition, OCFO delegated responsibility for access controls to the user agencies, issued conflicting policy and procedures, and had not implemented revised configuration management procedures. OCFO reported vulnerability remediation activities were occurring; however, without a method for monitoring those activities, the agency could not be assured all weaknesses were remediated timely and effectively. Furthermore, CPAIS and FMMI could be vulnerable to unauthorized and inappropriate access resulting in degradation of data either by error or fraud and increased risk of unauthorized application modifications.

During our audit, OCFO generally concurred with our results and took immediate action where possible to address these items. OCFO established POA&Ms to address the remaining items. Due to actions already taken or planned to be completed soon, we are making no recommendations in this report.

Section 3: Noncompliance with Laws and Regulations

Finding 5: Lack of Substantial Compliance with FFMIA Requirements

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

During fiscal year 2014, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not compliant with FFMSR, applicable accounting standards, SGL at the transaction level, and FISMA requirements.[14] As noted in its MD&A, USDA continues working to meet the FFMIA and FISMA objectives.

Specifically, in its FFMIA and FMFIA reports, the Department reported internal control design and operating effectiveness deficiencies with logical access controls/personnel security and configuration management. Please see Finding 2 of this report for more details.

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

1. CCC was not compliant with SGL at the transaction level. CCC is working to implement programs into its fully integrated funds control system by September 30, 2017. Last year, CCC planned to have this completed by September 30, 2014.

2. NRCS was not compliant with Federal accounting standards and SGL at the transaction level. Corrective actions are scheduled for completion by September 30, 2016. Last year, NRCS planned to have this completed by November 30, 2013.

Please see Finding 1 of this report for more details on the NRCS and CCC issues.

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

[14] For 2013, the Department did not report noncompliance with FFMSR, as it had done in prior years. However, this year, the Department again reported noncompliance with FFMSR, due to clarifications from OMB relating to noncompliance with FISMA.

Finding 6: Anti-Deficiency Act Violations

In fiscal year 2014, the Department reported several ADA violations in its Agency Financial Report. These violations are discussed in detail below.

Specifically, the Forest Service (FS) 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 (BLM) transferred funds to FS to participate in the pilot. FS reported obligations/expenditures in excess of the balance of the fund transferred from BLM as of December 31, 2012. FS 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, the warrant with additional funding was not received by FS until January 31, 2013. For fiscal year 2014, the Department reported in its Agency Financial Report that this ADA is in the process of being reported to Congress and the President. (In USDA's fiscal year 2013 AFR, the Department also reported the ADA was in the process of being reported).

Additionally, the Farm Service Agency (FSA) has identified an ADA violation under 31 U.S.C. Section 1517(a). In September 2013, OMB approved an apportionment request for $1 million from FSA for the purchase of guaranteed loans in fiscal year 2014. On February 25, 2014, FSA made several loan purchases, obligating $1,302,823.57, thus exceeding the $1 million apportionment for such purchases. On March 7, 2014, FSA requested another apportionment to cover the deficiency. OMB approved the request and apportioned funds on March 31, 2014. The FSA's Farm Loan Operations Office is taking corrective action to ensure future payments are obligated only within approved apportionment limits. The ADA violation will be reported to the Congress and the President.

In its AFR, the Department also reported that the OAO identified an ADA violation for fiscal year 2011 under 31 U.S.C§1517(a). The Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008) permitted OAO to award up to $19,000,000.00 in fiscal year 2011 for Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers (Section 2501) Grants. OAO exceeded the amount available. The ADA violation is in the process of being reported to Congress and the President. OIG is reviewing OAO grants, and will address this matter further in a separate report.

Abbreviations

ADA........................... Anti-Deficiency Act
BLM........................... Bureau of Land Management
CCC........................... Commodity Credit Corporation
CFO........................... Chief Financial Officer
CPAIS .... Corporate Property Automated Information System
DR............................. Departmental Regulation
FAS .... Foreign Agriculture Service
FASAB....................... Federal Accounting Standards Advisory Board
FCIC.......................... Federal Crop Insurance Corporation
FFMIA .... Federal Financial Management Improvement Act of 1996
FFMSR....................... Federal Financial Management System Requirements
FISMA .... Federal Information Security Management Act of 2002
FMFIA .... Federal Managers' Financial Integrity Act of 1982
FMMI......................... Financial Management Modernization Initiative
FS .... Forest Service
FSA .... Farm Service Agency
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
NRCS .... Natural Resources Conservation Service
OAO.......................... Office of Advocacy and Outreach
OCFO........................ Office of the Chief Financial Officer
OIG .... Office of Inspector General
OMB .... Office of Management and Budget
OPPM........................ Office of Procurement and Property Management
POA&M..................... Plan of Action and Milestones
RSI .... Required Supplementary Information
RSSI.......................... Required Supplementary Stewardship Information
SGL........................... Standard General Ledger
Treasury .... U.S. Department of Treasury
U.S. .... United States of America
ULO .... Unliquidated Obligations
USDA......................... U.S. Department of Agriculture

Exhibit A: Audit Reports Related to the Fiscal Year 2014 Financial Statements

The following is a list of reports related to the Office of Inspector General's audit of the Department of Agriculture's fiscal year 2014 financial statements.

Audit Number	Audit Title	Release Date
05401-0004-11	Federal Crop Insurance Corporation/Risk Management Agency's Financial Statements for Fiscal Years 2014 and 2013	December 2014
06401-0004-11	Commodity Credit Corporation's Financial Statements for Fiscal Years 2014 and 2013	November 2014
10401-0004-11	Fiscal Year 2014 Natural Resources Conservation Service's Financial Statements	November 2014
11401-0007-11	Statement on Standards for Attestation Engagements No. 16 Report on Controls at the National Finance Center for October 1, 2013, to July 31, 2014	September 2014
27401-0004-21	Food and Nutrition Service's Financial Statements for Fiscal Years 2014 and 2013	November 2014
50501-0006-12	Office of the Chief Information Officer, Fiscal Year 2014 Federal Information Security Management Act	November 2014
85401-0004-11	Rural Development's Financial Statements for Fiscal Years 2014 and 2013	November 2014

Exhibit B: Summary of Prior Year Open Recommendations

Report 50401-0005-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2013 and 2012,* dated December 13, 2013.

Finding 3: Controls Over Financial Reporting Can be Strengthened

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.

Departmental Status

During fiscal year 2014, the Department communicated the results of our review to the Departmental coordinating committee (for financial statements). Additionally, agencies completed validation testing of ULOs under OMB Circular A-123. The Department closed this recommendation on September 25, 2014.

OIG Results

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

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

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.

Departmental Status

The Department issued its policy "FMMI Roles and Responsibilities for Central Security Team and Agency Security Administrators" on May 27, 2014, and closed this recommendation on July 18, 2014.

Exhibit B: Summary of Prior Year Open Recommendations

OIG Results

OIG concurs that the recommendation was addressed by the Department. As discussed in Finding 4, however, we noted other weaknesses related to FMMI.

Recommendation 3

Ensure the Office of Procurement and Property Management (OPPM) implements corrective actions for IAS relating to access controls and change management practices.

Departmental Status

In the area of oversight of IAS user access, OPPM reviewed IAS user roles and privileges, removed unnecessary or obsolete roles and privileges, added new steps to processes to increase review and oversight, and added new reporting tools to assist in managing this responsibility. These changes have been documented in two documents titled:

- *IAS Privileged User Account Management* and
- *IAS Non-Privileged User Account Management.*

In the area of oversight of IAS change management, OPPM has reviewed change management procedures, and identified and implemented actions necessary to remedy OIG findings. OPPM documentation governing the IAS change management process is contained in the Change Management Plan.

The Department closed this recommendation on April 14, 2014.

OIG Results

OIG did not report any weakness for IAS.

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,* dated November 14, 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, OCFO issued OCFO Bulletin 13-01, *Intra-Departmental Transactions Reconciliation,* 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. During fiscal year 2014, the Department continued providing guidance and training to staff offices. Once OCFO confirms the recommendations for improvement have been implemented, the request to close the recommendation will be submitted. The revised estimation completion date is March 30, 2015 (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 Intra-Governmental Payment and Collection (IPAC) transactions.

Departmental Status

In fiscal year 2013, the Department cleaned up the backlog of IPAC transactions, established suspense reconciliations, and 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

Last year, we noted that the Department's timely processing of IPAC transactions was significantly improved by fiscal yearend. For fiscal year 2014, no weakness is reported by OIG.

Exhibit B: Summary of Prior Year Open Recommendations

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, weekly training was provided to OCFO staff and quarterly visits made to customer agencies. The Department closed this recommendation on October 31, 2013.

OIG Results

Last year, we reported that the Department's timely processing of IPAC transactions was significantly improved by fiscal yearend. For fiscal year 2014, no weakness is reported by OIG.

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

Finding 1: Improvements Are Needed In Overall Financial Management

Recommendation 1

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

Departmental Status

During fiscal year 2011, the Department issued 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*, dated November 16, 2009.

Exhibit B: Summary of Prior Year Open Recommendations

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 FMMI. 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*, dated November 14, 2008.

Finding 1: Improvements Are Needed In Overall Financial Management

Recommendation 1

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

Departmental Status

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	2013 Status	2014 Status
Overall Financial Management	Material Weakness	Material Weakness
Overall Information Technology Security Program	Material Weakness	Material Weakness
Financial Reporting Controls	Significant Deficiency	Significant Deficiency
Information Technology Controls[15]	Significant Deficiency	Significant Deficiency

[15] In fiscal year 2013, we reported weaknesses for two systems, FMMI and IAS. For fiscal year 2014, we are reporting weaknesses related to FMMI and CPAIS.

Exhibit D: Status of Prior Year Noncompliance Findings

Report 50401-0005-11, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2013 and 2012*, dated December 13, 2013.

Finding 5: Lack of Substantial Compliance with FFMIA Requirements

Reported Noncompliance

The Department reported a lack of substantial compliance with the FFMIA requirements. The Department reported that it was not substantially compliant with the applicable accounting standards, the SGL at the transaction level, and FISMA requirements.

Status

In fiscal year 2014, the Department continued to report substantial noncompliance with applicable standards, SGL at the transaction level, and FISMA requirements, as discussed in Finding 5. Additionally, the Department reported noncompliance with FFMSR, as it had in years prior to 2013, due to clarifications from OMB relating to noncompliance with FISMA.

Finding 6: ADA Violation

Reported Noncompliance

In fiscal year 2013, the Department reported an ADA violation in its Agency Financial Report. Specifically, FS identified an ADA of $6,781.90 in excess of $72,000 carried over from fiscal year 2012. The ADA violation is in the process of being reported to Congress and the President.

Status

See Finding 6 of this report. The ADA is still in the process of being reported to Congress and the President.

Exhibit E: Agency Response

USDA'S
RESPONSE TO AUDIT REPORT

United States Department of Agriculture

Office of the Chief Financial Officer

1400 Independence Avenue, SW

Washington, DC 20250

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

FROM: Jon M. Holladay /s/
Chief Financial Officer

SUBJECT: Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2014 and 2013, Audit Report No. 50401-7-11

The Department is pleased to respond to your audit report on the Consolidated Financial Statements for fiscal years 2014 and 2013.

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.

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.

Exhibit F: Agency Financial Report

AGENCY FINANCIAL REPORT

FISCAL YEARS 2014 AND 2013 FINANCIAL STATEMENTS

Prepared By USDA

SECTIONS 1 AND 3 ARE UNAUDITED

Consolidated Balance Sheet

As of September 30, 2014 and 2013
(In Millions)

	2014	2013
Assets (Note 2):		
Intragovernmental:		
Fund Balance with Treasury (Note 3)	$ 101,717	$ 86,570
Investments (Note 5)	150	139
Accounts Receivable, Net (Note 6)	107	125
Other (Note 11)	3	6
Total Intragovernmental	101,977	86,840
Cash and Other Monetary Assets (Note 4)	173	316
Investments (Note 5)	3	3
Accounts Receivable, Net (Note 6)	1,377	2,578
Direct Loan and Loan Guarantees, Net (Note 7)	101,243	100,710
Inventory and Related Property, Net (Note 8)	38	69
General Property, Plant, and Equipment, Net (Note 9)	2,841	2,925
Other (Note 11)	189	198
Total Assets	207,841	193,639
Stewardship PP&E (Note 10)		
Liabilities (Note 12):		
Intragovernmental:		
Accounts Payable	4	16
Debt (Note 13)	114,102	105,040
Other (Note 15)	12,394	14,116
Total Intragovernmental	126,500	119,172
Accounts Payable	2,277	2,112
Loan Guarantee Liability (Note 7)	5,373	4,866
Federal Employee and Veteran Benefits	955	986
Environmental and Disposal Liabilities (Note 14)	196	176
Benefits Due and Payable	4,362	4,041
Other (Notes 15 & 16)	19,672	19,989
Total Liabilities	159,335	151,342
Commitments and Contingencies (Note 17)		
Net Position:		
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	120	107
Unexpended Appropriations - All Other Funds	43,232	33,738
Cumulative Results of Operations - Funds From Dedicated Collections(Note 18)	2,315	1,575
Cumulative Results of Operations - All Other Funds	2,839	6,877
Total Net Position	48,506	42,297
Total Liabilities and Net Position	$ 207,841	$ 193,639

The accompanying notes are an integral part of these statements.

Consolidated Statement of Net Cost

For the Years Ended September 30, 2014 and 2013
(In Millions)

	2014	2013
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ 31,969	$ 23,104
Less: Earned Revenue	8,284	6,442
Net Costs	23,685	16,662
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:		
Gross Costs	12,311	12,821
Less: Earned Revenue	912	902
Net Costs	11,399	11,919
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	2,494	3,040
Less: Earned Revenue	197	227
Net Costs	2,297	2,813
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	107,417	112,506
Less: Earned Revenue	993	998
Net Costs	106,424	111,508
Create a USDA for the 21st Century That Is High Performing, Efficient, and Adaptable:		
Gross Costs	1,265	1,390
Less: Earned Revenue	177	154
Net Costs	1,088	1,236
Total Gross Costs	155,456	152,861
Less: Total Earned Revenue	10,563	8,723
Net Cost of Operations (Note 19)	**$ 144,893**	**$ 144,138**

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For The Year Ended September 30, 2014
(In Millions)

	Funds From Dedicated Collections (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	$ 1,575	$ 6,877	$ -	$ 8,452
Adjustments:				
Changes in Accounting Principles (Note 31)	-	-	-	-
Beginning Balance, as Adjusted	1,575	6,877	-	8,452
Budgetary Financing Sources:				
Other Adjustments (recissions, etc.)	(1)	(479)	-	(480)
Appropriations Used	(1)	133,351	-	133,350
Non-exchange Revenue	-	9	-	9
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	901	8,506	233	9,640
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Property	-	-	-	-
Transfers In (Out) without Reimbursement	(64)	231	(233)	(66)
Imputed Financing	48	3,260	(2,457)	851
Other	90	(1,800)	-	(1,710)
Total Financing Sources	974	143,078	(2,457)	141,595
Net Cost of Operations	(234)	(147,116)	2,457	(144,893)
Net Change	740	(4,038)	-	(3,298)
Cumulative Results of Operations	2,315	2,839	-	5,154
Unexpended Appropriations:				
Beginning Balances	107	33,738	-	33,845
Budgetary Financing Sources:				
Appropriations Received	12	150,627	-	150,639
Appropriations Transferred In (Out)	-	4	-	4
Other Adjustments	-	(7,786)	-	(7,786)
Appropriations Used	1	(133,351)	-	(133,350)
Total Budgetary Financing Sources	13	9,494	-	9,507
Unexpended Appropriations	120	43,232	-	43,352
Net Position	$ 2,435	$ 46,071	$ -	$ 48,506

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.

Combined Statement of Budgetary Resources

For The Years Ended September 30, 2014 and 2013
(In Millions)

	2014		2013	
	Budgetary	**Non-Budgetary Credit Reform Financing Accounts**	**Budgetary**	**Non-Budgetary Credit Reform Financing Accounts**
Budgetary Resources:				
Unobligated balance, brought forward, October 1:	$ 33,731	$ 8,758	$ 33,326	$ 5,154
Recoveries of prior year unpaid obligations	2,655	1,266	2,575	939
Other changes in unobligated balance (+ or -)	(2,520)	(4,812)	(1,722)	(2,266)
Unobligated balance from prior year budget authority, net	33,866	5,212	34,179	3,827
Appropriations (discretionary and mandatory)	151,153	21	148,775	-
Borrowing authority (discretionary and mandatory)	14,648	10,704	17,623	11,356
Spending authority from offsetting collections (discretionary and mandatory)	10,501	8,490	17,093	10,344
Total budgetary resources	210,168	24,427	217,670	25,527
Status of Budgetary Resources:				
Obligations Incurred (Note 23)	165,234	14,806	183,939	16,769
Unobligated balance, end of year:				
Apportioned	19,966	5,522	11,280	4,764
Exempt from apportionment	195	8	303	8
Unapportioned	24,773	4,091	22,148	3,986
Total unobligated balance, end of year	44,934	9,621	33,731	8,758
Total budgetary resources	210,168	24,427	217,670	25,527
Change in Obligated Balance:				
Unpaid obligations:				
Unpaid obligations, brought forward, October 1	36,260	25,009	39,816	26,270
Obligations incurred	165,234	14,806	183,939	16,769
Outlays (gross) (-)	(161,433)	(15,484)	(184,920)	(17,091)
Recoveries of prior year unpaid obligations (-)	(2,655)	(1,266)	(2,575)	(939)
Unpaid obligations, end of year	37,406	23,065	36,260	25,009
Uncollected payments:				
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(2,167)	(912)	(2,576)	(1,075)
Change in uncollected customer payments from Federal sources (+ or -)	28	257	409	163
Uncollected payments, Federal sources, end of year (-)	(2,139)	(655)	(2,167)	(912)
Memorandum (non-add) entries:				
Obligated balance, start of year (+ or -)	34,093	24,097	37,240	25,195
Obligated balance, end of year (+ or -)	35,267	22,410	34,093	24,097
Budget Authority and Outlays, Net:				
Budget authority, gross (discretionary and mandatory)	176,302	19,215	183,491	21,700
Actual offsetting collections (discretionary and mandatory) (-)	(17,079)	(13,142)	(26,741)	(13,821)
Change in uncollected customer payments from Federal sources	28	257	409	163
(discretionary and mandatory)(+ or -)	-	-	-	-
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-	-	-
Budget authority, net (discretionary and mandatory)	159,251	6,330	157,159	8,042
Outlays, gross (discretionary and mandatory)	161,433	15,484	184,920	17,091
Actual offsetting collections (discretionary and mandatory) (-)	(17,079)	(13,142)	(26,741)	(13,821)
Outlays, net (discretionary and mandatory)	144,354	2,342	158,179	3,270
Distributed offsetting receipts (-)	(911)	(1,622)	(914)	(1,363)
Agency outlays, net (discretionary and mandatory)	$ 143,443	$ 720	$ 157,265	$ 1,907

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Financial Statements

As of September 30, 2014 and 2013 (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

The Statement of Net Cost, Note 19, and Schedule of Spending were reclassified to align with the strategic goals presented in the USDA Strategic Plan for FY 2014 – 2018. A new goal was added to create a USDA for the 21st century that is high performing, efficient, and adaptable.

Interest related to technical reestimates was reclassified from interest rate reestimates in Note 7 - Table 2, Table 3, Table 7, and Table 8. Foreclosed property and loans acquired and claim payments to lenders were reclassified from other adjustments in Note 7 - Table 7.

Note 15 was reclassified to align with the USSGL crosswalk for other liabilities and to move the non-current portion of unfunded FECA liability and underwriting gains on crop insurance from current.

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

Use of Estimates

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

Revenue and Other Financing Sources

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

Investments

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

Accounts Receivable

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

Direct Loans and Loan Guarantees

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

Direct loans obligated and loan guarantees committed before fiscal 1992 are valued using 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 2014	FY 2013
Intragovernmental:		
Fund balance with Treasury	$ 190	$ 1,055
Accounts Receivable	546	247
Subtotal Intragovernmental	736	1,302
With the Public:		
Accounts receivable	123	104
Subtotal With the Public	123	104
Total non-entity assets	859	1,406
Total entity assets	206,982	192,233
Total Assets	$ 207,841	$ 193,639

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 because the proper Treasury Account Symbol was unknown which reduced Fund Balance with Treasury by $12 million.

	FY 2014	FY 2013
Fund Balances:		
Trust Funds	$ 796	$ 547
Special Funds	21,075	19,298
Revolving Funds	20,066	17,594
General Funds	59,608	48,096
Other Fund Types	172	1,035
Total	101,717	86,570
Status of Fund Balance with Treasury:		
Unobligated Balance:		
Available	25,691	16,355
Unavailable	28,870	26,137
Obligated Balance not yet Disbursed	57,527	57,874
Borrowing Authority not yet Converted to Fund Balance	(30,279)	(33,413)
Non-Budgetary Fund Balance with Treasury	19,908	19,617
Total	$ 101,717	$ 86,570

Note 4. Cash and Other Monetary Assets

In FY 2014 and FY 2013, cash mostly consists of Federal crop insurance escrow amounts of $148 million and $316 million, respectively. In FY 2014, there were $24 million deposits in transit.

	FY 2014	FY 2013
Cash	$ 173	$ 316

Note 5. Investments

FY 2014	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		$ -	$ -	$ -	$ -	$ -
Market-based	Straight Line	150	(1)	1	150	150
Total		$ 150	$ (1)	$ 1	$ 150	$ 150
With the Public:						
AARC		$ 3	$ -	$ -	$ 3	$ 3
Total		$ 3	$ -	$ -	$ 3	$ 3

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

Note 6. Accounts Receivable, Net

FY 2014	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	$ 107	$ -	$ 107
With the Public	1,438	(61)	1,377
Total	$ 1,545	$ (61)	$ 1,484

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

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).

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 2014 was $101,243 million compared to $100,710 million at the end of FY 2013. Loans exempt from the Federal Credit Reform Act of 1990 represent $208 million of the total compared to $338 million in FY 2013. Table 1 illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2014 and FY 2013.

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 $6,477 million to $6,461 million during FY 2014, a decrease of $16 million. Table 2 shows the reconciliation of subsidy cost allowance balances from FY 2013 to FY 2014.

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 2014 was $224 million compared to $755 million in FY 2013. Table 3 illustrates the breakdown of total subsidy expense for FY 2014 and FY 2013 by program.

Direct loan volume decreased from $10,437 million in FY 2013 to $8,956 million in FY 2014. 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 2014 were $ 126,400 million in outstanding principal and $113,086 million in outstanding principal guaranteed, compared to $115,527 million and $104,772 million, respectively at the end of FY 2013. 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 $4,866 million to $5,373 million during FY 2014, an increase of $507 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 2014 was $561 million compared to $575 million in FY 2013. Table 8 illustrates the breakdown of total subsidy expense for FY 2014 and FY 2013 by program.

Guaranteed loan volume decreased from $29,035 million in FY 2013 to $24,806 million in FY 2014. 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 2014 and FY 2013 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 2014 cohorts. These rates cannot be applied to the direct and guaranteed loans disbursed during the current reporting year to yield the subsidy expense. The subsidy expense for new loans reported in the current year could result from disbursements of loans from both current year cohorts and prior-year cohorts. The subsidy expense reported in the current year also includes reestimates.

Credit Program Discussion and Descriptions

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

The Farm and Foreign Agricultural Services Mission Area

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

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

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

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

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

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

Farm and Foreign Agricultural Service List of Programs

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

The Rural Development Mission Area

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

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

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

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

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

Rural Development List of Programs

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

Events and Changes Having a Significant and Measurable Effect on Subsidy Rates, Subsidy Expense, and Subsidy Re-estimates

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 2014 reestimate process resulted in a $181 million increase in the post 1991 estimated cost of the direct loan portfolio and a $513 million increase in the post 1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs:

Direct Loans

The "farm" category of loans is comprised of direct loans under the Agricultural Credit Insurance Fund (ACIF), along with four categories of direct loans under the auspices of CCC. The farm category had an overall downward reestimate of $281 million. ACIF comprised $273 million of the total reestimate ($275 million current reestimate plus an accrual of $2 million for FY 2013 reestimates apportioned in FY 2014). CCC loans comprised the remaining $8 million. The total consisted of $72 million upward reestimate and $353 million downward reestimate. The majority of the reestimate was in the farm ownership and farm operating programs, comprising $308 million of the downward reestimate. Of that amount, $215 million is in cohorts 2008 through 2014 for both programs. The downward reestimate is largely due to two items in particular. The first was a major change in the direct farm loan cash flow model that revised the amortization methodology, resulting in principal and interest schedules that are more heavily weighted in the outyears than in the previous model. This has the impact of reducing the present value of scheduled principal payments but at the same time increases interest scheduled over the life of the cohort. Updates to the econometric forecasts in the model also contributed to lower forecast defaults. The other item that had a significant impact was the change in the single effective rate methodology employed in FY 2014. This mainly affected only the more recent cohorts, those that are still disbursing.

The direct farm ownership program had a total downward reestimate of $134 million, 92% of which was in the 2008 through 2014 cohorts as noted above. Changes in projected borrower cash flows are the most significant factor in the large current reestimates, as reflected in total reestimates of between $10.8 million and $31.6 million. First, the new amortization timing shifted the timing of principal and interest inflows. Second, as a result of the econometric update, total write downs declined by between $19 million (72%) and $41 million (86%). Both changes drove downward reestimates for each cohort.

The direct farm operating program had a total downward reestimate of $137 million, 66% of which was in the 2008 through 2014 cohorts. The large, downward total reestimates can be traced to two factors: substantial increases in scheduled interest and decreases in forecasted write downs. The new amortization timing led to increases of between $12 million and $84 million in scheduled interest. At the same time, the econometric update reduced total forecasted write downs by between $4.1 million and $40 million. The impact of these changes was partially offset by increases of between $30 million and $177 million in interest lost from prepayments. It is also important to note that the financing account interest adjustment component of the reestimate across all direct farm loan programs was downward $60 million. That consisted of $74 million downward in ownership, emergency and credit sales; and $14 million upward in the operating and boll weevil loan categories.

The Housing Programs had an overall net upward reestimate of $41 million. The majority of the $41 million upward reestimate is due to actual prepayments that were less than predicted prepayments for the Single Family Housing loans. As a result of lower actual prepayments, 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 Community Facility Programs had an overall upward reestimate of $143 million. The overall upward reestimate is attributed to an increase in actual principal written off. Additionally, for cohort years 2011-2013, which are still disbursing, the upward reestimate is a result of a true up of the actual SER to the formulation SER.

The Direct Broadband Treasury Rate is not a material program but had a significant net upward reestimate of $119 million. The majority of the upward reestimate is in cohort year 2010, which accounts for $127 million of the overall reestimate. The forecasted principal write off for the Direct Broadband Program was increased to account for the expected increase in write-off activity.

Guaranteed Loans

Two cohorts in the Guaranteed Housing Programs contributed to an overall upward reestimate of $726 million. The Section 502-Purchase Program comprises loan guarantees for the purchase of single-family homes endorsed during FY 1992 through FY 2010, and the Section 502-Blended Program comprises loan guarantees for the purchase and refinance of single-family homes endorsed during FY 2011 through FY 2014.

The Single Family Housing Section 502–Purchase Program had significant net upward reestimate of $810 million. The main causes for the upward reestimate were the increase in the forecasted defaults and the increase of projected losses attributed to a backlog of losses, which are expected to be paid in FY 2015.

The Single Family Housing Section 502–Blended Program had net downward reestimate of $72 million. The liability for FY 2011 loan guarantees was adjusted upward by $138 million due to changes made to forecasted losses and the inclusion of the backlog of losses. FY 2012-2014 had a downward adjustment of $209 million due to actual losses that were lower than forecasted losses. Actual losses were lower than forecasted as a result of higher credit requirements for borrowers implemented by the Agency following the housing crisis.

The Guaranteed Business and Industry Program had an overall downward reestimate of $122 million. The majority of the downward reestimate falls within cohort years 2009 through 2013, which accounts for $120 million of the overall downward reestimate. The cohorts have the greatest changes due to: (1) actual loss settlement payments being lower than projected; and (2) actual default prepayments being lower than projected.

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.

Multi-Family Housing direct loan modifications related to the revitalization program, which began in FY 2006, continued through FY 2014. In this program, Rural Development provides restructured loans and grants to development owners to revitalize multi-family housing development projects in order to extend the affordable use without displacing tenants due to the increased rent.

In FY 2014, two FFB borrowers were granted loan term extension modifications. No other terms of the original notes changed other than the final maturity dates. The first modification was an 18-year term extension of multiple advances from two pre-1992 notes. At the time of the modification, the liquidating fund was paid off and the advances were moved to the financing fund. The second modification extended the term for multiple advances from two post-1991 notes.

To determine the cost of the above modifications, the most recent President's budget was used for the net present value discount factor for both the pre and post modification cash flows. An additional calculation was required on the second modification to account for the difference between the discount rate used to calculate the cost of the modification and the interest rate at which the cohort pays or earns interest. This calculation discounts the cash flows, at the net present value factor from the applicable cohort Single Effective Rate (SER).

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, 2014 and 2013, foreclosed property consisted of 1,667 and 1,547 rural single-family housing dwellings, with an average holding period of 15 months. As of September 30, 2014 and 2013, FSA-Farm Loan Program properties consist primarily of 87 and 75 farms, respectively. The average holding period for these properties in inventory for FY 2014 and FY 2013 was 46 and 44 months, respectively. Certain properties can be leased to eligible individuals.

Other Information

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

Approximately $17,100 million and $17,900 million of RHS unpaid loan principal as of September 30, 2014, and 2013 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 $854 million and $892 million higher for FY 2014 and FY 2013 respectively.

At the end of FY 2014 and FY 2013, the RD portfolio contained approximately 64,300 and 66,300 restructured loans, respectively with an outstanding unpaid principal balance of $2,800 million in both years. At the end of FY 2014 and FY 2013, the farm loan portfolio contained approximately 17,368 and 18,038 restructured loans with an outstanding unpaid principal balance of $1,074 million and $1,093 million, respectively. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2014 and 2013, were $1,742 million and $1,926 million, respectively.

Reclassifications

Interest related to technical reestimates was reclassified from interest rate reestimates in Table 2, Table 3, Table 7, and Table 8. Foreclosed property and loans acquired and claim payments to lenders were reclassified from other adjustments in Table 7.

Table 1. Direct Loan and Loan Guarantees, Net

FY 2014 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	$ 450	$ 30	$ 5	$ (30)	$ 455
Export	-	-	-	-	-
Food Aid	2,644	880	-	(2,362)	1,162
Housing	7,799	57	24	(19)	7,861
Electric	3,065	5	-	(1,230)	1,840
Telecommunications	253	-	-	-	253
Water and Environmental	616	5	-	(1)	620
Business and Industry	17	-	-	-	17
Economic Development	-	-	-	-	-
Pre-1992 Total	14,844	977	29	(3,642)	12,208
Obligated Post-1991					
Farm	8,590	143	10	(231)	8,512
Export	-	-	-	-	-
Food Aid	999	46	-	(394)	651
Housing	23,142	148	78	(2,890)	20,478
Electric	48,140	24	-	(1,016)	47,148
Telecommunications	4,285	1	-	55	4,341
Water and Environmental	11,952	94	-	(410)	11,636
Business and Industry	35	-	-	26	61
Economic Development	564	2	-	(128)	438
Post-1991 Total	97,707	458	88	(4,988)	93,265
Cushion of Credit	(5,069)	-	-	-	(5,069)
Total Direct Loan Program Receivables	107,482	1,435	117	(8,630)	100,404
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	92	214	-	(268)	38
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
Pre-1992 Total	92	214	-	(268)	38
Post-1991					
Farm	127	1	-	(125)	3
Export	638	19	-	(349)	308
Food Aid	-	-	-	-	-
Housing	1,006	2	-	(958)	50
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Business and Industry	273	2	-	(43)	232
Economic Development	-	-	-	-	-
Post-1991 Total	2,044	24	-	(1,475)	593
Total Defaulted Guarantee Loans	2,136	238	-	(1,743)	631
Loans Exempt from Credit Reform Act:					
Commodity Loans	210	1	-	(3)	208
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	210	1	-	(3)	208
Total Direct Loan and Loan Guarantees, Net					$ 101,243

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

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

	FY 2014	FY 2013
Beginning balance of the subsidy cost allowance	$ 6,477	$ 6,118
Add: Subsidy expense for direct loans disbursed during the year by component		
Interest rate differential costs	(4)	121
Default costs (net of recoveries)	161	154
Fees and other collections	(13)	(13)
Other subsidy costs	(78)	(85)
Total subsidy expense prior to adjustments and reestimates	66	177
Adjustments		
Loan modifications	(23)	7
Fees received	66	67
Loans written off	(683)	(789)
Subsidy allowance amortization	(179)	(249)
Other	556	575
Total subsidy cost allowance before reestimates	6,280	5,906
Add or subtract subsidy reestimates by component		
Interest rate reestimate	65	(303)
Technical/default reestimate	116	874
Total reestimates	181	571
Ending balance of the subsidy cost allowance	$ 6,461	$ 6,477

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

FY 2014

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ (8)	$ 91	$ -	$ (19)	$ 64	$ -	$ (21)	$ (260)	$ (281)	$ (217)
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	-	-	-	-	-	-	-	2	2	2
Housing	(1)	43	-	(1)	41	1	165	22	187	229
Electric	(100)	13	(13)	(42)	(142)	(24)	(60)	135	75	(91)
Telecommunications	(1)	12	-	(5)	6	-	7	162	169	175
Water and Environmental	93	2	-	(11)	84	-	(20)	48	28	112
Business and Industry	7	-	-	-	7	-	(4)	8	4	11
Economic Development	6	-	-	-	6	-	(2)	(1)	(3)	3
Total Direct Loan Subsidy Expense	$ (4)	$ 161	$ (13)	$ (78)	$ 66	$ (23)	$ 65	$ 116	$ 181	$ 224

FY 2013

	Interest Differential	Defaults	Fees and Other Collections	Other	Subtotal Subsidy	Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
Direct Loan Programs										
Farm	$ 19	$ 77	$ (1)	$ (18)	$ 77	$ -	$ (88)	$ 138	$ 50	$ 127
Export	-	-	-	-	-	-	-	-	-	-
Food Aid	-	-	-	-	-	4	-	76	76	80
Housing	50	39	-	2	91	3	(173)	473	300	394
Electric	(93)	14	(12)	(51)	(142)	-	(29)	385	356	214
Telecommunications	-	19	-	(7)	12	-	(19)	86	67	79
Water and Environmental	133	5	-	(11)	127	-	6	(282)	(276)	(149)
Business and Industry	1	-	-	-	1	-	-	3	3	4
Economic Development	11	-	-	-	11	-	-	(5)	(5)	6
Total Direct Loan Subsidy Expense	$ 121	$ 154	$ (13)	$ (85)	$ 177	$ 7	$ (303)	$ 874	$ 571	$ 755

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

	FY 2014	FY 2013
Direct Loan Programs		
Farm	$ 2,120	$ 1,733
Export	-	-
Food Aid	-	-
Housing	1,518	1,657
Electric	3,869	4,956
Telecommunications	431	661
Water and Environmental	938	1,373
Business and Industry	5	6
Economic Development	75	51
Total Direct Loans Disbursed	$ 8,956	$ 10,437

Table 5. Guaranteed Loans Outstanding

FY 2014	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	$ 7	$ 13,202	$ 13,209	$ 6	$ 11,894	$ 11,900
Export	-	3,658	3,658	-	3,585	3,585
Food Aid	-	-	-	-	-	-
Housing	2	102,865	102,867	2	92,560	92,562
Electric	65	183	248	65	183	248
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	96	96	-	85	85
Business and Industry	9	6,313	6,322	8	4,698	4,706
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	$ 83	$ 126,317	$ 126,400	$ 81	$ 113,005	$ 113,086

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

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

FY 2014	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	$ -	$ 172	$ 172
Export	-	25	25
Food Aid	-	-	-
Housing	-	4,513	4,513
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	1	1
Business and Industry	-	662	662
Economic Development	-	-	-
Total Liability for Loan Guarantees	$ -	$ 5,373	$ 5,373

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

Table 7. Schedule for Reconciling Loan Guarantee Liability

	FY 2014	FY 2013
Beginning balance of the loan guarantee liability	$ 4,866	$ 4,471
Add:Subsidy expense for guaranteed loans disbursed during the year by component		
Interest supplement costs	1	1
Default costs (net of recoveries)	982	895
Fees and other collections	(935)	(876)
Other subsidy costs	-	-
Total of the above subsidy expense components	48	20
Adjustments		
Loan guarantee modifications	-	-
Fees received	611	597
Interest supplements paid	(18)	(22)
Foreclosed property and loans acquired	(21)	(67)
Claim payments to lenders	(632)	(723)
Interest accumulation on the liability balance	95	88
Other	(89)	(53)
Ending balance of the subsidy cost allowance before reestimates	4,860	4,311
Add or subtract subsidy reestimates by component:		
Interest rate reestimate	36	40
Technical/default reestimate	477	515
Total of the above reestimate components	513	555
Ending balance of the loan guarantee liability	$ 5,373	$ 4,866

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

FY 2014

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	$ (13)	$ -	$ 12	$ -	$ -	$ (4)	$ (4)	$ 8
Export	-	-	-	-	-	-	-	(38)	(38)	(38)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	1	864	(888)	-	(23)	-	33	687	720	697
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	93	(34)	-	59	-	3	(168)	(165)	(106)
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 1	$ 982	$ (935)	$ -	$ 48	$ -	$ 36	$ 477	$ 513	$ 561

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	$ -	$ (2)	$ (9)	$ (11)	$ -
Export	-	-	-	-	-	-	-	(10)	(10)	(10)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	1	793	(835)	-	(41)	-	38	599	637	596
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	79	(29)	-	50	-	4	(65)	(61)	(11)
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	$ 1	$ 895	$ (876)	$ -	$ 20	$ -	$ 40	$ 515	$ 555	$ 575

Table 9. Guaranteed Loans Disbursed

	FY 2014		FY 2013	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs				
Farm	$ 2,662	$ 2,398	$ 2,421	$ 2,180
Export	2,204	2,160	3,175	3,117
Food Aid	-	-	-	-
Housing	19,088	17,177	22,646	20,379
Electric	-	-	-	-
Telecommunications	-	-	-	-
Water and Environmental	22	19	1	1
Business and Industry	830	643	792	608
Economic Development	-	-	-	-
Total Guaranteed Loans Disbursed	$ 24,806	$ 22,397	$ 29,035	$ 26,285

Table 10. Administrative Expenses

	FY 2014	FY 2013
Direct Loan Programs	$ 472	$ 459
Guaranteed Loan Programs	379	415
Total Administrative Expenses	$ 851	$ 874

Table 11. Subsidy Rates for Direct Loans (percentage)

FY 2014	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Direct Loan Programs					
Farm Ownership	(1.92)	4.20	-	(1.51)	0.77
Farm Operating	0.98	4.98	-	(0.47)	5.49
Emergency Disaster	(3.73)	8.48	-	0.15	4.90
Indian Tribe Land Acquisition	(35.53)	-	-	-	(35.53)
Boll Weevil Eradication	(2.00)	0.01	-	(0.71)	(2.70)
Indian Highly Fractionated Land	(10.07)	11.02	-	(0.27)	0.68
Farm Storage Facility Loan Program	(2.21)	0.02	(0.27)	(0.07)	(2.53)
Sugar Storage Facility Loan Program	(2.72)	0.03	-	(0.11)	(2.80)
Multi-Family Housing Relending Demo	26.16	-	-	-	26.16
Multi-Family Housing Revitalization Seconds	50.99	0.28	-	(0.03)	51.24
Multi-Family Housing Revitalization Zero	48.80	0.21	-	(0.15)	48.86
Community Facility Loans	(15.90)	2.48	-	0.20	(13.22)
Section 502 Single-Family Housing	(1.49)	4.46	-	(0.25)	2.72
Section 515 Multi-Family Housing	(13.31)	0.39	-	36.33	23.41
Section 504 Housing Repair	11.88	(0.03)	-	(3.58)	8.27
Section 514 Farm Labor Housing	24.30	0.09	-	(0.68)	23.71
Section 523 Self-Help Housing	(6.02)	-	-	0.07	(5.95)
Section 524 Site Development	(4.56)	-	-	0.05	(4.51)
Single-Family Housing Credit Sales	(12.68)	2.20	-	1.51	(8.97)
Rural Microenterprise Direct Loans	3.97	2.29	-	-	6.26
Intermediary Relending Program	22.80	0.11	-	(1.30)	21.61
Rural Economic Development Loans	8.49	0.01	-	(0.05)	8.45
Water and Waste Disposal Loans	1.53	0.13	-	(2.53)	(0.87)
Watershed Loans	(10.39)	1.24	-	0.33	(8.82)
FFB Electric Loans	(1.89)	0.07	-	(1.50)	(3.32)
Treasury Telecommunication Loans	-	0.29	-	(1.48)	(1.19)
FFB Guaranteed Underwriting	-	1.41	(5.73)	-	(4.32)
Broadband Treasury Loans	0.02	15.15	-	(2.10)	13.07

Table 12. Subsidy Rates for Loan Guarantees (percentage)

FY 2014	Interest Differential	Defaults	Fees and Other Collections	Other	Total
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	1.16	(1.32)	-	(0.16)
Farm Operating—Unsubsidized	-	2.56	(1.34)	-	1.22
Conservation—Guaranteed	-	0.96	(1.32)	-	(0.36)
GSM 102	-	0.04	(1.15)	-	(1.11)
Export Guarantee Program—Facilities	-	0.12	(4.78)	-	(4.66)
Community Facility Loan Guarantees	-	5.85	(0.88)	-	4.97
Guaranteed 538 Multi-Family Housing	-	7.93	(8.12)	-	(0.19)
Guaranteed 502 Single-Family Housing	-	4.58	(4.72)	-	(0.14)
Business and Industry Loan Guarantees	-	11.23	(4.23)	-	7.00
Renewable Energy Loan Guarantees	-	28.60	(1.17)	-	27.43
Section 9003 Loan Guarantees	-	43.01	(3.94)	2.35	41.42
Water and Waste Disposal Loans	-	1.56	(0.85)	-	0.71

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 2014 Beginning Inventory		Acquisitions		Collateral Acquired		Donations		Other		FY 2014 Ending Inventory	
Commodities:	**Unit of Measure**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**	**Quantity**	**Value**
Corn Meal	Pounds	-	$ -	73	$ 14	-	$ -	(73)	$ (14)	-	$ -	-	$ -
Blended Foods	Pounds	25	8	95	30	-	-	(101)	(31)	-	-	18	7
Dry Edible Beans	Cwt.	-	-	-	8	-	-	-	(8)	-	-	-	-
Dry Whole Peas	Cwt.	-	4	2	43	-	-	(2)	(45)	-	-	-	2
Emergency Food Ration Bars	Pounds	1	1	6	9	-	-	(6)	(10)	-	-	-	-
Grain Sorghum	Bushels	-	1	16	98	-	-	(16)	(99)	-	-	-	-
Lentils Dry	Cwt.	-	4	-	9	-	-	-	(11)	-	-	-	2
Nonfat Dry Milk	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Rice Products	Cwt., Pounds	-	2	2	41	-	-	(2)	(40)	-	-	-	3
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	23	15	176	105	-	-	(167)	(100)	-	-	32	20
Wheat Products	Bushels, Pounds	6	1	73	136	-	-	(80)	(137)	-	-	-	-
Other	Various	-	35	-	48	-	154	-	(81)	-	(153)	-	3
Total Commodities		XXXX	$ 71	XXXX	$ 541	XXXX	$ 154	XXXX	$ (576)	XXXX	$ (153)	XXXX	$ 37
Allowance for losses													(2)
Barter Delivery Obligations (BDO)													3
Total Inventory and Related Property, Net													$ 38

		FY 2013 Beginning Inventory		Acquisitions		Collateral Acquired		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

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

FY 2014

Category	Useful Life (Years)	Cost		Accumulated Depreciation		Net Book Value	
Land and Land Rights		$	75	$	-	$	75
Improvements to Land	10 - 50		755		(697)		58
Construction-in-Progress			130		-		130
Buildings, Improvements and Renovations	15 - 30		2,966		(1,687)		1,279
Other Structures and Facilities	15 - 50		1,841		(1,530)		311
Equipment	5 - 20		1,601		(1,209)		392
Assets Under Capital Lease	3 - 20		58		(43)		15
Leasehold Improvements	10		77		(67)		10
Internal-Use Software	5 - 8		682		(563)		119
Internal-Use Software in Development			452		-		452
Total		$	8,637	$	(5,796)	$	2,841

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

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) comprises one of the largest collections of materials devoted to agriculture in the world. The collections are in constant use to support the research activities of USDA, assist policymakers and answer inquiries from citizens such as writers, editors, historians, filmmakers, and university researchers. NAL houses and provides access to millions of books and periodicals. The majority of these items were published more than 25 years ago and almost all of them are out-of-print. 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, agricultural objects and tools, and other unique materials. Collection concentrations include the fields of agriculture, forestry, horticulture, entomology, poultry science, animal science, nutrition, 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 2014	Additions	Withdrawals	FY 2013
Heritage Assets				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Other Sites	167	2	(3)	168
Research Centers	34	-	-	34
Library Collections	1	-	-	1
Total	376	2	(3)	377
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	17,051	798	-	16,253
Total	17,231	798	-	16,433

	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

Note 11. Other Assets

In FY 2014 and FY 2013, other assets include investments in trust for loan asset sales of $37 million.

	FY 2014	FY 2013
Intragovernmental:		
Advances to Others	$ 3	$ 6
Subtotal Intragovernmental	3	6
With the Public:		
Advances to Others	152	161
Other Assets	37	37
Total Other Assets	$ 192	$ 204

Note 12. Liabilities Not Covered By Budgetary Resources

In FY 2014 and FY 2013, other intragovernmental liabilities not covered by budgetary resources include accruals for Federal Employee Compensation Act (FECA) of $161 million and $167 million, contract disputes claims payable to Treasury's Judgment Fund of $25 million and $23 million, unemployment compensation of $23 million and $21 million, and custodial of $3 million and $3 million, respectively.

In FY 2014 and FY 2013, other liabilities with the public not covered by budgetary resources include Tobacco Transition Payment Program of $50 million and $954 million, future funded indemnity costs of $4,749 million and $3,846 million, estimated underwriting gain on crop insurance of $1,955 million and $1,973 million, unfunded leave of $602 million and $596 million, Payments to States of $78 million and $325 million, contingent liabilities of $66 million and $120 million, and credit programs of $9 million and $19 million, respectively. In FY 2014, other liabilities with the public not covered by budgetary resources include Brazilian Cotton Producers of $300 million, disaster assistance of $15 million, clearing accounts of $6 million, and custodial of $3 million. In FY 2013, other liabilities with the public not covered by budgetary resources include crop insurance premium subsidy deficiency reserve of $1,040 million and estimated program delivery costs to reinsurer of $11 million.

	FY 2014	FY 2013
Intragovernmental:		
Other	$ 212	$ 215
Subtotal Intragovernmental	212	215
With the Public:		
Accounts Payable	-	-
Federal employee and veterans' benefits	955	986
Environmental and disposal liabilities	196	176
Other	7,832	8,885
Subtotal With the Public	8,983	10,047
Total liabilities not covered by budgetary resources	9,195	10,262
Total liabilities covered by budgetary resources	150,140	141,080
Total Liabilities	$ 159,335	$ 151,342

Note 13. Debt

FY 2014	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	$ 64,380	$ 6,974	$ 71,354
Debt to the Federal Financing Bank	40,660	2,088	42,748
Total Intragovernmental	105,040	9,062	114,102
Agency Debt:			
Held by the Public	-	-	-
Total Debt	$ 105,040	$ 9,062	$ 114,102

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

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 2014, CCC and FS estimate the liability for total cleanup costs for sites known to contain hazardous waste to be $8 million and $2 million, respectively, based on actual cleanup costs at similar sites. In FY 2013, the liability was $8 million and $3 million, respectively. CCC estimates the range of potential future losses due to remedial actions to be between $12 million and $140 million. These estimates will change as new sites are discovered, remedy standards change and new technology is introduced.

In FY 2014, ARS estimated the liability for cleanup of the Beltsville Agricultural Research Center (BARC) to be $20 million. ARS is evaluating and remediating areas of concern on BARC that are contaminated or threaten to contaminate ground and surface water with pesticides, solvents, metals, and other hazardous substances.

The Department is also subject to Asbestos National Emissions Standards for Hazardous Air Pollutants. In FY 2014 and FY 2013, the Department estimated its liability for asbestos-related cleanup of real property to be $166 and $165 million, respectively. 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

The presentation of note 15 was reclassified to align with the USSGL crosswalk for other liabilities and to move the non-current portion of unfunded FECA liability and underwriting gains on crop insurance from current.

In FY 2014, other liabilities with related budgetary obligations with the public include Disaster Assistance Program of $3,365 million, Grants, Subsidies, and Contributions of $3,280 million, Conservation Reserve Program of $1,684 million, estimated underwriting gains on crop insurance of $639 million, Cotton Transition Program of $342 million, indemnity payments not yet disbursed of $148 million, Direct and Counter Cyclical Program of $143 million, and other accrued liabilities of $798 million. Other liabilities without related budgetary obligations with the public include estimated underwriting gains on crop insurance of $1,955 million, Brazilian Cotton Industry of $300 million, Payments to States of $78 million, Tobacco Transition Payment Program of $50 million, and other accrued liabilities of $41 million.

In FY 2013, other liabilities with related budgetary obligations with the public include Direct and Counter Cyclical Program of $4,290 million, Grants, Subsidies, and Contributions of $2,464 million, Conservation Reserve Program of $1,507 million, other accrued liabilities of $1,022 million, and indemnity payments not yet disbursed of $316 million. Other liabilities without related budgetary obligations with the public include estimated underwriting gains on crop insurance of $1,973 million, Tobacco Transition Payment Program of $954 million, Payments to States of $327 million, and other accrued liabilities of $52 million.

FY 2014	Non-Current	Current	Total
Intragovernmental:			
Other Liabilities With Related Budgetary Obligations	$ -	$ 4	$ 4
Employer Contributions and Payroll Taxes	-	51	51
Unfunded FECA Liability	89	72	161
Other Unfunded Employment Related Liability	-	23	23
Liability for Advances and Prepayments	-	17	17
Liability for Clearing Accounts	-	(36)	(36)
Custodial Liability	-	83	83
Liability for Non-entity Assets Not Reported on the Statement of Custodial Activities	-	12,066	12,066
Other Liabilities Without Related Budgetary Obligations	25	-	25
Subtotal Intragovernmental	114	12,280	12,394
With the Public:			
Other Liabilities With Related Budgetary Obligations	-	10,400	10,400
Accrued Funded Payroll and Leave	-	237	237
Unfunded Leave	-	603	603
Liability for Advances and Prepayments	-	157	157
Other Deferred Credits	-	719	719
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	159	159
Liability for Clearing Accounts	-	134	134
Actuarial Liability for Federal Insurance and Guarantee Programs	-	4,749	4,749
Contingent Liabilities	-	65	65
Capital Lease Liability	11	4	15
Custodial Liability	-	10	10
Other Liabilities Without Related Budgetary Obligations	1,978	446	2,424
Subtotal With the Public	1,989	17,683	19,672
Total Other Liabilities	$ 2,103	$ 29,963	$ 32,066

FY 2013	Non-Current	Current	Total
Intragovernmental:			
Other Liabilities With Related Budgetary Obligations	$ -	$ 36	$ 36
Employer Contributions and Payroll Taxes	-	46	46
Unfunded FECA Liability	94	73	167
Other Unfunded Employment Related Liability	-	21	21
Liability for Advances and Prepayments	-	49	49
Liability for Clearing Accounts	-	758	758
Custodial Liability	-	66	66
Liability for Non-entity Assets Not Reported on the Statement of Custodial Activities	-	12,950	12,950
Other Liabilities Without Related Budgetary Obligations	23	-	23
Subtotal Intragovernmental	117	13,999	14,116
With the Public:			
Other Liabilities With Related Budgetary Obligations	-	9,599	9,599
Accrued Funded Payroll and Leave	-	211	211
Unfunded Leave	-	596	596
Liability for Advances and Prepayments	-	150	150
Other Deferred Credits	-	750	750
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	218	218
Liability for Clearing Accounts	-	126	126
Actuarial Liability for Federal Insurance and Guarantee Programs	-	4,886	4,886
Contingent Liabilities	-	120	120
Capital Lease Liability	13	5	18
Custodial Liability	-	8	8
Other Liabilities Without Related Budgetary Obligations	1,995	1,312	3,307
Subtotal With the Public	2,008	17,981	19,989
Total Other Liabilities	$ 2,125	$ 31,980	$ 34,105

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 2014	
Capital Leases:	
Summary of Assets Under Capital Leases	
Land and Building	$ 58
Machinery and Equipment	-
Accumulated Amortization	(43)
Future Payments Due:	
	Land & Buildings
Fiscal Year	
2015	9
2016	8
2017	6
2018	6
2019	4
After 5 Years	12
Total Future Lease Payments	45
Less: Imputed Interest	21
Less: Executory Costs	9
Less: Lease Renewal Options	-
Net Capital Lease Liability	15
Lease liabilities covered by budgetary resources	15

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2015	130	-	-	130
2016	119	-	-	119
2017	107	-	-	107
2018	96	-	-	96
2019	82	-	-	82
After 5 Years	303	-	-	303
Total Future Lease Payments	$ 837	$ -	$ -	$ 837

FY 2013

Capital Leases:

Summary of Assets Under Capital Leases

Land and Building	$ 63
Machinery and Equipment	-
Accumulated Amortization	(46)

Future Payments Due:

Fiscal Year	Land & Buildings
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

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, $65 million and $120 million has been accrued in the financial statements as of September 30, 2014 and 2013, 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 $725 million to $1,511 million as of September 30, 2014, compared to $764 million to $1,704 million as of September 30, 2013.

CRP rental payments are estimated to be $1,700 million annually through FY 2020. Commitments to extend loan guarantees are estimated to be $5,846 million and $5,430 million in FY 2014 and FY 2013, 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).

Expenses, Brush Disposal

Deposits from timber purchasers are used to cover the cost required to dispose of slash, brush, and other debris resulting from timber cutting operations and for supplemental protection of the cutover areas in lieu of actual disposal. The Expenses, Brush Disposal program is authorized by 16 U.S.C. 490-498.

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

Range Betterment Fund

Acquisition of Lands for National Forests, Special Acts

Construction of Facilities or Land Acquisition

Payment to Minnesota (Cook, Lake and Saint Louis Counties)

Licensee Program

Resource Management Timber Receipts

Quinault Special Management Area

MNP Rental Fee Account

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

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, 2014	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 Expenses, Brush Disposal	FS State, Private, and International Forestry, Land and Water Conservation Fund
Fund Balance with Treasury	$ 481	$ 100	$ 228	$ 363	$ 24	$ 107	$ 69	$ 51	$ 145
Investments	-	-	-	-	-	-	-	-	-
Other Assets	23	20	143	15	46	2	1	-	1
Total Assets	504	120	371	378	70	109	70	51	146
Other Liabilities	69	56	91	85	-	56	-	-	44
Total Liabilities	69	56	91	85	-	56	-	-	44
Unexpended Appropriations	-	-	-	-	-	-	-	-	-
Cumulative Results of Operations	435	64	280	293	70	53	70	51	102
Total Liabilities and Net Position	504	120	371	378	70	109	70	51	146
Statement of Net Cost For the Period Ended September 30, 2014									
Gross program costs	750	178	195	103	51	(124)	20	7	37
Less Earned Revenue	3	141	603	72	-	122	32	7	-
Net Cost of Operations	747	37	(408)	31	51	(246)	(12)	-	37
Statement of Changes in Net Position For the period Ended September 30, 2014									
Net Position Beginning of Period	539	52	218	121	66	(193)	53	21	83
Changes in Accounting Principles (Note 31)	-	-	-	-	-	-	-	-	-
Beginning Balance, as Adjusted	539	52	218	121	66	(193)	53	21	83
Other Financing Sources	643	49	(346)	203	55	-	5	30	56
Net Cost of Operations	(747)	(37)	408	(31)	(51)	246	12	-	(37)
Change in Net Position	(104)	12	62	172	4	246	17	30	19
Net Position End of Period	$ 435	$ 64	$ 280	$ 293	$ 70	$ 53	$ 70	$ 51	$ 102

Balance Sheet As of September 30, 2014	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	Other	Total
Fund Balance with Treasury	$ 74	$ 79	$ 238	$ 115	$ 37	$ 47	$ 302	$ 2,460
Investments	-	-	-	-	-	144	8	152
Other Assets	5	10	3	1	45	1	34	350
Total Assets	79	89	241	116	82	192	344	2,962
Other Liabilities	4	-	1	17	-	-	104	527
Total Liabilities	4	-	1	17	-	-	104	527
Unexpended Appropriations	-	-	-	-	-	119	1	120
Cumulative Results of Operations	75	89	240	99	82	73	239	2,315
Total Liabilities and Net Position	79	89	241	116	82	192	344	2,962
Statement of Net Cost For the Period Ended September 30, 2014								
Gross program costs	68	-	20	22	5	5	210	1,547
Less Earned Revenue	70	10	3	30	11	5	204	1,313
Net Cost of Operations	(2)	(10)	17	(8)	(6)	-	6	234
Statement of Changes in Net Position For the period Ended September 30, 2014								
Net Position Beginning of Period	73	79	74	65	76	180	175	1,682
Changes in Accounting Principles (Note 31)	-	-	-	-	-	-	-	-
Beginning Balance, as Adjusted	73	79	74	65	76	180	175	1,682
Other Financing Sources	-	-	183	26	-	12	71	987
Net Cost of Operations	2	10	(17)	8	6	-	(6)	(234)
Change in Net Position	2	10	166	34	6	12	65	753
Net Position End of Period	$ 75	$ 89	$ 240	$ 99	$ 82	$ 192	$ 240	$ 2,435

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

	FS	FS	FS	FS	FS	NIFA	FSA		
Balance Sheet As of September 30, 2013	Recreation Fee Demonstration Program	National Forest Fund Receipts	Restoration of Forest Lands and Improvements	Payments to Counties, National Grasslands	Acquisition of Lands to Complete Land Exchanges	Native American Institutions Endowment Fund	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

Note 19. Sub-organization Program Costs/Program Costs by Segment

FY 2014	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	$ 764	$ 641	$ 881	$ 8,325	$ 159	$ 214
Less: Earned Revenue	107	179	7	27	126	-
Net Costs	657	462	874	8,298	33	214
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	173	145	386	1,928	-	-
Less: Earned Revenue	24	41	45	2	-	-
Net Costs	149	104	341	1,926	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	96	1,748	45	61
Less: Earned Revenue	-	-	76	122	36	-
Net Costs	-	-	20	1,626	9	61
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	937	786	1,363	12,001	204	275
Less: Total Earned Revenue	131	220	128	151	162	-
Net Cost of Operations	$ 806	$ 566	$ 1,235	$ 11,850	$ 42	$ 275

FY 2014	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	$ 64	$ 12,010	$ -	$ -	$ -	$ -
Less: Earned Revenue	-	3,415	-	-	-	-
Net Costs	64	8,595	-	-	-	-
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	-	-	1,051	103,815	373	894
Less: Earned Revenue	-	-	1	64	1	204
Net Costs	-	-	1,050	103,751	372	690
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	64	12,010	1,051	103,815	373	894
Less: Total Earned Revenue	-	3,415	1	64	1	204
Net Cost of Operations	$ 64	$ 8,595	$ 1,050	$ 103,751	$ 372	$ 690

FY 2014	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	$ 68	$ 437	$ 52	$ 148	$ 35	$ 63
Less: Earned Revenue	2	90	14	103	1	54
Net Costs	66	347	38	45	34	9
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	64	-	-
Less: Earned Revenue	-	-	6	45	-	-
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	40	-	-
Net Costs	-	-	16	17	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	81	524	256	732	-	-
Less: Earned Revenue	2	108	69	511	-	-
Net Costs	79	416	187	221	-	-
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	149	961	352	1,001	35	63
Less: Total Earned Revenue	4	198	94	699	1	54
Net Cost of Operations	$ 145	$ 763	$ 258	$ 302	$ 34	$ 9

FY 2014	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	$ -	$ -	$ -	$ -	$ 78	$ 285
Less: Earned Revenue	-	-	-	-	28	21
Net Costs	-	-	-	-	50	264
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	1,380	4,628	628	3,445	52	188
Less: Earned Revenue	135	597	69	5	19	14
Net Costs	1,245	4,031	559	3,440	33	174
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	39	140
Less: Earned Revenue	-	-	-	-	14	10
Net Costs	-	-	-	-	25	130
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	122	446
Less: Earned Revenue	-	-	-	-	44	32
Net Costs	-	-	-	-	78	414
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	1,380	4,628	628	3,445	291	1,059
Less: Total Earned Revenue	135	597	69	5	105	77
Net Cost of Operations	$ 1,245	$ 4,031	$ 559	$ 3,440	$ 186	$ 982

FY 2014	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	$ 32	$ 668	$ 15	$ 19	$ 66	$ 125
Less: Earned Revenue	45	-	1	-	18	1
Net Costs	(13)	668	14	19	48	124
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	176	6	7	2	4
Less: Earned Revenue	12	-	-	-	1	-
Net Costs	(4)	176	6	7	1	4
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	16	339	10	13	-	-
Less: Earned Revenue	23	-	1	-	-	-
Net Costs	(7)	339	9	13	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	8	158	10	12	3	5
Less: Earned Revenue	11	-	1	-	1	-
Net Costs	(3)	158	9	12	2	5
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	64	1,341	41	51	71	134
Less: Total Earned Revenue	91	-	3	-	20	1
Net Cost of Operations	$ (27)	$ 1,341	$ 38	$ 51	$ 51	$ 133

FY 2014	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	$ 4,153	$ 4,047	$ 3	$ 5	$ 6,370	$ 26,987
Less: Earned Revenue	549	3,647	2	-	900	7,537
Net Costs	3,604	400	1	5	5,470	19,450
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	-	-	2	6	2,660	10,591
Less: Earned Revenue	-	-	1	(1)	312	703
Net Costs	-	-	1	7	2,348	9,888
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	227	2,358
Less: Earned Revenue	-	-	-	-	155	172
Net Costs	-	-	-	-	72	2,186
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	4	6	1,908	106,592
Less: Earned Revenue	-	-	-	-	130	919
Net Costs	-	-	4	6	1,778	105,673
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	493	840	493	840
Less: Earned Revenue	-	-	838	10	838	10
Net Costs	-	-	(345)	830	(345)	830
Total Gross Costs	4,153	4,047	502	857	11,658	147,368
Less: Total Earned Revenue	549	3,647	841	9	2,335	9,341
Net Cost of Operations	$ 3,604	$ 400	$ (339)	$ 848	$ 9,323	$ 138,027

FY 2014	Intradepartmental Eliminations	Grand Total
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	$ (1,388)	$ 31,969
Less: Earned Revenue	(153)	8,284
Net Costs	(1,235)	23,685
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	(940)	12,311
Less: Earned Revenue	(103)	912
Net Costs	(837)	11,399
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	(91)	2,494
Less: Earned Revenue	(130)	197
Net Costs	39	2,297
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	(1,083)	107,417
Less: Earned Revenue	(56)	993
Net Costs	(1,027)	106,424
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:		
Gross Costs	(68)	1,265
Less: Earned Revenue	(671)	177
Net Costs	603	1,088
Total Gross Costs	(3,570)	155,456
Less: Total Earned Revenue	(1,113)	10,563
Net Cost of Operations	$ (2,457)	$ 144,893

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		-		-		-		-		-		-
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:												
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
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
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		-		-
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:												
Gross Costs		-		-		-		-		-		-
Less: Earned Revenue		-		-		-		-		-		-
Net Costs		-		-		-		-		-		-
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
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
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
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
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		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	$ 4,104	$ 725	$ 2	$ 6	$ 6,659	$ 18,106
Less: Earned Revenue	539	3,560	1	-	886	5,752
Net Costs	3,565	(2,835)	1	6	5,773	12,354
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	-	-	2	4	2,640	11,162
Less: Earned Revenue	-	-	1	-	440	621
Net Costs	-	-	1	4	2,200	10,541
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	247	2,895
Less: Earned Revenue	-	-	-	-	209	180
Net Costs	-	-	-	-	38	2,715
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	2	5	2,054	111,718
Less: Earned Revenue	-	-	-	-	128	921
Net Costs	-	-	2	5	1,926	110,797
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	572	887	572	887
Less: Earned Revenue	-	-	895	10	895	10
Net Costs	-	-	(323)	877	(323)	877
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	$ (1,661)	$ 23,104
Less: Earned Revenue	(196)	6,442
Net Costs	(1,465)	16,662
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	(981)	12,821
Less: Earned Revenue	(159)	902
Net Costs	(822)	11,919
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	(102)	3,040
Less: Earned Revenue	(162)	227
Net Costs	60	2,813
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	(1,266)	112,506
Less: Earned Revenue	(51)	998
Net Costs	(1,215)	111,508
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:		
Gross Costs	(69)	1,390
Less: Earned Revenue	(751)	154
Net Costs	682	1,236
Total Gross Costs	(4,079)	152,861
Less: Total Earned Revenue	(1,319)	8,723
Net Cost of Operations	$ (2,760)	$ 144,138

Note 20. Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2014 and FY 2013 was $358 million and $424 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, 2014 and 2013 was $30,215 million and $33,411 million, respectively.

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

FY 2014

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	$ 38,951	$ 2,229	$ 41,180
Apportionment for Special Activities	121,734	16,339	138,073
Exempt from Apportionment	786	1	787
Total Obligations Incurred	$ 161,471	$ 18,569	$ 180,040

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

Note 24. Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2014 and 2013 was $43,574 million and $46,420 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 2013 Statement of Budgetary Resources and the FY 2013 actual numbers presented in the FY 2015 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:

FAS and AMS, CCC, and Forest Service backdated advance refunds and receipts, respectively.

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 2013	Budgetary Resources	Obligations Incurred	Distributed Offsetting Receipts	Net Outlays
Combined Statement of Budgetary Resources	$ 243,197	$ 200,708	$ 2,277	$ 161,449
Reconciling items:				
Expired accounts	(18,488)	(740)	-	-
OMB Required Adjustment for FACTS II revision, FAS	17	17	-	-
224 Supplementals back dated AMS, CCC & FS	-	-	26	-
Milk Market Orders Fund	53	53	-	-
Other	(3)	(11)	-	(6)
Budget of the United States Government	$ 224,776	$ 200,027	$ 2,303	$ 161,443

A comparison between the FY 2014 Statement of Budgetary Resources and the FY 2014 actual numbers presented in the FY 2016 Budget cannot be performed as the FY 2016 Budget is not yet available. The FY 2016 Budget is expected to be published in February 2015 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 2014	FY 2013
Sources of Collections:		
Miscellaneous	$ 87	$ 211
Total Cash Collections	87	211
Accrual Adjustments	-	4
Total Custodial Revenue	87	215
Disposition of Collections:		
Transferred to Others:		
Treasury	(76)	(207)
States and Counties	-	-
(Increase)/Decrease in Amounts Yet to be Transferred	(11)	(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, 2014 and 2013

	Rural Housing Insurance Fund 2014	Rural Housing Insurance Fund 2013
Fiduciary net assets, beginning of year	$ 101	$ 107
Fiduciary revenues	-	-
Contributions	411	389
Investment earnings	-	-
Gain (Loss) on disposition of investments, net	-	-
Administrative and other expenses	-	-
Disbursements to and on behalf of beneficiaries	(407)	(395)
Increases/(Decrease) in fiduciary net assets	4	(6)
Fiduciary net assets, end of year	$ 105	$ 101

Fiduciary Net Assets

As of September 30, 2014 and 2013

	Rural Housing Insurance Fund 2014	Rural Housing Insurance Fund 2013
Fiduciary Assets		
Cash and cash equivalents	$ 11	$ 5
Investments	94	96
Other assets	-	-
Fiduciary Liabilities		
Less: Liabilities	-	-
Total Fiduciary Net Assets	$ 105	$ 101

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.

	2014	2013
Resources Used to Finance Activities:		
Budgetary Resources Obligated -		
Obligations Incurred	$ 180,040	$ 200,708
Less: Spending authority from offsetting collections and recoveries	33,857	43,505
Obligations net of offsetting collections and recoveries	146,183	157,203
Less: Distributed Offsetting receipts	2,533	2,277
Net Obligations	143,650	154,926
Other Resources -		
Donations and forfeitures of property	-	1
Transfers in(out) without reimbursement	(66)	(187)
Imputed financing from costs absorbed by others	851	845
Other	(1,710)	(5,285)
Net other resources used to finance activities	(925)	(4,626)
Total resources used to finance activities	142,725	150,300
Resources Used to Finance Items not Part of the Net Cost of Operations:		
Change in undelivered orders	2,844	2,657
Resources that fund expenses recognized in prior periods	(5,107)	(17,113)
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	17,097	17,066
Change in Unfilled Customer Orders	(444)	2,687
Decrease in exchange revenue receivable from public	2,080	9,356
Other	1,965	48
Resources that finance the acquisition of assets	(20,089)	(22,571)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	(82)	1,103
Total resources used to finance items not part of the net cost of operations	(1,736)	(6,767)
Total resources used to finance the net cost of operations	140,989	143,533
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	6	190
Increase in environmental and disposal liability	20	3
Upward/Downward reestimates of credit subsidy expense	2,055	2,194
Increase in exchange revenue receivable from the public	-	-
Other	377	165
Total components of Net Cost of Operations that will require or generate resources in future periods	2,458	2,552
Components not Requiring or Generating Resources -		
Depreciation and amortization	266	248
Revaluation of assets or liabilities	22	4
Other Components not Requiring or Generating Resources:		
Bad Debt Expense	59	(4,067)
Cost of Goods Sold	120	56
Other	979	1,812
Total components of Net Cost of Operations that will not require or generate resources	1,446	(1,947)
Total components of Net Cost of Operations that will not require or generate resources in the current period	3,904	605
Net Cost of Operations	$ 144,893	$ 144,138

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 2014 Expense	FY 2013 Expense	FY 2012 Expense	FY 2011 Expense	FY 2010 Expense
Non-Federal Physical Property:					
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	$ 18	$ 25	$ 38	$ 40	$ 41
Special Supplemental Nutrition Program	7	13	13	17	17
National Institute of Foods and Agriculture					
Extension 1890 Facilities Program	19	18	20	19	19
Total Non-Federal Property	$ 44	$ 56	$ 71	$ 76	$ 77
Human Capital:					
National Institute of Foods and Agriculture					
Higher Education and Extension Programs	$ 556	$ 503	$ 536	$ 547	$ 559
Food and Nutrition Service					
Supplemental Nutrition Assistance Program	24	81	53	45	63
Agricultural Research Service					
National Agricultural Library	23	21	21	21	24
Risk Management Agency					
Risk Management Education	9	10	13	10	6
Total Human Capital	$ 612	$ 615	$ 623	$ 623	$ 652

	FY 2014 Expense	FY 2013 Expense	FY 2012 Expense	FY 2011 Expense	FY 2010 Expense
Research and Development:					
Basic Research:					
Agricultural Research Service					
Human Nutrition	$ 43	$ 39	$ 43	$ 43	$ 45
Collaborative Research Program	-	-	-	-	-
Product Quality/Value Added	49	47	50	52	56
Livestock Production	43	35	37	41	44
Crop Production	108	106	114	116	119
Food Safety	56	49	53	53	53
Livestock Protection	44	35	38	40	45
Crop Protection	95	89	97	102	103
Environmental Stewardship	101	88	94	101	103
National Institute of Foods and Agriculture					
Land-grant University System	268	232	249	274	283
Forest Service	78	77	80	91	94
Economic Research Service					
Economic and Social Science	7	7	7	8	8
National Agricultural Statistics Service					
Statistical	-	3	3	3	3
Total Basic Research	$ 892	$ 807	$ 865	$ 924	$ 956
Applied Research:					
Agricultural Research Service					
Human Nutrition	$ 34	$ 32	$ 34	$ 34	$ 35
Collaborative Research Program	-	-	-	-	-
Product Quality/Value Added	40	37	40	42	44
Livestock Production	35	28	30	33	35
Crop Production	86	84	91	93	96
Food Safety	45	39	42	43	43
Livestock Protection	36	28	31	32	36
Crop Protection	76	72	77	81	82
Environmental Stewardship	80	70	75	80	83
National Institute of Foods and Agriculture					
Land-grant University System	454	393	424	467	461
Forest Service	204	192	207	220	227
Economic Research Service					
Economic and Social Science	72	64	71	74	74
National Agricultural Statistics Service					
Statistical	5	4	4	4	4
Total Applied Research	$ 1,167	$ 1,043	$ 1,126	$ 1,203	$ 1,220
Development:					
Agricultural Research Service					
Human Nutrition	$ 9	$ 8	$ 8	$ 9	$ 9
Product Quality/Value Added	10	9	10	11	11
Livestock Production	9	7	8	8	9
Crop Production	22	21	23	23	24
Food Safety	11	10	11	11	11
Livestock Protection	9	7	7	7	9
Crop Protection	18	18	19	20	20
Environmental Stewardship	20	17	19	20	21
Forest Service	31	40	32	16	17
National Agricultural Statistics Service					
Statistical	4	-	-	-	-
Total Development	$ 143	$ 137	$ 137	$ 125	$ 131
Total Research and Development	$ 2,202	$ 1,987	$ 2,128	$ 2,252	$ 2,307

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 449,062 work registrants subject to the 3 - month SNAP participant limit and 1,451,012 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 1990. 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 2014 and 2013, 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 92,453 in fiscal year 2014 and 89,100 in fiscal year 2013. 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 $9 million and $10 million in fiscal years 2014 and 2013, 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 for 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, among the world's largest libraries serving agriculture, delivered more than 50 million page views and 2 million searches in FY 2014.

Buildings and Facilities
ARS has approximately 96 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 program emphasis is in developing technologies and systems that support sustainable 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' research also focuses on 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 is also important components of this program.

ARS' range and grazing land research objectives include the conservation and restoration of the Nation's range land and pasture ecosystems and agroecosystems through improved management of fire, invasive weeds, grazing, global change, and other agents of ecological change. The agency 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, ARS 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' research program is directed toward fostering an abundant, safe, nutritionally wholesome, and competitively priced supply of animal products produced in a viable, competitive, and sustainable animal agriculture sector of the U.S. economy by: safeguarding and utilizing animal genetic resources, associated genetic and genomic databases, and bioinformatic tools; developing a basic understanding of food animal physiology to address priority issues related to animal production, animal well-being, and product quality and healthfulness; and developing information, best management practices, novel and innovative tools, and technologies that improve animal production systems, enhance human health, and ensure domestic food security. The research is heavily focused on the development and application of genomics technologies to increase the efficiency and product quality of beef, dairy, swine, poultry, aquaculture, and sheep systems. Areas of emphasis include increasing the 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 and 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 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. 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. The agency 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 strengthens prevention techniques, aids in detection/identification of invasive pests, and increases control through management tactics that 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

ARS' research program 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 pathogenic bacteria and fungi, parasites, chemical contaminants, and plant toxins. All of ARS' research activities involve a high degree of cooperation and collaboration with USDA's Research, Education, and Economics agencies, as well as with the Food Safety and Inspection Service (FSIS), Animal and Plant Health Inspection Service (APHIS), Food and Drug Administration (FDA), Centers for Disease Control and Prevention (CDC), Department of Homeland Security (DHS), and the Environmental Protection Agency (EPA). The agency 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' 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 through the discovery and development of diagnostics, vaccines, biotherapeutics, animal genomics applications, disease management systems, animal disease models, and farm biosecurity measures. The research program has the following strategic objectives: establish 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 core competencies in bovine, swine, ovine, and avian 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. The ARS 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' Crop Protection research program is directed to protect crops from insect and disease loss through research 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. The program's 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 reduce 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 and to address quarantine issues.

Human Nutrition

Maintenance of health throughout the lifespan along with prevention of obesity and chronic diseases via food-based recommendations are the major emphases of ARS' human nutrition research program. These health-related goals are based on the knowledge that deficiency diseases are no longer the primary public health concerns in the U.S. 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. The agency's research program also studies essential nutrients and nonessential, health promoting components in foods. Four specific areas of research are emphasized: nutrition monitoring; the scientific basis for dietary recommendations; prevention of obesity and related diseases; and life stage nutrition and metabolism, in order to better define the role of nutrition in pregnancy and 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 competitive grants and capacity/formula payments to State institutions to leverage 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 invasive 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 by 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 2014 accomplishments include the following:

- 47 new interagency agreements and contracts
- 15 interagency agreements and contracts continued
- 2,019 articles published in journals
- 384 articles published in all other publications
- 4 patents granted
- 2 patent licenses executed

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

Research is conducted to improve the statistical methods and related technologies used to produce U.S. agricultural statistics. The research agenda has two primary areas of emphasis: the National Agricultural Statistics Service estimation program and the Census of Agriculture program. For each, the goal is the development of improved estimates at lower cost, with reduced respondent burden, and with valid measures of uncertainty. All facets of the estimation process are considered, from increasing efficiencies in sampling and data collection to enhancing the statistical methodology used to analyze the data. Two high priority items within the research effort are significance editing (cleaning of respondent data) and model-based estimates. Significance editing has the potential to enhance the quality of survey data and to reduce manual operations in preparing survey responses summaries. In the other, models are used to combine data from disparate sources, from sample surveys to remote sensing, resulting in improved estimates with valid measures of uncertainty. As we go forward, users of our services and products 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 performed when it should have been or was scheduled to be 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 2014	Cost to Return to Acceptable Condition	Cost of Critical Maintenance	Cost of Non-critical Maintenance
Asset Class			
Bridges	$ 185	$ 33	$ 152
Buildings	1,156	51	1,105
Dam	26	11	15
Minor Constructed Features	90	-	90
Fence	264	264	-
Handling Facility	22	22	-
Heritage	23	5	18
Road	2,921	229	2,692
Trail Bridge	9	3	6
Wastewater	32	16	16
Water	95	49	46
Wildlife, Fish, TES	7	5	2
Trails	270	4	266
General Forest Area	-	-	-
Total Forest Service	$ 5,100	$ 692	$ 4,408

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
General Forest Area	-	-	-
Total Forest Service	$ 5,558	$ 1,136	$ 4,422

Deferred Maintenance and Repairs (DM&R) is reported for general Property, Plant, and Equipment (PP&E); heritage assets; and stewardship assets. It is also reported separately for critical and noncritical amounts of maintenance needed to return each class of assets to its acceptable operating condition.

Critical maintenance is defined as a serious threat to public health or safety, a natural resource, or the ability to carry out the mission of the organization.

Noncritical maintenance is defined as a potential risk to the public or employee safety or health (e.g., compliance with codes, standards, or regulations) and potential adverse consequences to natural resources or mission accomplishment.

The Forest Service uses condition surveys to estimate DM&R on all major classes of its PP&E. Over the past decade, the Forest Service has implemented a national effort to collect detailed data on infrastructure condition and maintenance and improvement needs. No DM&R 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.

DM&R 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 DM&R 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 ranges 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 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 U.S. Environmental Protection Agency and States.
- Road management objectives developed through the National Forest Management Act forest planning process.
- 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 International Family of Building and Related Codes, the National Fire Protection Association Life Safety Code, the Forest Service Health and Safety Handbook, and the Occupational Safety Health Administration as determined by condition surveys and safety inspections. 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 39 percent needing major repairs or renovations, approximately 11 percent in fair condition, and 50 percent of the facilities in good condition.

The agency is currently developing an integrated strategy to realign its 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 optimizes benefits from a combination of appropriations, facility conveyance receipts, and decommissioning of unneeded facilities.

Recreation facilities are located within recreation sites that range from highly developed sites to general forest areas such as 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. Recreation 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.

DM&R of structures for wildlife, fish, and threatened and endangered species is determined by field biologists using their professional judgment. The DM&R 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 2014 year-to-date accomplishments on NFS and State and Private Forestry lands include treatment of 550,000 acres for invasive and 90,000 acres for native pests. These numbers should be considered preliminary, with final amounts of acres treated for invasive and native pests on NFS lands available in February 2015 at https://www.fs.fed.us.

Agricultural Research Service

	FY 2014	FY 2013
Asset Class		
Buildings	$ 254	$ 257
Structures	18	18
Heritage	104	104
Total Agricultural Research Service	$ 376	$ 379

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 restore an asset to the originally intended design, capacity, efficiency, or capability; 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 and condition 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 91.9 percent, an outcome commonly classified as "adequate".

Natural Resources Conservation Service

Deferred maintenance estimates for assets are based on condition surveys performed on a five year maximum revolving schedule. Private sector professionals, under GSA and NRCS guidance, conducted condition surveys of all NRCS owned facilities and structures from September 2011 through May 2013. NRCS maintains an inventory and description of all owned facilities and structures in USDA's Corporate Property Automated Information System (CPAIS). NRCS uses AssetCALC, a third party software, to maintain detailed information on asset components and maintenance schedules and costs. AssetCALC data is the basis for computing the cost to return assets requiring maintenance to an acceptable condition, as showing in the following table. NRCS reviews information in both data bases annually for accuracy and completeness. NRCS estimates deferred maintenance and repair costs for all accountable owned real property, whether it is capitalized or fully depreciated.

The dollar amount in the following table includes costs to return assets with deferred maintenance at the 28 active facilities to acceptable condition. Changes identified in SFFAS No. 42 are incorporated into FY 2014 reporting, including identifying beginning and ending balances and no longer identifying needs as critical or noncritical. The table shows that the total cost of deferred maintenance declined during FY 2014. This reflects maintenance projects that were completed during the year because they were too critical to delay.

Asset Class (in thousands)	Overall Condition	Cost to Return to Acceptable Condition: Beginning Balance (October 1, 2013)		Ending Balance (September 30, 2014)		Change in Cost FY 2014	
Office Buildings	poor-good	$	284,642	$	265,062	$	(19,580)
Greenhouses	poor-good		53,608		54,444		836
Service Buildings	poor-good		191,250		178,198		(13,052)
Warehouse/Storage Buildings	critical-good		292,234		265,187		(27,047)
Other Buildings	critical-good		110,119		110,310		191
Irrigation Systems	poor-good		14,337		14,337		-
Other Structures and Features	critical-good		78,271		81,576		3,305
Total		**$**	**1,024,461**	**$**	**969,114**	**$**	**(55,347)**

In the facility assessments conducted during FYs 2011-2013, private sector contractors completed condition surveys for all major classes of PP&E at the 28 facilities represented above using accepted industry standards. Interviews with property management staff, review of available maintenance procedures, available drawings, and other documentation, and examination of the properties' systems and components for their present condition were used for determining the condition and useful life of facilities and facility components. Estimated costs for replacement, repair, or maintenance of all classes of PP&E were based on the probable or actual extent of the observed defect, inclusive of the cost to design, procure, construct, and manage the replacement, repair or maintenance. These estimates were based on invoice or bid documents provided by the facility manager and on construction costs developed from construction resources and industry standards, such as R.S. Means and Marshall & Swift, along with the contractor's experience with past costs for similar properties, city cost indices, and assumptions regarding future economic conditions. The AssetCALC estimated costs used here are a result of facility condition assessments and additional maintenance items which became deferred since the facility condition assessments were conducted, less the cost of maintenance completed.

The overall condition of major asset classes varies depending on the location, age, and type of property. The following table displays how NRCS defines asset condition on the basis of critical maintenance needed in the current year and the number of assets in each category. The assets represented in the table include assets such as office buildings, greenhouses, warehouse and storage buildings, roads, bridges, and other structures.

Condition Index	Condition Rating	Number of NRCS Assets
Greater than 95.00	Good	399
Between 90.00 and 94.99	Satisfactory	23
Between 70.00 and 89.99	Poor	16
Less than 70.00	Critical	8
Total		**446**

NRCS manages its buildings in compliance with regulations and guidance from GSA, USDA, and Executive Orders. Buildings shall also comply with applicable codes such as the National Life Safety Code, Occupational Safety and Health Administration rules, and the Architectural

Barriers Act Accessibility Standard, and other regulatory and compliance requirements as determined by condition surveys. NRCS applies these regulations and requirements consistently to all major classes of PP&E. Guidelines used may vary from the norm based on the mission of each facility and use of each asset. For example, all NRCS roadways are farm roads (paved or graveled) located on Plant Materials Centers. The public does not use these roadways, and therefore they are not required to meet the standards of the Federal Highway Administration.

Animal and Plant Health Inspection Service

APHIS' facilities are physically assessed, cyclically, at predetermined intervals. APHIS' Facility Condition Assessment (FCA) program is a single engineering based system for assessing facility conditions to stabilize the repair backlog, prepare more credible budget requests, and predict future maintenance needs. The FCA conducted at each facility provides the following:

- current conditions analyses,
- anticipated capital renewal analyses; and
- capital funding analyses.

The current estimated deferred maintenance and repair backlog is $117 million. Of this amount, $58 million is critical, consisting of Integrity issues, Code Compliance, Environmental, and Operations/Functionality deficiencies.

Statement of Budgetary Resources (Unaudited)

FY 2014	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:	$ 480	$ 618	$ 1,066	$ 376	$ 474	$ 568	$ 20,210	$ 75	$ 140	$ 454	$ 17
Recoveries of prior year unpaid obligations	40	83	393	48	75	6	1,011	8	15	29	1
Other changes in unobligated balance (+ or -)	(51)	(540)	(36)	(138)	(62)	(1)	(1,902)	(7)	(7)	(6)	(1)
Unobligated balance from prior year budget authority, net	469	161	1,423	286	487	573	19,319	76	148	477	17
Appropriations (discretionary and mandatory)	1,824	-	2,833	-	374	8,828	114,563	1,024	1,145	1,158	37
Borrowing authority (discretionary and mandatory)	32	3,373	14,616	209	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	397	134	(92)	104	81	4,038	154	193	107	201	62
Total budgetary resources	2,722	3,668	18,780	599	942	13,439	134,036	1,293	1,400	1,836	116
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	2,251	2,703	17,789	316	605	12,868	104,786	1,177	1,247	1,285	94
Unobligated balance, end of year:											
Apportioned	339	195	312	96	162	569	11,033	98	143	507	18
Exempt from apportionment	-	-	195	8	-	-	-	-	-	-	-
Unapportioned	132	770	484	179	175	2	18,217	18	10	44	4
Total unobligated balance, end of year	471	965	991	283	337	571	29,250	116	153	551	22
Total budgetary resources	2,722	3,668	18,780	599	942	13,439	134,036	1,293	1,400	1,836	116
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	327	259	11,597	209	296	1,716	7,238	137	214	357	10
Obligations incurred	2,251	2,703	17,789	316	605	12,868	104,786	1,177	1,247	1,285	94
Outlays (gross)(-)	(2,144)	(2,433)	(18,414)	(341)	(388)	(12,351)	(102,480)	(1,170)	(905)	(1,216)	(90)
Recoveries of prior year unpaid obligations (-)	(40)	(83)	(393)	(48)	(75)	(6)	(1,011)	(8)	(15)	(29)	(1)
Unpaid obligations, end of year	394	446	10,579	136	439	2,228	8,533	135	540	397	13
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(41)	(12)	(48)	(157)	(386)	-	-	(45)	(18)	(208)	(7)
Change in uncollected payments, Federal sources (+ or -)	(2)	(2)	31	157	96	-	1	(4)	(4)	(18)	(2)
Uncollected payments, Federal sources, end of year (-)	(43)	(14)	(17)	-	(290)	-	1	(49)	(22)	(226)	(9)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	286	247	11,549	52	(90)	1,716	7,238	92	196	149	3
Obligated balance, end of year (+ or -)	351	432	10,562	136	149	2,228	8,534	86	518	171	4
Budget Authority and Outlays, Net	-	-	-	-	-	-	-	-	-	-	-
Budget authority, gross (discretionary and mandatory)	2,253	3,507	17,357	313	455	12,866	114,717	1,217	1,252	1,359	99
Actual offsetting collections (-) (discretionary and mandatory)	(505)	(1,939)	(5,118)	(537)	(177)	(4,039)	(154)	(190)	(103)	(182)	(60)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(2)	(2)	31	157	96	-	1	(4)	(4)	(18)	(2)
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	1,746	1,566	12,270	(67)	374	8,827	114,564	1,023	1,145	1,159	37
Outlays, gross (discretionary and mandatory)	2,144	2,433	18,414	341	388	12,351	102,480	1,170	905	1,216	90
Actual offsetting collections (discretionary and mandatory) (-)	(505)	(1,939)	(5,118)	(537)	(177)	(4,039)	(154)	(190)	(103)	(182)	(60)
Outlays, net (discretionary and mandatory)	1,639	494	13,296	(196)	211	8,312	102,326	980	802	1,034	30
Distributed offsetting receipts (-)	(4)	(168)	-	(74)	(9)	-	(3)	(13)	(161)	(7)	-
Agency outlays, net (discretionary and mandatory)	$ 1,635	$ 326	$ 13,296	$ (270)	$ 202	$ 8,312	$ 102,323	$ 967	$ 641	$ 1,027	$ 30

FY 2014	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:	$ 1,087	$ 3,051	$ 61	$ 295	$ 1	$ 1	$ 5,483	$ 7,764	$ 268	$ 33,731	$ 8,758
Recoveries of prior year unpaid obligations	273	470	38	53	2	10	209	1,135	22	2,655	1,266
Other changes in unobligated balance (+ or -)	(10)	(11)	(5)	(35)	-	-	(378)	(4,134)	(8)	(2,520)	(4,812)
Unobligated balance from prior year budget authority, net	1,350	3,510	94	313	3	11	5,314	4,765	282	33,866	5,212
Appropriations (discretionary and mandatory)	6,312	4,270	1,151	1,451	78	162	5,422	21	521	151,153	21
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	7,122	-	14,648	10,704
Spending authority from offsetting collections (discretionary and mandatory)	662	25	164	50	6	32	3,399	8,252	1,022	10,501	8,490
Total budgetary resources	8,324	7,805	1,409	1,814	87	205	14,135	20,160	1,825	210,168	24,427
Status of Budgetary Resources:											
Obligations Incurred (Note 23)	6,645	4,255	1,324	1,384	85	204	7,637	11,787	1,598	165,234	14,806
Unobligated balance, end of year:											
Apportioned	1,317	928	43	481	1	-	3,836	5,231	179	19,966	5,522
Exempt from apportionment	-	-	-	-	-	-	-	-	-	195	8
Unapportioned	362	2,622	42	(51)	1	1	2,662	3,142	48	24,773	4,091
Total unobligated balance, end of year	1,679	3,550	85	430	2	1	6,498	8,373	227	44,934	9,621
Total budgetary resources	8,324	7,805	1,409	1,814	87	205	14,135	20,160	1,825	210,168	24,427
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	2,352	4,424	391	1,995	31	37	4,722	24,541	416	36,260	25,009
Obligations incurred	6,645	4,255	1,324	1,384	85	204	7,637	11,787	1,598	165,234	14,806
Outlays (gross)(-)	(6,383)	(3,714)	(1,218)	(1,400)	(81)	(183)	(7,791)	(12,710)	(1,505)	(161,433)	(15,484)
Recoveries of prior year unpaid obligations (-)	(273)	(470)	(38)	(53)	(2)	(10)	(209)	(1,135)	(22)	(2,655)	(1,266)
Unpaid obligations, end of year	2,341	4,495	460	1,926	34	48	4,359	22,483	485	37,406	23,065
Uncollected payments:	-	-	-	-	-	-	-	-	-	-	-
Uncollected payments, Federal sources, brought forward, October 1 (-)	(459)	(238)	(183)	(102)	(8)	(9)	(20)	(743)	(395)	(2,167)	(912)
Change in uncollected payments, Federal sources (+ or -)	(154)	45	(11)	19	(2)	(9)	9	102	33	28	257
Uncollected payments, Federal sources, end of year (-)	(613)	(193)	(194)	(83)	(10)	(18)	(11)	(641)	(362)	(2,139)	(655)
Memorandum (non-add) entries:	-	-	-	-	-	-	-	-	-	-	-
Obligated balance, start of year (+ or -)	1,893	4,186	208	1,893	23	28	4,702	23,798	21	34,093	24,097
Obligated balance, end of year (+ or -)	1,728	4,302	266	1,843	24	30	4,348	21,842	123	35,267	22,410
Budget Authority and Outlays, Net	-	-	-	-	-	-	-	-	-	-	-
Budget authority, gross (discretionary and mandatory)	6,974	4,295	1,315	1,501	84	194	8,821	15,395	1,543	176,302	19,215
Actual offsetting collections (-) (discretionary and mandatory)	(507)	(69)	(153)	(70)	(4)	(23)	(4,669)	(10,666)	(1,056)	(17,079)	(13,142)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	(154)	45	(11)	19	(2)	(9)	9	102	33	28	257
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	6,313	4,271	1,151	1,450	78	162	4,161	4,831	520	159,251	6,330
Outlays, gross (discretionary and mandatory)	6,383	3,714	1,218	1,400	81	183	7,791	12,710	1,505	161,433	15,484
Actual offsetting collections (discretionary and mandatory) (-)	(507)	(69)	(153)	(70)	(4)	(23)	(4,669)	(10,666)	(1,056)	(17,079)	(13,142)
Outlays, net (discretionary and mandatory)	5,876	3,645	1,065	1,330	77	160	3,122	2,044	449	144,354	2,342
Distributed offsetting receipts (-)	(704)	-	(29)	(5)	-	3	-	(1,380)	21	(911)	(1,622)
Agency outlays, net (discretionary and mandatory)	$ 5,172	$ 3,645	$ 1,036	$ 1,325	$ 77	$ 163	$ 3,122	$ 664	$ 470	$ 143,443	$ 720

FY 2013	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:	$ 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		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:	$ 1,391	$ 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

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 $7,640 million and $4,946 million as of September 30, 2014 and 2013, respectively.

Note: The FY 2013 risk assumed amount was revised from $4,496 million to $4,946 million to correct a transposition error.

Section III: 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 Years Ended September 30, 2014 and 2013
(In Millions)

	2014		2013	
	Budgetary	Non-budgetary Credit Reform Financing Accounts	Budgetary	Non-budgetary Credit Reform Financing Accounts
What Money is Available to Spend?				
Total Resources	$ 210,168	$ 24,427	$ 217,670	$ 25,527
Less Amount Available but Not Agreed to be Spent	20,161	5,530	11,583	4,772
Less Amount Not Available to be Spent	24,773	4,091	22,148	3,986
Total Amounts Agreed to be Spent	**165,234**	**14,806**	**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	2,101	-	2,152	-
Travel and transportation	71	-	68	-
Rent, communications, and utilities	136	(1)	193	-
Other contractual services	4,361	2,013	3,453	1,974
Supplies and materials	341	-	353	-
Equipment, land, and structures	57	-	29	-
Investments and loans	4,434	8,033	7,407	10,294
Grants, subsidies, and contributions	16,313	-	16,682	-
Insurance claims and indemnities	10,685	-	20,496	-
Interest, dividends, and refunds	120	4,135	134	4,109
Other	56	-	19	-
Total	38,675	14,180	50,986	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	4,257	-	4,245	-
Travel and transportation	221	-	198	-
Rent, communications, and utilities	333	-	256	-
Other contractual services	2,908	5	2,667	4
Supplies and materials	271	-	288	-
Equipment, land, and structures	446	-	610	-
Investments and loans	-	412	-	173
Grants, subsidies, and contributions	5,147	-	5,710	-
Insurance claims and indemnities	12	-	134	-
Interest, dividends, and refunds	(14)	83	(11)	52
Other	139	-	341	-
Total	13,720	500	14,438	229

Schedule of Spending (continued)

For The Years Ended September 30, 2014 and 2013
(In Millions)

	Budgetary	Non-budgetary Credit Reform Financing Accounts	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	189	-	185	-
Travel and transportation	9	-	8	-
Rent, communications, and utilities	13	-	12	-
Other contractual services	157	-	185	-
Supplies and materials	19	-	14	-
Equipment, land, and structures	12	-	6	-
Investments and loans	1	20	3	163
Grants, subsidies, and contributions	2,502	56	3,115	-
Insurance claims and indemnities	1	-	-	-
Interest, dividends, and refunds	-	50	-	-
Other	23	-	12	-
Total	2,926	126	3,540	163
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:				
Personnel Compensation and Benefits	2,144	-	2,061	-
Travel and transportation	87	-	86	-
Rent, communications, and utilities	81	-	81	-
Other contractual services	812	-	721	-
Supplies and materials	1,812	-	1,972	-
Equipment, land, and structures	81	-	48	-
Investments and loans	-	-	-	-
Grants, subsidies, and contributions	103,266	-	108,464	-
Insurance claims and indemnities	5	-	3	-
Interest, dividends, and refunds	-	-	-	-
Other	50	-	29	-
Total	108,338	-	113,465	-
Create a USDA for the 21st Century that is High Performing, Efficient, and Adaptable:				
Personnel Compensation and Benefits	509	-	503	-
Travel and transportation	11	-	10	-
Rent, communications, and utilities	290	-	334	-
Other contractual services	651	-	523	-
Supplies and materials	12	-	14	-
Equipment, land, and structures	90	-	99	-
Investments and loans	-	-	-	-
Grants, subsidies, and contributions	10	-	23	-
Insurance claims and indemnities	-	-	1	-
Interest, dividends, and refunds	1	-	-	-
Other	1	-	3	-
Total	1,575	-	1,510	-
USDA Total				
Personnel Compensation and Benefits	9,200	-	9,146	-
Travel and transportation	399	-	370	-
Rent, communications, and utilities	853	(1)	876	-
Other contractual services	8,889	2,018	7,549	1,978
Supplies and materials	2,455	-	2,641	-
Equipment, land, and structures	686	-	792	-
Investments and loans	4,435	8,465	7,410	10,630
Grants, subsidies, and contributions	127,238	56	133,994	-
Insurance claims and indemnities	10,703	-	20,634	-
Interest, dividends, and refunds	107	4,268	123	4,161
Other	269	-	404	-
Total	165,234	14,806	183,939	16,769
Total Amounts Agreed to be Spent	165,234	14,806	183,939	16,769
Who did the Money go to?				
Federal	11,259	5,649	12,980	5,788
Non-Federal	153,975	9,157	170,959	10,981
Total Amounts Agreed to be Spent	165,234	14,806	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 the Department's 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. Eleven challenges were included in OIG's report this year.

One new challenge was added on developing effective performance measures for USDA programs. 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; and oversight of USDA's acquisition management.

The following narratives summarize:

- Management challenges;
- USDA's fiscal year (FY) 2014 agency accomplishments; and
- FY 2015 planned actions to address these management challenges.

Interagency Communication, Coordination, and Program Integration Need Improvement (Challenge 1)

As stated in the FY 2014 Management Challenges report, 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 among several agencies that jointly provide oversight of key mission areas. This requires continual 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.

When one oversight agency is responsible for the administration and execution of a program that impacts many—if not all—of USDA's agencies, strong intradepartmental communication and clear, unified guidance becomes critical. For example, the Office of the Chief Information Officer (OCIO) is generally responsible for the integrity of USDA's information systems.

However, in the case of USDA's Universal Telecommunications Network (UTN)—the data network backbone for USDA customers and agencies—OCIO and the Office of Procurement and Property Management (OPPM) are jointly responsible for various aspects of its operation, including working closely with contracted companies. OCIO relies on OPPM to execute contracts for various aspects of the Department's operation. Additionally, while OPPM acts as the contracting officer (CO), OCIO acts as the contracting officer's representative (COR) and oversees technical aspects of the execution of the contract for CO. This intricate relationship necessitates close coordination between OPPM and OCIO.

In a system as complex as the UTN, success rests heavily upon each involved party's coordination and communication. We found that both OCIO and OPPM need to improve their communication with the CO and COR, as well as with contractors, to ensure that USDA's UTN operates as intended. Due to poor communication between various parties, we found that USDA is paying a contractor for UTN services that are not being provided, and that the UTN network is not meeting security requirements. We found that the previous CO and COR in charge of the task order did not exercise the necessary controls to ensure the network was secure; additionally, OPPM's CO and OCIO's COR were unaware of some security requirements. Due to a lack of oversight, required UTN network features were not complete, and security and data loss prevention measures were not fully implemented. To resolve this, we recommended an overall increase in oversight and communication at multiple levels. OPPM should implement procedures for reassigning contracts and task orders to COs to ensure they understand their newly assigned responsibilities and monitor contractors' performance. Similarly, OCIO, the CO, and the COR should work together to improve internal processes for overseeing task orders. We also recommended the CO work closely with a contractor to ensure it meets its contractual obligations within established timeframes—and emphasized that both the CO and COR should be included on all communications with the contractor regarding changes and disputes. OCIO also needs to work with the contractor to strengthen UTN security measures to meet Departmental regulations and task order terms and conditions.[3]

With interwoven roles between agencies, monitoring multi-agency programs can be a complex undertaking. For example, the Trade Adjustment Assistance for Farmers (TAAF) Program is jointly administered by three agencies: the Foreign Agricultural Service (FAS), which provides oversight; the Farm Service Agency (FSA), which approves producer applications and makes payments to producers; and the National Institute of Food and Agriculture (NIFA), which provides training and technical assistance for producers. We found that FAS did not effectively monitor or conduct reviews of the other agencies' day-to-day program administration. Additionally, FAS did not provide FSA with guidance on when to review records that supported program participants' eligibility. In addition, FSA did not take adequate corrective actions to prevent program participants from receiving TAAF Program benefits prior to meeting all training requirements. As a result, 85 ineligible producers participated in the TAAF Program and received approximately $284,000 in benefits to which they were not entitled.[4]

Continual communication ensures that various Departmental agencies are effectively and collaboratively meeting the Department's goals. Over the years, USDA has made progress in improving lines of communication and clarifying Department wide guidance. As the Department

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[3] *Management and Security over USDA's Universal Telecommunications Network* (88501-0002-12, July 2014).

[4] *American Recovery and Reinvestment Act—Trade Adjustment Assistance for Farmers Program* (50703-0001-23, October 2013).

works to address future challenges facing U.S. agriculture, particularly in a time when the Government is asked to operate with fewer resources, we encourage agencies to strategize how best to accomplish mutual goals and use shared resources. This can help ensure that USDA's processes are safeguarded against potential weaknesses, and that its programs benefit from the combined expertise present throughout USDA's agencies.

Corrective Actions:

A review of processes and procedures is underway to ensure contractor deliverables and services are reviewed and validated by OCIO's Enterprise Network Services and coordinated with the OPPM. This will ensure contractor compliance with contract terms and conditions. The target completion date for this corrective action is September 30, 2014.

OPPM issued a letter to inform all parties that correspondence or discussions regarding contract changes, disputes, or lack of performance is the sole responsibility of the Contracting Officer. OPPM also established Acquisition Operating Procedures to address reassignment of solicitations and contracts within the organization.

FAS is working to return all unobligated funds for the FY 2009 TAAF Program to the Department of Treasury. In any future TAAF Program, FAS will continue to work closely with its program partners and will implement oversight procedures to identify strengths, weaknesses, and areas of improvement.

USDA Needs to Create Strong, Integrated Internal Control Systems Across Programs (Challenge 2)

As stated in the FY 2014 Management Challenges report, USDA managers oversee critical elements of our Nation's agriculture, nutrition, and natural resources policy. In order to bring about desired results, they must design effective internal systems for program implementation.[5] 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 goals 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.

Large programs present unique challenges that require particularly strong internal controls to safeguard against potential fraud, waste, and abuse. For instance, we reviewed the Rural Housing Service's Single Family Housing (SFH) Direct Loan Program, which allows very low and low income households (that would not otherwise have sufficient credit) to receive SFH direct loans to purchase housing. As administrator of the program, the Centralized Servicing Center (CSC)

[5] We have drawn from the Office of Management and Budget's (OMB) description of Federal managers' obligations in *Management's Responsibility for Internal Control* (Circular A-123, 2006 revision).

oversees a loan portfolio of over 325,000 loans, with an outstanding principal balance exceeding $16 billion. We found that although CSC performed reviews of borrower income and generally made accurate payment subsidy eligibility and recapture determinations, CSC processors inaccurately calculated the final recapture receivables for 13 of the 100 borrower accounts in our sample—which statistically projects to 8,103 borrower recapture receivable accounts, with a total value of $33 million. CSC also lacked formal procedures to actively monitor borrower occupancy and did not always establish final payment subsidy recapture receivables in a timely manner. Also, for 7 of the 100 borrower accounts, CSC inaccurately calculated the borrowers' payment subsidy—which projects to a total value of $4.9 million for 7,784 borrower accounts. We recommended CSC expand its secondary review process, improve how it tracks loans, and implement procedures to monitor borrower occupancy and track household income.[6]

We maintain that implementing corrective actions and strengthening internal controls in response to audit recommendations is key for program integrity and effectiveness. In recent years, USDA agencies have generally been more responsive in implementing corrective action plans to address issues identified in audits. However, individual issues, when viewed comprehensively, can sometimes point to weaknesses in the overall system of internal controls. As stewards of Federal resources, "[a]gencies should carefully consider whether systemic weaknesses exist that adversely affect internal control across organizational or program lines," and senior USDA managers should work to identify and correct such issues. When USDA and its agencies strengthen their overall internal controls, they also strengthen their programs.

Corrective Actions:

If the debt is enforceable and collectable, Rural Development (RD) will review accounts where under-billing of the recapture receivable was identified, recalculate the amount of subsidy recapture due, establish a receivable, and contact the borrower to collect the amount(s) due. RD will re-write the desk procedures including secondary reviews for recapture receivable calculations. CSC will identify and monitor borrowers who have recaptured receivable accounts. This will determine if the borrower continues to meet the occupancy requirement or if borrowers are deceased.

CSC will obtain an Office of the General Counsel (OGC) opinion related to occupancy for both granting subsidy and collecting recapture receivable amounts and will implement procedures in accordance with OGC guidance.

CSC will provide training for all employees involved in the subsidy process, and for the calculating and collecting recapture receivable to address these OIG audit findings. The training will incorporate requirements for annual reviews and include standard adjustments to accounts for annual cost of living adjustments for social security and other government payments.

[6] *Single Family Housing Direct Loan Servicing and Payment Assistance Recapture* (04601-0001-31, July 2014).

Information Security Needs Continuing Improvement (Challenge 3)

As stated in the FY 2014 Management Challenges report, 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 its mission, 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, use, 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.

With the passage of the Federal Information Security Management Act of 2002 (FISMA), the Office of Inspector General (OIG) has annually reviewed the Department's cybersecurity initiatives, including those that shield IT equipment and systems from theft, attack, and intrusion. In the past year, USDA has improved its IT security. For instance, USDA's National Information Technology Center became compliant with the Federal Risk and Authentication Management Program in June 2013—one year earlier than the mandatory date.[7] However, even with these advances, our reviews have reported that USDA's IT systems remain vulnerable in many key areas.

We continue to recommend that the Office of the Chief Information Officer (OCIO) work with USDA agencies to identify overall risks, and then prioritize those risks so that it will have a solid basis for a time-phased plan to systematically mitigate them. Again, in FY 2013, we reported that OCIO has not (1) developed Departmentwide policies, procedures, or strategies for continuous monitoring or risk management; (2) monitored agencies for compliance with baseline configurations and ensured known vulnerabilities were fixed; (3) deleted separated employees' access to computer systems, and developed and implemented a policy to detect and remove unauthorized network connections; and (4) issued policy for information security oversight of systems that contractors or other entities operate on USDA's behalf, including cloud computing systems and services.[8, 9]

Since our 2013 FISMA review, OCIO has improved USDA's IT security posture by releasing three critical Departmentwide policies in the latter part of FY 2013 and the beginning of FY 2014.[10] While this is a positive step, USDA's overall compliance with FISMA and other security guidance is also based upon individual agencies' performance. In coming years,

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[7] *Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act Report* (50501-0004-12, November 2013).

[8] Cloud computing is a model for enabling convenient, on-demand network access to a shared pool of configurable computing resources (e.g., networks, servers, storage, applications, and services) that can be rapidly provisioned and released with minimal management effort or service provider interaction.

[9] *Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act Report* (50501-0004-12, November 2013).

[10] While we believe these policies to be a positive step, we could not evaluate their effectiveness because they were not in effect for most of FY 2013. We will be evaluating the implementation of these policies during our FY 2014 FISMA work.

USDA's challenge will be to ensure that OCIO provides the necessary oversight, and that its agencies make efforts to implement OCIO's policies and adapt them into agency-specific procedures.

OCIO's responsibility is to provide high-level oversight of the information systems that touch every aspect of USDA's operations. However, OCIO has not always taken appropriate steps to ensure that these systems are adequately safeguarded. As noted in Challenge 1, we found significant security issues with USDA's UTN, which serves as the data network backbone for USDA customers and agencies. Because USDA is not adequately overseeing and monitoring its contract with a contractor—which was tasked with key security roles—this contractor has not provided several of these services. OCIO also was not adequately performing some of its own duties and had not effectively implemented all recommendations from a prior OIG audit.[11] While OCIO has now created eight plans of action and milestones (POA&Ms) to address some known problems, as of June, only five POA&Ms were being addressed; three were delayed.

While OCIO is responsible for overseeing overall USDA security, each agency must also use controls recommended by the National Institute of Standards and Technology (NIST) to reduce risks to Federal systems. In our reviews, we noted that individual agencies do not always fulfill these duties. For example, during the course of another IT-related audit, we found that, although the National Agricultural Statistics Service (NASS) consistently performs monthly security scans of its network, it is not remediating the identified IT vulnerabilities in a timely manner. We found 4,858 critical, high, and medium-risk vulnerabilities on 899 devices, which could compromise the system if not addressed timely. NASS also did not create any POA&Ms to resolve these vulnerabilities once they were detected, as required. Without creating a POA&M in the Cyber Security Assessment and Management (CSAM)[12] system for each vulnerability, USDA agencies cannot track their progress in addressing these IT vulnerabilities.[13]

Looking forward, OCIO needs to lay the foundation for an effective, comprehensive IT security plan. It is then each agency's responsibility to create and implement agency-specific procedures based on Departmental policy. With 34 agencies and offices to protect, many with their own IT infrastructure, managing IT security will remain a formidable responsibility for USDA.

Corrective Actions:

OCIO has developed Departmentwide policies and procedures for continuous monitoring and risk management. Continuous monitoring has been automated through use of the Tivoli Endpoint Manager. On May 15, 2014, the Chief Information Officer (CIO) sent a memorandum to agencies requiring that all agencies meet NIST standards for secure configuration baselines. OCIO also included templates for waiver/deviation from baseline configuration standards for approval by the CIO.

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[11] *Management and Security over USDA's Universal Telecommunications Network* (88501-0002-12, July 2014).

[12] CSAM is a comprehensive system developed by the Department of Justice, which facilitates achieving FISMA compliance.

[13] *Security Review of the National Agricultural Statistics Service's Lockup Procedures* (26501-0001-12, February 2014).

NASS created 11 POA&Ms in FY 2014 and has since completed eight. Of the 4,858 vulnerabilities identified during the audit, NASS has successfully mitigated 2,981 to date; of those, all critical vulnerabilities have been resolved. NASS expects to mitigate the remaining vulnerabilities by the end of CY 2014.

Departmental Outreach Efforts Need to be More Transparent (Challenge 4)

As stated in the FY 2014 Management Challenges report, USDA is dedicated to ensuring that its programs and benefits are accessible to all communities it serves. In an April 2009 memorandum to all USDA employees, the Secretary of Agriculture reiterated the importance of civil rights, emphasizing that there was significant progress to be made in working with communities to address past civil rights issues. The Department has received public attention with respect to various discrimination complaints that have been filed in Federal district court, including *Pigford I*,[14] the *Black Farmers Discrimination Lawsuit (BFDL),*[15] *Keepseagle,*[16] and *Garcia/Love.*[17] Settlements have been reached in *Pigford I*, *BFDL*, and *Keepseagle,* and a voluntary administrative claims process has been established for Hispanic and women farmers and ranchers claimants *(Garcia/Love)*.

As part of our work under the Claims Resolution Act of 2010, which provided $1.15 billion for the payment of claims in *BFDL*, OIG conducted a performance audit of the claims process for the *BFDL* settlement. The *BFDL* settlement agreement provided two external entities—the claims administrator and a deciding official (known as the neutral)—would be responsible for processing and approving or denying claims, respectively. Overall, nothing came to our attention to indicate that the claims process was not implemented in accordance with the *BFDL* settlement agreement. We did, however, identify that the neutral's adjudicators reached different conclusions for similar claims—approving some and denying others. The claims administrator also had not identified all instances where multiple claims may have been filed for a single farming operation or an individual class member. Finally, the neutral had provisionally approved at least 20 persons who were ineligible for a *BFDL* award because they had already participated in the *Pigford I* settlement. The claims administrator and the neutral addressed our findings,[18] and we are currently testing the effectiveness of their corrective actions in an ongoing audit.[19]

As the Department moves forward to address civil rights disputes and reaches out to the communities it serves, we emphasize the importance of strong internal controls—such as formalized procedures, documentation, and oversight—which will, in the long run, ensure more transparent, consistent, and equitable treatment of all those seeking to participate in USDA programs.

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[14] *Pigford v. Glickman*, No. 97-1978 (D.D.C.).
[15] *In re Black Farmers Discrimination Litigation*, No. 08-mc-511 (D.D.C.).
[16] *Keepseagle v. Vilsack*, No. 1:99 CV 03119 (D.D.C.).
[17] *Garcia v. Vilsack*, No. 1:00CV02445 (D.D.C.) and *Love v. Vilsack*, No. 1:00CV02502 (D.D.C.).
[18] *In re Black Farmers Discrimination Litigation* (50601-0001-21, December 2013).
[19] *In re Black Farmers Discrimination Litigation—Adjudicated Claims* (50601-0003-21, work in process).

Corrective Actions:

There were no corrective actions needed in FY 2014 or actions to be completed in FY 2015 to resolve the prior year audits discussed in this management challenge. There are several audits pending that will be addressed by USDA when the audits are finalized by OIG.

Strategic Plan on Trade Should be Strengthened to Assess the Impact of Agricultural Commerce and Trade (Challenge 5)

As stated in the FY 2014 Management Challenges report, given the importance of U.S. agriculture to the economy—in 2013, the Nation's farms and ranches produced $445 billion in goods[20]—USDA has a deeply-rooted and longstanding interest in promoting the export of our commodities worldwide. Over the last few years, the total monetary value 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 $115.8 billion in FY 2010 to $144.1 billion in FY 2013.

In this positive environment for U.S. agricultural goods, USDA's challenge is to capitalize on the historic moment. The Secretary emphasized the importance of the Department's strategic plan on trade, saying, "We need to remain focused on keeping up the incredible momentum we've seen over the past five years."[21] Agricultural commerce and trade is one of the primary goals in the Department's current strategic plan for FY 2014-2018. However, creating a focused and results-oriented approach remains a challenge for USDA—which in turn makes it difficult to determine the overall impact of increased exports on our Nation's rural economies.

In monitoring the Department's efforts, we have found that this is an area for continued improvement. We reported in 2007 that USDA had not integrated its country-specific marketing strategies into a focused, global strategy capable of responding effectively to international market trends. At that time, we recommended that the Department develop a global market strategy to increase U.S. export opportunities and competitiveness and, in 2010, the Department announced a global market strategy in answer to the President's call for an export initiative.[22, 23]

In FY 2013, we reported a similar issue: FAS' recently updated strategic plan—which is in effect through FY 2015—needed to be strengthened. FAS helps U.S. food and agricultural exporters take full advantage of market opportunities through trade promotion and trade policy, and serves as the principal coordinator for international activities within USDA. We found that while FAS'

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[20] Value of agricultural sector production forecast for 2013, as of February 2014.

[21] "Vilsack: U.S. farm exports hit a record $140.9 billion last fiscal year," *Des Moines Register* (November 15, 2013, https://blogs.desmoinesregister.com/dmr/index.php/2013/11/15/vilsack-u-s-farm-exports-hit-a-record-140-9-billion-last-fiscal-year/article).

[22] *Foreign Agricultural Service: Implementation of the Trade Title of the 2002 Farm Bill and the 2002 President's Management Agenda* (50601-0012-At, March 2007).

[23] In March 2010, the President issued the National Export Initiative, an executive order to enhance and coordinate Federal efforts to facilitate the creation of jobs in the United States through the promotion of exports and to ensure the effective use of Federal resources. This initiative supports the Administration's goal of doubling exports from 2010 to 2015.

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. To resolve these issues, we recommended that FAS refine its performance measures to contextualize changes to U.S. market share; incorporate clear, outcome-based performance measures into the 2013 Country Strategy Statements; and work with the Department to update certain strategies and performance measures.[24]

While the Department is taking steps to respond to OIG's past findings, further work is still needed. In its latest FY 2015 budget hearing before Congress, FAS showed a willingness to consider market share and dollar values as part of its goals—a step we have recommended FAS take since our 2007 trade report. FAS' challenge is to strengthen its measure for estimating the number of U.S. jobs created by this rise in exports.[25] Secretary Vilsack emphasized that the Department's trade promotion efforts—which return $35 in economic benefits for every $1 invested—not only provide "a great value for producers who gain access to additional market opportunities abroad," but could also create a profound, beneficial impact upon the "rural communities that depend on a solid agriculture sector to create and support jobs."[26]

With the Department's emphasis in measuring its impact on rural economies, determining FAS' actual impact is of key importance. At present, FAS still cannot validate the estimates that it has projected; it has agreed, however, to consider changing the goal to better measure the impact FAS has on the rural economy. In coming years, we plan to monitor FAS' efforts to improve its strategic plan. This plan is essential to fulfilling USDA's overarching goal of increasing prosperity in rural communities.

Corrective Actions:

Country Strategy Statement (CSS) reporting guidelines for 2014 incorporated improvements including clear, outcome-based performance measures. The majority of 2014 CSS reports have been completed using the improved guidelines.

The measurement of FAS capacity building activities still needs further improvement. FAS management reconvened a working group to again work toward identifying how further improvements can be made toward consistently developing activities with measurable outcomes for the CSS. Guidelines for 2015 reporting will be developed by this group. FAS also will determine a collection of measures that together illustrate how FAS efforts are affecting global markets, and will coordinate with the Department to update the current Global Market Strategy.

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[24] *Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals* (50601-0001-22, March 2013).

[25] FAS developed its performance measure based on the Economic Research Service annual macroeconomic models that estimate the number of jobs created and additional economic activity generated from the export of agricultural products at both farm and non-farm levels.

[26] "Vilsack: U.S. farm exports hit a record $140.9 billion last fiscal year," *Des Moines Register* (November 15, 2013, https://blogs.desmoinesregister.com/dmr/index.php/2013/11/15/vilsack-u-s-farm-exports-hit-a-record-140-9-billion-last-fiscal-year/article).

Action Needed to Improve Natural Resources Stewardship (Challenge 6)

As stated in the FY 2014 Management Challenges report, one of USDA's mission areas is ensuring the health of the land through sustainable management and conservation of the Nation's natural resources. Recently, Congress has emphasized conservation efforts. For example, for the first time ever, the Agricultural Act of 2014 (2014 Farm Bill) has tied Federal crop insurance program eligibility to compliance with conservation practices.[27] NRCS plays a key role in managing the Nation's natural resources by working with private landowners to help them conserve, maintain, and improve their natural resources. Over the years, USDA's agencies—particularly NRCS—have had to balance budgetary concerns with the increasing demands placed on our Nation's public and private lands, as well as the logistical issues of managing vast and geographically diverse natural resources. We have found that without strong controls in place to ensure compliance and effective program operations, NRCS cannot ensure that its budget for conservation efforts—$4.25 billion in FY 2013—is used efficiently or correctly. As NRCS now faces growing concerns such as climate change, increasing land development, and conservation measures that affect human safety, successfully managing these demands will continue to pose a challenge in future years.

For instance, NRCS' controls over the Environmental Quality Incentives Program (EQIP) need to be strengthened in order to meet its goal of providing financial and technical assistance to participants to build practices that will address pressing environmental concerns. EQIP is NRCS' largest program—for FYs 2009 through 2011, it received nearly $3.5 billion. Despite the program's prominence, we found that even though the allocation method adequately considered environmental concerns on the national level, NRCS' State-level allocation processes did not. Second, State offices did not make onsite visits for all practices to ensure they were completed by the participant, as required by contract. Instead, States allowed contractors and participants to self-certify. Third, we found that, of the participants with projects that were significantly behind schedule, NRCS did not take action to identify those that were noncompliant with their contracts (or modifications to their contracts). In the future, this could limit NRCS' ability to take corrective action. Finally, NRCS did not require follow-up visits to ensure practices were in working order for their intended lifespan—which resulted in several practices at locations we visited not being maintained. Without effective monitoring controls to address these issues, NRCS may not be effectively obtaining the environmental benefits that are expected of EQIP practices.

We recommended that NRCS implement controls and schedule an analysis to ensure State allocation formulas are tied to environmental concerns, and implement controls to ensure that participants who do not meet contractual timelines are identified as noncompliant. NRCS should also require onsite verification to ensure practices are actually complete and obtain a formal opinion from the Office of the General Counsel on whether participants must maintain practices for the estimated lifespan.[28]

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[27] Agricultural Act of 2014, Pub. L. No. 113-79, tit. II, subtit. G, 128 Stat. 649, 762-766.
[28] *Environmental Quality Incentives Program* (10601-0001-31, July 2014).

We also found that NRCS has an opportunity to improve how it monitors landowner compliance with conservation easement program goals. Since 1992, NRCS has protected and restored over 3 million acres of wetlands, grasslands, forests, and farmlands through the various easement programs it administers. As a result, NRCS has a long-term responsibility to ensure the different easement program objectives are achieved and statutory requirements are met on these lands. NRCS carries this out through annual monitoring. Currently, NRCS monitors more than 15,000 easements annually. Since these easements are for 30 years or for perpetuity, and since their number is growing, NRCS must establish effective systems to monitor them. We reviewed records or made site visits to easements under the Wetland Reserve Program, the Emergency Watershed Protection Program's Flood Plain Easements, the Grassland Reserve Program, and the Farm and Ranch Lands Protection Program.

We found that the personnel performing onsite monitoring are not detecting violations, mistakes, and outdated items, both on easements and in the related files. As a result, NRCS is not consistently detecting violations, properly reporting easement status, or correcting noncompliances, all of which could compromise the environmental benefits of the easements and diminish the agency's ability to effectively monitor its easement investments. We also found that NRCS is not effectively tracking easement monitoring. We recommended that NRCS make improvements to its conservation easement compliance activities. NRCS generally agreed with our recommendations.[29]

Responsible management is the key to ensuring that all Americans benefit from our country's rich and diverse natural resources. USDA agencies must strike a balance between production and conservation demands, while at the same time working to safeguard American communities. With growing concern over issues such as climate change, we encourage NRCS to be vigilant in putting its limited resources to the best use.

Corrective Actions:

OGC advised again that NRCS does not have the authority to enforce practice lifespan requirements as a contract violation matter upon expiration of the EQIP contract period. NRCS' current policy is based upon this OGC guidance.

NRCS will analyze State-developed EQIP allocation formulas to identify inconsistencies in interpretation of EQIP policy and factors used to target funding to natural resource concerns that are priorities. NRCS will issue a memorandum or National Bulletin reminding local office staff of proper certification and documentation procedures.

Food Safety Inspection Systems Need Improved Controls (Challenge 7)

As stated in the FY 2014 Management Challenges report, because food-borne 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,

[29] *NRCS Conservation Easement Compliance* (10601-0002-31, July 2014).

from placing qualified inspectors in livestock slaughtering facilities to creating comprehensive inspection and testing programs that pinpoint likely risks at processing facilities. To maintain the confidence of consumers, Congress, and other stakeholders, USDA's food safety agencies should continue to improve their inspection processes and technology systems to accurately assess risk and effectively prevent contamination. USDA's challenge is to remain vigilant and proactive in ensuring that American consumers receive wholesome foods.

Even in the face of budget constraints, food safety agencies—like the Food Safety and Inspection Service (FSIS)—are responsible for ensuring the safety of the Nation's food supply. Our review of FSIS' and the Agricultural Marketing Service's (AMS) efforts in maintaining food safety raised concerns about how FSIS was addressing this challenge. We found that some FSIS inspectors are working many hours above a normal schedule of 80 hours per two-week pay period—more than 400 of FSIS' approximately 10,000 inspectors averaged more than 120 hours each pay period for all of FY 2012. Overworked FSIS inspectors may be risking the public's health as well as their own, especially if they are fatigued while performing crucial food safety-related tasks.

A report by the Centers for Disease Control and Prevention has shown that working long hours is not only detrimental to the health and well-being of employees, it also decreases employee productivity while on the job. Similarly, the Occupational Safety and Health Administration found that extended or unusual work shifts can lead to an increased risk of operator error, injuries, or accidents. The FSIS union contract stipulates that field inspectors are generally not to work more than 10 or 12 hours in one day, depending on their duties. Additionally, Federal regulations state that Departments must schedule the basic work week so as to consist of five consecutive 8-hour days.[30] However, we found that some inspectors are working these hours six and even seven days a week. Because of these extended hours, OIG believes FSIS inspectors could have decreased productivity, which might impair their ability to perform functions that are critical to public food safety. FSIS disagreed that the hours were affecting its field staff's work, but agreed to take measures to better understand the effects of these long hours on its employees, such as conducting an internal review to assess whether FSIS effectively limits inspectors' required overtime hours, implementing any additional safeguards needed, and setting limitations on extended overtime hours. FSIS agreed to all recommendations.[31]

Because of its vital importance in public health and safety, we will continue to monitor the Department's efforts in addressing pressing food safety concerns. For example, FSIS is implementing a new information system to improve public health, which will collect, consolidate, and analyze data. The Public Health Information System (PHIS) is intended to serve as a comprehensive data analysis system and includes four components: domestic inspection, import activities, export activities, and predictive analytics. FSIS implemented PHIS for domestic inspection in April 2011, and PHIS for import activities in May 2012—the remaining two components are currently being implemented. In large part, FSIS anticipates that PHIS

[30] These regulations do offer some flexibility. For example, the Department may depart from the basic work week in those cases where maintaining such a schedule would seriously handicap the Department in carrying out its function.
[31] *FSIS' and AMS' Field-Level Workforce Challenges* (50601-0002-31, July 2013).

should improve upon past FSIS information systems that we have reviewed, such as the Performance Based Inspection System and the Automated Import Information System.

The task of ensuring the safety of America's food is a vast responsibility, and we recognize the difficulties USDA faces in maintaining daily vigilance. If the Department continues to meet its food safety challenge through strengthening its inspection processes and technology systems, then consumers can be confident that USDA's measures effectively safeguard against the risk of contaminants entering the food supply.

Corrective Actions:

FSIS formed a work group to examine the reasons for excessive overtime and the impact of excessive overtime on employees' health, safety, and performances. The group reviewed corrective action and managerial intervention to prevent excessive hours of overtime while still maintaining the appropriate safety and physical fitness of the in-plant personnel. The work group's report included an action plan highlighting the 10- and 12-hour rule set by FSIS and the Union. The report stressed that supervisors must enforce the rule and that managers must hold their supervisors accountable for excessive overtime hours. The report also includes hiring and training recommendations to further address the issue of excessive overtime hours. Finally, FSIS' Accounts Payable Management Branch has begun to generate overtime reports each pay period, which include the names of employees who post over 56 overtime hours. These reports are shared with the managers (District Managers, Deputy District Managers, and Supervisory Resource Management Analysts) in each district to ensure appropriate action is taken whenever excessive overtime hours are reported.

FSIS is implementing Actual Time Automation (ATA), which is an initiative that will perform all necessary reconciliations of the FSIS' time and attendance reporting system to its system for billing overtime to ensure industry is accurately billed for inspection services. The ATA implementation has several phases including a phase to implement an electronic device that will replace the current paper timekeeping and billing processes.

Identifying, Reporting, and Reducing Improper Payments Can Strengthen USDA Programs (Challenge 8)

As stated in the FY 2014 Management Challenges report, USDA delivers approximately $159 billion in public services annually through more than 300 programs. In FY 2013, USDA reported that 16 of its programs and activities were vulnerable to significant improper payments ("high-risk" programs) and estimated $6.2 billion in improper payments for that year—a 5.36 percent error rate, and an increase from FY 2012's 5.11 percent error rate. The Department needs to continue efforts to identify the root causes of improper payments and implement corrective actions to reduce its improper payments based on those causes.

Improper payments occur when funds go to a wrong or ineligible recipient, the proper recipient receives an incorrect amount of funds or uses funds in an improper manner, or documentation is not available to support a payment. Not all improper payments involve fraud or waste—most payment errors are inadvertent and often based on missing documentation. However, all improper payments affect the integrity of Government programs and compromise citizens' trust in government.

In recent years, the President's 2009 Executive Order, Reducing Improper Payments and Eliminating Waste in Federal Programs (EO 13520), the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) have all increased the Government's accountability for reducing Federal improper payments. These measures not only require more stringent reporting, they also help agencies reduce improper payments by identifying and correcting underlying problems. Additionally, they require OIGs to evaluate agencies' progress in implementing these requirements. We found that USDA continues to struggle to fully comply, particularly with requirements involving USDA's reporting practices and preventative measures.

One necessary step towards improving the accuracy of USDA's payments is improving the transparency and quality of its reports. Without accurate reporting, USDA cannot fully assess and communicate its efforts to eliminate the highest improper payments in its programs. As in previous years, we found that USDA is not submitting timely and complete quarterly reports. Although FY 2013's reports were generally more timely as the year progressed, agencies still fell significantly short of their required timelines—ranging from 222 days late in the first quarter to 65 days late in the fourth quarter. We also found that the Office of the Chief Financial Officer (OCFO) omitted the entire first quarter reports for two agencies—and as a result, their overpayments were not reported throughout the entire fiscal year.[32]

With every lapse in its internal controls, USDA risks increased improper payments. During our IPERA review for FY 2013, we reported that, collectively, eight programs administered by the Food and Nutrition Service (FNS), FSA, NRCS, and RMA did not comply with the requirement of meeting their FY 2013 improper payment reduction targets. Had they done so, they could have avoided $416 million in reported improper payments. Agencies with particularly high error rates need to strengthen their internal controls to more effectively prevent and identify overpayments when they occur. For example, NRCS' Farm Security and Rural Investment Act programs missed their target by 6.90 percent, which resulted in the reporting of over $157 million in additional estimated improper payments. RMA's Federal Crop Insurance Corporation also missed its target by 1.23 percent, which resulted in the reporting of over $133 million in additional estimated improper payments. RMA determined that one of the companies we sampled grossly underestimated the resources it needed for the crop insurance claim load—which caused the majority of RMA's excessive errors. Both NRCS and RMA have agreed to take corrective actions—including improvements to testing, additional training,

[32] *Fiscal Year 2013 Executive Order 13520, Reducing Improper Payments, High-Dollar Overpayments Reports Review* (50024-0006-11, August 2014).

updated policy, and detailed reviews to ensure the same errors are not repeated in future years.[33, 34]

Although USDA began implementing processes to reduce the risk of improper payments and comply with IPERA, for the third consecutive year, it did not comply with the law—falling short on three of the seven requirements. Looking forward, OCFO and USDA agencies must complete several actions—such as FNS developing a reliable method to estimate improper payments for meals claimed in its Child and Adult Care Food Program—to assess results and achieve compliance. We note that USDA—and particularly OCFO—is taking measures to strengthen some internal controls. For example, in an effort to prevent payments from going to deceased individuals, USDA implemented a monthly comparison of payment recipients against the Social Security Administration's Death Master File. In addition, agencies began requesting access to the Department of the Treasury's Do Not Pay Portal. OCFO anticipates that most agencies will have fully implemented this process by the end of the fiscal year. When all of the tools are available, USDA plans to utilize the Do Not Pay Portal to help prevent payments being processed to ineligible participants on the list.

As USDA works to address improper payments by implementing necessary internal controls, we continue to emphasize the importance of complying with IPERIA, IPERA, EO 13520, and other requirements. If USDA addresses key weaknesses, the public can be more confident that USDA conscientiously and effectively accounts for, uses, and recovers taxpayer dollars.

Corrective Actions:

Despite USDA's efforts to decrease improper payments, the improper payment rate may continue to increase for a few years as agencies continue to enhance their methodologies for identifying and reporting improper payments. Additionally, since improper payment testing is performed on payments made in prior fiscal years, corrective actions implemented may not result in an immediate impact on the improper payment rate. In some cases, corrective actions could take several years to impact the improper payment rate.

USDA has improved the timeliness of the High-Dollar Overpayment Quarterly Report. While additional work needs to be done, improvements were noted in both OIG Executive Order 13520, Reducing Improper Payments, High Dollar Report Review and USDA Management Challenges report. In FY 2014, USDA also implemented detailed second-party reviews to ensure that agency submissions were not omitted.

The Department conducted a study to evaluate the source of improper payments in the crop insurance program to more accurately test and report improper payment results.

The Federal Crop Insurance Program FY 2013 improper payment rate was 5.23 percent, and the target published in the FY 2012 Agency Financial Report was 4.0 percent. The improper

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[33] Additionally, RMA stated that the company in question was under close monitoring for the 2013 crop year and would not be approved for 2014 unless it made additional corrective actions and improvements.
[34] *U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013* (50024-0005-11, April 2014)

payment rate was elevated due to the material weaknesses of one company that exhibited an exceptionally large amount of errors (27.3 percent) for the year. RMA found that the company had increased its premium volume in 2011 without a commensurate increase in infrastructure and resources to adequately service the additional business. Subsequently, the Federal Crop Insurance Corporation (FCIC) conducted extensive reviews of the company's administration of the Federal crop insurance program because of the company's failure to follow policies and procedures, and violations of the Standard Reinsurance Agreement. The company has implemented corrective actions to address the administrative weaknesses raised from FCIC's review and is currently operating at a satisfactory performance level. FCIC continues its monitoring of this company to ensure it maintains its operational capacity at an acceptable level. No further action will be taken by the agency concerning this matter.

USDA determined that FSA's Conservation Reserve Program and Marketing Assistance Loans have consistently reduced their improper payments to the point that they are no longer at high-risk for making improper payments. With concurrence from OIG and OMB, USDA has removed the aforementioned from the list of programs at high-risk of improper payments.

USDA strengthened the quality review process for accurate and complete agency information in the Improper Payments section of the Agency Financial Report (AFR). USDA developed a second-party review process that increased the accuracy of reporting in last year's AFR. USDA developed a detailed checklist that will make further improvements in the accuracy of the information in this year's report.

NRCS has implemented several initiatives to decrease its improper payment rate. NRCS now requires proof that entity participants have registered in the System for Awards Management (SAM) prior to obligation and payment. To decrease improper payments related to easements, NRCS is scheduled to implement a pre-payment checklist and additional payment-related controls in its easement inventory tool. Furthermore, additional guidance and policy reminders will be provided to State offices regarding appraisals to ensure that NRCS pays the correct amount for easements. These actions are scheduled for early FY 2015.

FNS has confirmed in three of its programs that did not meet their respective target error rates, the differences noted (0.9 percent for School Breakfast Program), 0.59 percent for National School Lunch Program, and 0.38 percent for Special Supplemental Nutrition Program for Women, Infants and Children) are based on aged estimates and are all well within the confidence intervals for the study estimates. In this respect, when the level of precision inherent in these estimates is considered, FNS believes the three programs substantively met their targets for FY 2013.

USDA will continue to improve the timeliness of the High-Dollar Overpayment Quarterly Report. USDA will seek ways to maximize the recovery of improper payments and accurately report the results of recovery efforts. Also, USDA will implement updated guidance from OMB on evaluating, testing, and reducing improper payments.

USDA Needs to Increase Efforts for Appropriately Training and Preparing Human Resources (Challenge 9)

As stated in the FY 2014 Management Challenges report, 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.

More than ever, as agencies address this challenging situation, it is critical to ensure that employees are not duplicating work and that limited resources are focused on areas of the greatest need. Despite declining resources—FSA saw its salary and expense appropriation shrink from $1.57 billion in FY 2010 to nearly $1.4 billion in FY 2013—the agency has not developed an integrated compliance strategy to ensure that its resources are focused on areas posing the most significant risk of noncompliance. Instead, FSA conducts various compliance activities that are not coordinated within an overall strategy. FSA officials stated that they believed that FSA's strategic plan and various handbooks comprised its compliance strategy. However, we found this approach does not go far enough in evaluating FSA's compliance activities as a whole. Specifically, FSA had not evaluated its compliance activities to ensure that the scope and methodology of the various reviews adequately address specific problem areas and risks, and had not developed an overall compliance goal or performance measures for each of its compliance activities. As a result, some of FSA's compliance activities were duplicative and were not achieving their intended results. Therefore, FSA cannot ensure that it is maximizing the use of its limited resources to ensure that its compliance activities focus on areas of greatest risk.[35]

Likewise, FAS needs to work diligently to ensure that it strategically focuses its resources to appropriately meet staffing needs. We found that staffing shortages have affected FAS' ability to monitor active Food for Progress Program agreements. Our review found that FAS' Food Aid Division did not always receive, review, or monitor semiannual reports submitted by private voluntary organizations (PVOs), which in turn has impacted its ability to reasonably ensure the integrity of the financial information in these reports. Additionally, the Food Aid Division cannot confirm that PVOs established separate bank accounts to administer agreements or ensure that PVOs remitted interest earnings on the Commodity Credit Corporation's advanced administrative funds. FAS officials attributed these weaknesses to a lack of staffing and a mandate to cut travel expenses, as well as working in an uncertain budget environment where they did not know what resources they had to oversee and implement corrective actions. FAS officials stated that the agency's ability to perform close out reviews was also affected by vacant positions and a lack of staff. Finally, FAS officials explained that they had given higher priority to awarding grants rather than to monitoring them. Although FAS has agreed with our 11 recommendations, further action is needed to reach management decision on 5 of them.[36]

Like FAS and FSA, both AMS and FSIS could improve human capital management in order to create a more streamlined and effective workforce. We reviewed AMS' and FSIS' methods of

[35] *FSA Compliance Activities* (03601-0001-22, July 2014).
[36] *Private Voluntary Organization Grant Fund Accountability* (07601-0001-22, March 2014).

compensating for a limited workforce and found that both agencies needed to improve their succession planning and how they monitor or bill industry for their services. For instance, we found that FSIS could not adequately reconcile reimbursable overtime charges to industry with the overtime recorded by field staff in its timekeeping system, which could potentially have resulted in inaccurate overtime charges billed to industry. We also found that agreements between the two agencies on how to cross-utilize their workforces were out of date and needed to be revised. The agencies are currently in the process of implementing the recommended changes.[37]

As USDA continues to streamline its operations, it must ensure that its limited resources are sent directly to areas where there is the greatest need. Doing so should reduce error and ensure that USDA is efficient and effective in performing the diverse duties of an evolving Federal workforce.

Corrective Actions:

FSA will evaluate its compliance activities to ensure that the scope and methodology of the various reviews adequately address specific problem areas and risks, taking into consideration FSA's limited human resources, and develop an overall agency-integrated compliance strategy.

FAS has made significant changes to its regulations, operating systems, and policies and procedures all of which have improved FAS' oversight of its food assistance agreements. FAS will engage an independent consultant to perform a human capital assessment of the Food Assistance Division; this assessment will include an evaluation of staffing requirements necessary to further strengthen management of the food assistance programs.

USDA issued new guidance regarding the integration of succession planning and workforce planning into USDA Human Capital Planning. As described in the March 2014, memorandum, all USDA agencies will be working with the Department's Office of Human Resource Management on designing and implementing succession plans for each program area.

AMS piloted a new online portal and worked through issues with Departmental Management prior to Department-wide dissemination. In May 2014, the Department reviewed 53 areas within the AMS Human Capital Plan, and the agency scored high relative to the Department's median scores.

AMS will continue to work both internally and with the Department to ensure the agency is equipped to address changing industry and customer needs. Additionally, AMS is updating a Memorandum of Understanding with FSIS on the cross-utilization of field personnel, for use when opportunities arise.

FSIS worked with APHIS to design and implement a Secure Socket Layer proxy solution that APHIS employees can easily operate within the FSIS network. APHIS monitors the status of overdue industry accounts and properly services FSIS debts. Both agencies were involved in piloting this solution.

[37] *FSIS' and AMS' Field-Level Workforce Challenges* (50601-0002-31, July 2013).

FNS Needs to Strengthen SNAP Management Controls (Challenge 10)

As stated in the FY 2014 Management Challenges report, by far the largest program within USDA, the Supplemental Nutrition Assistance Program (SNAP) provides monthly food assistance and nutrition for the health and well-being of more than 47 million low-income individuals. Program participation has grown by 81 percent since 2007, and the program disbursed over $76.07 billion in benefits in FY 2013. 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 has finalized regulations to implement stronger penalties and sanctions for small retailers.

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. Last year, we reported 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.[39] 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. Currently, FNS is working on developing and implementing a pilot system that will allow five participating States to check for dual participation within this group of States. FNS continues to offer guidance and technical support to the five-State consortium to ensure that the project meets OMB's objectives. The pilot began in June 2014 and is scheduled to run for 12 months, at which point an evaluation report will be provided to FNS. FNS will develop any necessary action plans at that time as a result of decisions regarding any possible future actions. FNS also plans to issue a report that explores the feasibility and options for developing a SNAP recipient fraud rate by the end of FY 2014, as well as a study to determine the feasibility of using a national sample of SNAP retailers for calculating the national trafficking rate.

As FNS updates its technology to monitor and strengthen SNAP, FNS must also ensure that it is making full use of gathered data, and that its agency policies and employee skill sets sufficiently supplement these efforts. In July 2013, we reported that FNS does not have clear procedures and guidance to carry out key oversight and enforcement activities to address SNAP retailer fraud, or adequate authority to prevent multiple instances of fraud, either by a particular owner or at a particular location. We recommended that FNS comprehensively review its policies, procedures,

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[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).

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. While we have reached agreement on most of the report's recommendations, FNS needs to make further changes to safeguard SNAP from retailer fraud.[40]

Specifically, FNS needs to seek legislative changes that would provide FNS the authority to require any owner of a location that has been previously permanently disqualified for trafficking to have a vested interest, such as posting a collateral bond or letter of credit, before authorization. Until legislative changes are made, the agency should strengthen oversight and monitoring of store locations that have been permanently disqualified two or more times for trafficking. FNS must also change SNAP regulations and policy to permanently disqualify retail store owners at all authorized retail locations. FNS should also notify store owners that, in the future, any trafficking violation will require the store owner to qualify for and pay a penalty in lieu of permanent disqualification, or be subject to permanent disqualification at all store locations currently authorized for that owner. Finally, FNS must also ensure owners who have been permanently disqualified for trafficking are not granted authorization as a SNAP retailer at new locations.

With these changes in mind, it becomes all the more important for FNS to be able to assess SNAP's progress in reducing improper payments. We are currently completing fieldwork on our review of SNAP error rates. State agencies are required to review SNAP payments and identify payment errors for a statistical sample of national households that receive benefits. FNS then selects a sub-sample of these households, verifies the States' findings, and uses these reviews to calculate the States' official error rates. Since SNAP has grown considerably in recent years, it is critical for FNS to ensure that the national payment error rate is calculated correctly and that the program's improper payments are being accurately reported.

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 55 percent in FY 2013. With this increase has come a high percentage of success: the conviction rate for investigations of SNAP fraud was 94 percent for FY 2013. Typically, OIG's investigations have centered on retailers engaging in SNAP trafficking. After careful analysis of our investigative work and discussions with FNS, we concluded that to address fraud more effectively and ultimately better 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 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:

FNS takes program integrity very seriously. Any errors are of concern; however, FNS points out that the findings in OIG's audit of 10 State databases 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. 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.

Currently, FNS is working on developing and implementing a pilot system that will allow five participating States to check for dual participation within this group of States. FNS continues to offer guidance and technical support to the five-State consortium to ensure that the project meets OMB's objectives. As mentioned, the pilot began in June 2014 and is scheduled to run for 12 months, at which point an evaluation report will be provided to FNS. FNS will forward a copy of the evaluation report upon its completion and will develop any necessary action plans at that time as a result of decisions regarding any possible future actions.

FNS released the Recipient Integrity Management Evaluation (ME) Module, and FNS conducted reviews of every State in FY 2013. The module is used by FNS to examine State Agency (SA) and local SNAP offices to determine compliance with Federal requirements governing recipient integrity. The ME Module focuses on four areas of recipient integrity: investigations, administrative disqualification hearings, prosecutions, and reporting. FNS is in the process of conducting a full Recipient Integrity ME review in every State again for FY 2014.

On April 23, 2014, FNS awarded a new contract to Criterion Systems Inc. to manage FNS' electronic Disqualified Recipient System (eDRS). FNS is working with its contractor to enhance the eDRS system to address previous findings, specifically focusing on improving data integrity. Furthermore, FNS is continuing to work with SAs in order to transition them to more timely and robust data connections, such as Web services that improve the timeliness and accuracy of data matched by States against the eDRS system. As part of this transition, FNS requires States to conduct full audits to reconcile State disqualification records against those found in eDRS, ensuring that disqualified individuals who are ineligible do not participate in the program.

FNS is conducting a study to determine whether it is feasible to create a uniform methodology for States to calculate their recipient fraud rate, which would be incorporated into a national recipient fraud rate. FNS is also conducting a study to determine the feasibility of using a national sample of SNAP retailers for calculating the national trafficking rate. FNS is currently developing a timeline for issuance of the National Fraud Rate Feasibility Recommendations and Options report.

The retailer management function was centralized at 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. Replacement of the retailer management policy handbook is underway. Several subject areas have been replaced by issue-specific policy memoranda.

A Quality Assurance Branch was formed to address retailer management issues; several retailer management training modules have been developed to provide foundational training to all retailer management staff. Senior OIG officials have acknowledged that FNS has no statutory authority to directly access the National Crime Information Center (NCIC) for the purpose of obtaining criminal background checks for retailers. Therefore, FNS has agreed to initiate a proposed rule that would require any new high-risk applicants and current high-risk retailers to provide FNS with a self-initiated NCIC background check prior to authorization or reauthorization. The work plan to initiate this proposed rule will be completed in calendar year 2014.

USDA Needs to Develop Effective Performance Measures for its Programs (Challenge 11)

As stated in the FY 2014 Management Challenges report, the Government Performance and Results Modernization Act of 2010 requires agencies to report the actions taken by programs as outcomes clearly linked to program goals.[41] OIG has consistently identified performance measures as an area in need of improvement. In particular, our review of performance measures for Recovery Act funds illustrated that program and agency goals are not clearly articulated, that performance measures tend to report outputs rather than outcomes, and that the data being reported are of questionable accuracy.[42] As our audits have extended to non-Recovery Act programs, we have found similar issues. Without accurate and meaningful outcome-based performance measures, policymakers will not receive the information they need to make appropriate funding decisions.

A recent audit of FSA's Economic Adjustment Assistance to Users of Upland Cotton Program (EAAP)—a program that authorizes economic assistance to domestic users of upland cotton to ensure the competitiveness of U.S. textile mills in the global marketplace—found that the agency has not (1) established goals for EAAP consistent with its mandate, (2) developed a program evaluation, or (3) established performance measures to determine the impact of economic assistance payments to domestic users of upland cotton. Even though FSA projected that it made payments that would limit market losses, plant closures, and employment declines, the agency has not developed a way to measure this impact. Instead, FSA views paying users in a timely manner and assuring the users spend the money within required timeframes to be its only purpose in administering the program. Therefore, FSA did not develop an assessment of program impact beyond making payments and performing examination reviews. Without established goals and related outcome measures, FSA cannot demonstrate that the $337 million spent between August 2008 and July 2013 has stimulated the U.S. textile industry, or determine to

[41] Public Law 111-352.

[42] *Recovery Act - Recovery Act: NRCS' Emergency Watershed Protection Program Floodplain Easements and Watershed Operations Effectiveness Review* (10703-0001-31, March 2013).

what extent the assistance actually improved the condition of users as they compete in a global market.[43]

We found that although FAS had taken steps to improve the internal control structure of the Food for Progress Program, it had not developed and implemented indicators or measures to assess staff performance in meeting its responsibilities. As a result, FAS cannot readily determine whether private voluntary organizations properly carry out Food for Progress Program agreements, whether projects are on track to achieve intended results, or whether program funds have been used for their intended purposes.[44]

We also found similar problems with how FAS administered Section 632(a) funds for capacity-building projects in Afghanistan. Although senior managers were aware of general control weaknesses in 2010, they did not sufficiently strengthen their control environment before accepting Section 632(a) funds from the United States Agency for International Development (USAID). We found that FAS had not implemented performance monitoring plans for projects being implemented in Afghanistan until over two years after the first project began, which meant that FAS did not have adequate methods to monitor recipient accomplishment of program goals and objectives. We noted that performance plans for some of the projects we reviewed had only recently been developed and agreed to. However, FAS awarded the projects and allocated funds beginning in FY 2011. Therefore, none of the projects started with performance plans, and most had delays of over a year before putting a plan in place. We believe that continued use of the performance plans, along with clear and measurable objectives, is critical to strong FAS oversight of these funds.[45]

Without outcome-based performance measures that are tied to clear program goals, USDA agencies will not be able to accurately report their successes or identify programs in need of improvement.

Corrective Actions:

FSA is closely following the law, as written in the 2008 and 2014 Farm Bills. The agency will do the following: 1) establish goals for EAAP consistent with its mandate, 2) develop a program evaluation, and 3) establish performance measures to determine the impact of assistance payments to domestic users of upland cotton.

FAS has begun to implement formal policies and procedures for staff related to monitoring and collection of interest earnings and supervisory monitoring of performance reports. FAS and FSA also have been working over the past year to document roles and responsibilities between the two agencies where CCC resources are concerned.

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[43] *Economic Adjustment Assistance to Users of Upland Cotton* (03601-0002-22, July 2014).
[44] *Private Voluntary Organization Grant Fund Accountability* (07601-0001-22, March 2014).
[45] *Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan* (50601-0002-16, February 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 Exhibit 18 and Exhibit 19.

Exhibit 18: 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 14.

Exhibit 19: 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	2					2
Effectiveness of Internal Control Over Operations (FMFIA § 2)						
Statement of Assurance	**Unqualified**					
Material Weakness	**Beginning Balance**	**New**	**Resolved**	**Consolidated**	**Reassessed**	**Ending Balance**
TOTAL MATERIAL WEAKNESSES	0					0

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 Federal Financial Management Improvement Act FFMIA		
	Agency	**Auditor**
1. System Requirements	Noncompliance noted	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 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 1.5 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 four 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 10 high-risk programs through its risk-assessment process. Six USDA programs were identified as high-risk in the 2014 Agency Financial Report (AFR) reporting year per the Consolidated Security, Disaster Assistance, and Continuing Appropriations Act, 2009 (Public Law 110–329, September 30, 2008). This risk assessment process is used to review USDA programs and activities, and identify those susceptible to significant improper payments.

Fiscal Year 2014 Results

The Department's improper payment rate increased to 5.52 percent for FY 2014, an increase from 5.36 percent for FY 2013. USDA's FY 2014 improper payment results are as follows:

- Eight USDA high-risk programs reported improper payment rates for FY 2014 that met the programs' reduction targets for FY 2014.
- The Supplemental Nutrition Assistance Program (SNAP) reported an improper payment rate of 3.20 percent—less than the FY 2014 reduction target of 3.80 percent, and less than the 3.42 percent improper payment rate reported for FY 2013. The SNAP improper payment rate is a historic low for the program.
- The Child and Adult Care Food Program (CACFP) reported an improper payment rate of 1.05 percent—less than the FY 2014 reduction target of 1.48 percent and less than the 1.09 percent improper payment rate reported for FY 2013.
- The National School Lunch Program (NSLP) reported an improper payment rate of 15.25 percent—less than the FY 2014 reduction target of 15.30 percent and less than the 15.69 percent improper payment rate reported for FY 2013.

- The Wildland Fire Suppression Management Program reported an improper payment rate of 0.00 percent—less than the FY 2014 reduction target of 0.02 percent.
- The Rental Assistance Program (RAP) reported an improper payment rate of 1.99 percent—less than the FY 2014 reduction target of 2.20 percent.

Below is the matrix that USDA uses to provide a cross-tabulation framework for the way in which each program categorizes and reports its improper payment estimate.

Exhibit 20: Type of Improper Payment

Reason for Improper Payment		Overpayment (%)	Underpayment (%)	Insufficient Documentation to Determine (%)
Inability to Authenticate Eligibility		0.00%	0.00%	0.00%
Failure to Verify:	Death Data	0.00%	0.00%	0.00%
	Income Data	0.00%	0.00%	0.00%
	Excluded Party Data	5.06%	0.00%	0.00%
	Prisoner Data	0.00%	0.00%	0.00%
	Other Eligibility Data	0.07%	0.00%	0.00%
Administrative or Process Error Made by:	Federal Agency	3.47%	0.15%	0.00%
	State Agency	14.76%	5.44%	0.00%
	Other Party (e.g., participating lender, or any other organization administering Federal dollars)	45.74%	11.26%	0.00%
Medical Necessity		0.00%	0.00%	0.00%
Other Reason		13.34%	0.70%	0.00%

In FY 2014, the Department took the following actions to address improper payments:

- Determined that the Conservation Reserve Program and Marketing Assistance Loans have consistently reduced their improper payments to the point that they are no longer at high-risk for making improper payments. With concurrence from the Office of Inspector General (OIG) and OMB, USDA has removed them from the list of programs at high-risk of improper payments.
- Improved the timeliness of the High-Dollar Overpayment Quarterly Report. While additional work needs to be done, improvements were noted in both OIG's High Dollar audit and management challenges report. USDA implemented detailed second-party reviews to ensure that agency submissions are accurate.
- Conducted a study to evaluate the source of improper payments in the crop insurance program to more accurately test and report improper payment results.

- Launched an outreach campaign to inform USDA staff involved with programs and activities susceptible to improper payments about remedies available through the Department's recovery auditing contract.
- USDA and Treasury implemented a system to check all USDA payments against the Death Master File to verify payments. USDA and Treasury also implemented a new system that allows USDA to check multiple databases in the "Do Not Pay" Portal at time of authorization.

USDA's FY 2015 goals are to further strengthen the quality review process for accurate and complete agency information in the Improper Payments section of the AFR. We will continue to improve the timeliness of the High-Dollar Overpayment Quarterly Report. USDA will seek ways to maximize the recovery of improper payments and accurately report the results of recovery efforts. USDA will implement updated guidance from OMB on evaluating, testing, and reducing improper payments. USDA will also expand agency use of USDA's program payments recovery auditing contract.

Compliance with IPERA Requirements

OIG conducts a compliance review of IPERA requirements annually. OIG's USDA IPERA Compliance Review for FY 2013, dated April 2014, 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: Management's Discussion and Analysis, Compliance with Laws and Regulations of this report (USDA FY 2014 AFR).

Programs non-compliant with IPERA 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 with IPERA for two 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 with IPERA for three consecutive fiscal years, the agency must submit to Congress a reauthorization proposal for each discretionary program or proposed statutory changes necessary to bring a mandatory program into compliance.

Status of Non-Compliant Programs Based on USDA Agency Information Provided for USDA FY 2014 Agency Financial Report

Based on information provided by the program agencies for the FY 2014 AFR, it appears that USDA will be non-compliant for three of the seven IPERA requirements for FY 2014. The programs are listed below by the number of consecutive years they were non-compliant. OIG will conduct USDA's IPERA Compliance Review for FY 2014 and publish a report in FY 2015.

Programs non-compliant with IPERA for 2 consecutive years are, as follows:

Farm Security and Rural Investment Act Program

- Did not meet annual improper payment reduction targets.
- Did not report improper payment rates of less than 10 percent.

Federal Crop Insurance Corporation Fund

Did not meet annual reduction targets.

Loan Deficiency Payments

- Did not meet annual improper payment reduction target.
- Did not report improper payment rate of less than 10 percent.

Programs non-compliant with IPERA for 4 consecutive years are, as follows:

National School Lunch Program

Did not report improper payment rates of less than 10 percent.

School Breakfast Program

- Did not report improper payment rates of less than 10 percent.
- Did not meet annual improper payment reduction target.

Child and Adult Care Food Program

Did not report sufficient improper payment estimates.

Special Supplemental Nutrition Program for Women, Infants and Children

Did not meet annual improper payment reduction target.

Direct and Counter-Cyclical Payments

Did not meet annual improper payment reduction target.

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 draft risk assessments. 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;
- Test of transactions for selected programs;
- Listing of significant reviews and audits;
- Final determination of risk level;
- Planned future enhancements; and
- Description of how improper payments are recovered.

USDA has identified the following 20 programs as susceptible to significant improper payments.

Exhibit 21: Programs Susceptible to Improper Payments

Selection Methodology	USDA 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).	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 Significant Improper Payments	Farm Service Agency (FSA), Commodity Credit Corporation (CCC)	Milk Income Loss Contract (MILC) Program
		Loan Deficiency Payments (LDP)
		Direct and Counter-Cyclical Payments (DCP)
		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	Federal Crop Insurance Corporation (FCIC)

Selection Methodology	USDA Agency	Program
	(RMA)	Program Fund
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIP)
Disaster Relief Appropriation Act of 2013 (Sandy Disaster)	FNS	Hurricane Sandy—Commodity Assistance Program
	FSA, CCC	Hurricane Sandy—Emergency Conservation Program
	FSA, CCC	Hurricane Sandy—Emergency Forest Restoration Program
	FS	Hurricane Sandy—Emergency Forest Restoration Program
	FS	Hurricane Sandy—Capital Improvement and Maintenance
	NRCS	Hurricane Sandy—Emergency Watershed Protection Program

II. Statistical Sampling

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

Exhibit 22: Program Sampling Process

Agency	Program	Sampling Process
Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)	**Statistical Sampling:** States are required to select monthly a statistically random sample from a universe of all households receiving SNAP benefits for that given month. Most States draw the samples systematically (i.e. using a constant sampling interval), although there are some States that employ simple random and/or stratified sampling techniques. Required annual sample sizes range from 300 for State Agencies (SAs) with small SNAP populations (e.g. Wyoming and Guam), to well over 1,000 for larger States, with the average being around 950 per State. Federal "subsamples" covered in the following paragraph, are selected by FNS systematically from each State's complete reviews, with sample sizes running from 150 to 400 annually. **Error Rate Calculation:** The National payment error rate is calculated using a multi-step process: ▪ Each SA conducts quality control reviews of a monthly sample of cases. The review measures the accuracy of eligibility and benefit determinations for each sampled case against Program standards. SAs are required to report to FNS the findings for each case selected for review.

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		▪ FNS then subsamples completed State quality control reviews and re-reviews selected individual case findings for accuracy. Based on this subsample, FNS determines each SA's official error rate, using a regression formula. ▪ The National payment error rate is then computed by averaging the error rate of the active cases for each State, weighted by the amount of issuance in the State.
FNS	National School Lunch Program (NSLP)	**Year/Period of Data Sampled:** Data collected in school year (SY) 2005-2006 aged with administrative data from SY 2012-2013. **Type of Sampling Methodology:** OMB-approved alternative. Because detailed information on the circumstances of households with NSLP participants is not collected administratively, USDA makes use of periodic studies to assess the level of error in program payments. The November 2007 NSLP/SBP Access, Participation, Eligibility and Certification (APEC) study uses a national probability sample of school food authorities (SFAs), schools, certified students and their households, and households that applied and were denied for program benefits in school year 2005-2006. A stratified random sample of 78 unique public SFAs was selected in the first stage of sampling. Stratification variables included geographic region, prevalence of schools having a School Breakfast Program (SBP) and those using Provision 2/3, and a poverty indicator. For SFAs that do not have Provision 2/3 schools, three schools, on average, were selected for the second stage of sampling. Schools were stratified into two groups: (1) elementary schools and (2) middle- and high-schools. The school sample included both public and private schools. A total of 264 schools participated in the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, samples of households were selected in 240 of these schools to yield completed interviews for about 3,000 students certified for free and reduced-price meals and 400 denied applicant households. To update the erroneous payment rate estimates in NSLP since the 2007 APEC study was released, a series of econometric models were developed that captured the relationship between characteristics of the districts that participated in the APEC study and their estimated rates of certification error. Estimated coefficients from these models were used in conjunction with updated values of district characteristics obtained from the School Food Authorities Verification Collection Reports (Form FNS-742) to predict certification error. Certification error rates were then translated into amounts and rates of erroneous payments in each district. Aggregating the district level estimates produced a national measure of predicted erroneous payments.

Agency	Program	Sampling Process
		Universe Population: N/A **Sample Size:** N/A **Formula Used to Calculate The Sample Size:** N/A **List of Controls That Payments Were Tested Against:** In the APEC study, independent reviews of about 6,800 student applications approved for free and reduced-price meals and over 1,000 denied applications were conducted to estimate the case error rate due to administrative error. In addition, in-person household interviews were conducted in over 3,400 households to determine estimates of household misreporting on the applications. Data on counting and claiming errors were collected in all schools selected for application reviews. On randomly selected school days, field staff observed approximately 100 lunch transactions at each of the 245 schools participating in the NSLP as well as 50 breakfast transactions at each of the 218 schools participating in the SBP. Cashier error was estimated using information from these meal transactions. Data on school-recorded daily meal totals across all points of sale, aggregated meal counts reported to the district, and total meals submitted to the SA for reimbursement were examined to determine claiming errors.
FNS	School Breakfast Program (SBP)	**Year/Period of Data Sampled:** Data collected in SY 2005-2006 aged with administrative data from SY 2012-2013. **Type of Sampling Methodology:** OMB-approved alternative. Because detailed information on the circumstances of SBP-participating households are not collected administratively, USDA makes use of periodic studies to assess the level of error in program payments. The November 2007 NSLP/SBP Access, Participation, Eligibility and Certification (APEC) study uses a national probability sample of school food authorities (SFAs), schools, certified students and their households, and households that applied and were denied for program benefits in SY 2005-2006. A stratified random sample of 78 unique public SFAs was selected in the first stage of sampling. Stratification variables included geographic region, prevalence of schools having a SBP and those using Provision 2/3, and a poverty indicator. For SFAs that do not have Provision 2/3 schools, three schools, on average, were selected for the second stage of sampling. Schools were stratified into two groups: (1) elementary schools and (2) middle- and high-schools. The school sample included both public and private schools. A total of 264 schools participated in the study (216 non-Provision 2/3 schools, 24 Provision 2/3 schools in their base year, and 24 Provision 2/3 schools not in their base year). For the third stage of sampling, samples of households were selected in 240 of these schools to yield completed interviews for about 3,000 students certified for free and reduced-price meals and 400 denied applicant households.

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Universe Population: N/A

Sample Size: N/A

Formula Used to Calculate the Sample Size: N/A

List of Controls That Payments Were Tested Against:

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<tr><td>FNS</td><td>Special Supplemental Nutrition Program for Women, Infants and Children (WIC)</td><td>Estimates of improper payments in the WIC focus on two components: certification error and vendor error. FNS makes use of periodic studies to assess the level of error in program payments and then “ages” the data to produce updated annual estimates. The National Survey of WIC Participants-II Study, published in April 2012, established estimates of improper payments due to certification error. The 2013 WIC Vendor Management Study established the most recent national estimates of erroneous payments due to vendor error. FNS generates an annual update for the improper payment measurements of both components using statistical techniques based on the findings of these bookend studies.

Year/Period of Data Sampled:

Certification Error—FY 2009.
Vendor Error—FY 2012.</td></tr>
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Agency	Program	Sampling Process
		Type of Sampling Methodology: OMB-approved Alternative. Certification Error: One of the main purposes of the National Survey of WIC Participants II (NSWP II) was to assess erroneous payments due to certification error in a nationally representative sample of WIC participants. The sample was based on a multi-stage sample design. First, a sample of 40 clusters, located in 23 States, was selected with Probability Proportional to Size (PPS) based on the number of WIC participants, with large States being allowed to be selected more than once. Two local agencies were selected for each of the 40 sample clusters. One very large California local agency was sampled three times, resulting in 78 separate local agencies sampled in the second stage. Two clinics were sampled with PPS from each local agency whenever possible, resulting in a total of 148 clinics being selected in the third stage. A total of 2,538 WIC participants spread across all five WIC categories (Pregnant, Breastfeeding, Postpartum WIC) completed telephone interviews in the fourth stage. A subset of 1,210 WIC participants completed in-home interviews during the fifth stage. The in-home survey was designed to verify income information through review of household income documents. From the interviews, the eligibility of each WIC participant was determined to be either correct or improper, and the number of case errors was determined. Further, case error was translated to dollar error, which required researchers to obtain the actual redemption data for respondents from State WIC programs from May to July 2009. Because improper payment estimates need to be produced annually, and given that surveys such as the NSWP-II are extremely expensive to mount, FNS required a methodology to "age" the estimates produced in that study. The generation of improper payments associated with erroneous WIC eligibility in the years beyond FY 2009, is based on a three-stage model. In the first stage, equations were developed from the NSWP-II survey data to predict the probability that a WIC participant was certified erroneously (i.e., deemed eligible when the participant's actual income was not within eligibility guidelines) and to predict the average annual cost of an erroneous determination for those in error. The second stage of the process focuses on predicting the size and changes in the composition of the WIC population. The files used for gaining the WIC population included WIC Participant Characteristics data from a census of all WIC participants enrolled within a particular target month (April of every even-numbered year) and WIC administrative data obtained from the National Data Bank that can provide information on overall trends within WIC certification category and region. The third stage of the process is to apply the predictions generated from the first stage to the second stage population. This approach results in population-adjusted estimates of the incidence of eligibility errors and dollar impact. Vendor Error: The 2013 WIC Vendor Management Study employed a nationally representative probability sample of 1,904 retail WIC vendors. A two-stage cluster design, with primary sampling units (PSU) defined by geographic clusters of counties,

Agency	Program	Sampling Process
		was developed to meet the study needs. PSUs were defined as either individual counties or groups of geographically contiguous counties within a single State, with at least 80 vendors in a PSU. The final sampling frame contained 352 PSUs. The study's primary method of data collection was through more than 5,600 visits to WIC vendors, resulting in more than 7,900 WIC transactions over a 3-month period. The compliance buyers provided the sole source of data on the outcome variables of interest; these data are the basis for the national estimates of over- and undercharges. Additional data sources include FNS' WIC State Plan Guidance documents, which were used to examine differences in vendor compliance outcomes by common SA administrative practices and to identify whether and which vendor management practices are associated with reduced incidence of vendor violations. The Integrity Profile Report 2010 was used as the basis for the development of sampling weights for the base and Cash Value Voucher (CVV) study. Finally, for each WIC SA selected for the study, Food Instrument (FI) reconciliation files were acquired. These four data sources were merged to create an analytic data file. National and Electronic Benefit Transfer State subgroup-level annual estimates of over- and undercharges were developed for the base study, the CVV study, and overall. To estimate the annual WIC overcharge, the ratio of the best purchase price to the redeemed dollar amount was calculated for each vendor. FNS conducts periodic studies to estimate the value of vendor overcharges and undercharges. The most recent studies were conducted in 2005 and 2012. The sampling process for those studies is described in the FY 2011 Performance and Accountability Report (PAR), which can be found at https://www.ocfo.usda.gov/usdarpt/pdf/Final,%201.24.12.pdf. For FY 2013, FNS estimate the rates of overpayment and underpayment by applying the average annual percent changed in the rates from 2005 and 2012 to the estimated 2012 rates. **Universe Population:** Certification Error: 9.11 million WIC participants for the National Survey of WIC Participants-II Study (FY 2009). Vendor Error: 48,634 authorized vendors with retail food delivery operations in the continental United States (except Mississippi, Vermont, and military commissaries) for FY 2010 (FY 2013 WIC Vendor Management Study). **Sample Size:** Certification Error: 1,210 WIC participants. Vendor Error: 1,904 retail WIC vendors; more than 5,600 visits to WIC vendors, resulting in more than 7,900 WIC transactions over a 3-month period. **Formula Used to Calculate The Sample Size:** N/A **List of Controls That Payments Were Tested Against:** Certification Error: Erroneous payments were determined from information provided by applicants during eligibility determination

Agency	Program	Sampling Process
		for WIC benefits. This was accomplished by asking respondents to show the documents or "proofs" they had originally used to gain eligibility in the WIC Program. The proofs had to meet the standards set by FNS and/or the SA. From the interviews, the eligibility of each WIC participant was determined to be either correct or improper, and the number of case errors was determined. Further, case error was translated to dollar error, which required researchers to obtain the actual redemption data for respondents from State WIC programs from May to July 2009. Vendor Error: To estimate the annual WIC overcharge by vendors, the best purchase price obtained by the compliance buyer was compared to the redeemed dollar amount. The actual dollar amount over- or undercharged was also calculated using price and redemption information. For each record in which an overcharge was identified, amounts paid were compared to the Maximum Allowable Reimbursement (MAR) and Not-to-Exceed (NTE) values provided by the SA. If the amount paid exceeded the MAR or NTE, the lesser amount was used to calculate the overcharge.
FNS	Child and Adult Care Food Program (CACFP)	**Year/Period of Data Sampled:** FY 2013 **Type of Sampling Methodology:** OMB-approved alternative. In lieu of producing a program-wide improper payment measure, FNS has identified the Family Day Care Home (FDCH) component of this program as potentially high-risk. Beginning in 2005 and annually thereafter, FNS has measured the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier 1 and Tier 2). CACFP sponsors are responsible for determining whether FDCHs receive meal reimbursements at the higher level (Tier 1) or lower level (Tier 2). The improper payment rate (cost of improper payments due to tiering errors as a percentage of all CACFP FDCH reimbursements) has been between 1 percent and 2 percent from 2005 to 2013. In addition to the annual sponsor error assessments, FNS has continued to use its limited resources to explore potential methodologies to develop other measure of high-risk program components—in particular, the accuracy of meal claims in FDCHs participating in CACFP. The 2010 CACFP Improper Payment Meal Claims Assessment project concluded that it was not feasible to use parent recall data on specific meals (breakfast, morning snack, lunch, afternoon snack, supper, and evening snack) to estimate erroneous meal claims. A new CACFP Improper Payment Meal Claims Study will be conducted in 2014 to explore an alternative method of measuring the rate of erroneous payments to CACFP FDCHs for meals claimed for reimbursement. FNS plans to award this contract by September 30, 2014. The improper payment measures presented do not include improper payments associated with the Adult Day Care component or Child Care Centers, nor do they include meal claiming errors at this time.

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		Universe Population: 123,017 approved FDCHs participating in CACFP with 855 sponsoring organizations (CACFP Tiering Study). **Sample Size:** For sponsor tiering error measures—600 FDCHs in 60 distinct sponsors in 14 States. **Formula Used to Calculate The Sample Size:** Sample sizes were calculated to meet the OMB requirements of a 90 percent confidence interval of plus or minus 2.5 percent points. Overall, the 90 percent confidence interval for the percentage of reimbursement dollars paid in error resulting from FDCH tiering was plus or minus 0.54 percent points. **List of Controls That Payments Were Tested Against:** The tiering status of FDCHs was first verified by determining their school area eligibility (at least 50 percent of students were approved for free/reduced-price meals) and Census Block Group area eligibility (at least 50 percent of children at or below 185 percent of the Federal Poverty Guidelines) for Tier I and Tier II status. A sponsor of an FDCH not verified through area eligibility was contacted to secure additional documentation in support of the FDCH's tiering status, such as income and categorical eligibility.
FNS	Hurricane Sandy—Commodity Assistance Program	FNS decided to conduct a comprehensive review and reconciliation of all the funds received by each State. A total of $4,603,177 in food funds and $1,096,823 in administrative funds were provided to the nine States. Food funds were accounted for separately and tracked nationally via the Web-Based Supply Chain Management System, an integrated food purchasing, tracking, and ordering system for USDA. Administrative funds were accounted for separately as well, and States that chose to accept administrative funds were required to submit a quarterly FNS-667 report (Report of the Emergency Food Assistance Program Administrative (TEFAP) Costs)) through the Food Programs Reporting System. States were required to obligate all Sandy administrative funds by September 30, 2013. FNS reviewed the required reports submitted by all States and was able to document that the full amount of the $5.7 million allocated was obligated by the end of September 2013, and that all expenditures were allowable and used for the intended purposes. After conducting this full reconciliation of all Disaster Relief Act funds provided to States for TEFAP, FNS can provide reasonable assurance that the improper payment error rate was zero.
FSA, CCC	Milk Income Loss Contract (MILC) Program	This information is not available at this time.
FSA, CCC	Loan Deficiency Payments (LDP)	A statistical sample design was not completed for loan deficiency payments (LDP) because there were only 50 LDP issued in FY 2013. All LDP issued in FY 2013 were reviewed; the error rates are actual and not estimates.

Agency	Program	Sampling Process
FSA, CCC	Direct and Counter-Cyclical Payments Program (DCP)	This information is not available at this time.
FSA, CCC	Miscellaneous Disaster Programs (MDP)	This information is not available at this time.
FSA, CCC	Noninsured Assistance Program (NAP)	**Universe Population:** $345,497,193 42,880 payments. **Sample Size:** $15,917,742 600 payments.
FSA, CCC	Hurricane Sandy—Emergency Conservation Program	**Year/Period of Data Sampled:** FY 2013 **Type of Sampling Methodology:** Standard Statistical Sample **Universe Population:** $397,474 134 Payments. **Sample Size:** $204,154 50 Payments. **List of Controls That Payments Were Tested Against:** Eligibility verification. Payment calculation.
FSA, CCC	Hurricane Sandy—Emergency Forest Restoration Program	This program reported $0 outlays for FY 2013 and therefore did not perform a sample.
Forest Service (FS)	Wildland Fire Suppression Management (WFSU)	**Year/Period of Data Sampled:** 10/1/2012 through 9/30/2013. **Type of Sampling Methodology:** The standard statistical sampling methodology was used for FS. We consulted with a PhD statistician from the University of New Mexico to ensure the validity of the sample design, sample sizes, and measurement methodology. The samples were selected using a 90 percent confidence level, with a precision range of 2.5 percent. The software used for sample selection was SAS 9.2 for Windows. FS pulls the payment and advance transactions from the financial system of record and provides the data in an electronic format to the statistician. The statistician uses Monetary Unit Sampling and systematically analyzes and reviews transactions coded to the WFSU fund for the period 10/1/2012 through 9/30/2013 to determine the sample size based on the dollar amount of transactions processed. The statistician selects the samples and provides them to FS, along with the sample size determination

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		methodology. Under the monetary unit sampling approach, the probability of choosing a given payment is proportionate to its size relative to the total dollar amount of all payments. This method is consistent with a focus on the accuracy of the total of program payments. **Universe Population:** $751,093,992 303,766 payments **Sample Size:** $151,127,181 136 payments **Formula Used To Calculate The Sample Size:** Total at 9/30/2013/((Projected Tolerable Mis-statement-(Projected Expected Mis-statement*1.5))/2.31) $751,093,991.78/(($15,021,879.78-($1,502,187.98*1.5))/2.31) = 136 Projected Total Sample Size **List Of Controls That Payments Were Tested Against:** Testing covered the following areas: ▪ Determining if the correct vendor was paid; ▪ Determining if the payment occurred during the period of performance; ▪ Validating commitments are properly authorized prior to payment; ▪ Validating the correct amount was paid; ▪ Validating the payment was timely; ▪ Validating that sufficient documentation was available to support payment; ▪ Validating the payment was not a duplicate payment; ▪ Verifying that the recipient was not on the "Do Not Pay" list; ▪ Verifying that the recipient's registration status is active in System for Award Management (SAM); ▪ Verifying that the recipient's address matches with SAM's data in FMMI; ▪ Determining if the recipient has any active exclusion records; and ▪ Determining if the recipient is on the HHS OIG exclusion list.
FS	Hurricane Sandy—Emergency Forest Restoration Program	This program reported $0 outlays for FY 2013 and therefore did not perform a sample.
FS	Hurricane Sandy—Capital Improvement and Maintenance	**Year/Period of Data Sampled:** 10/1/2012 through 9/30/2013. **Type of Sampling Methodology:** We consulted with a PhD statistician from the University of New Mexico to ensure the validity of the sample design, sample sizes, and measurement methodology. Due to the universe size, FS

Agency	Program	Sampling Process
		sampled 100 percent of all non-payroll FY 2013 transactions charged to Construction Disaster Fund Supplemental (CMDF) 21 and 22 funds for the period of 10/1/2012 through 9/30/2013. **Universe Population:** $268,239 57 payments **Sample Size:** $268,239 57 payments **Formula Used to Calculate The Sample Size:** Not applicable. 100 percent of transactions tested. **List of Controls That Payments Were Tested Against:** Testing covered the following areas: ▪ Determining if the correct vendor was paid; ▪ Determining if the payment occurred during the period of performance; ▪ Validating commitments are properly authorized prior to payment; ▪ Validating the correct amount was paid; ▪ Validating the payment was timely; ▪ Validating that sufficient documentation was available to support payment; ▪ Validating the payment was not a duplicate payment; ▪ Verifying that the recipient was not on the “Do Not Pay” list; ▪ Verifying that the recipient’s registration status is active in System for Award Management (SAM); ▪ Verifying that the recipient’s address matches with SAM’s data in FMMI; ▪ Determining if the recipient has any active exclusion records; and ▪ Determining if the recipient is on the HHS OIG exclusion list.
Rural Development (RD)	Rental Assistance Program (RAP)	RD’s IPIA audit reviews rental assistance (RA) payments supporting documentation prepared by Section 515 and Section 514 loan program borrowers and property managers of Multi-Family Housing (MFH) properties financed by RD. This audit does not review work done by agency personnel; it reviews the documentation prepared to substantiate subsidy payments requested by borrowers. The RAP is very similar to the Section 8 housing subsidy program operated by the U.S. Department of Housing and Urban Development (HUD). The agency reviewed the sampling plan developed by HUD for its IPIA studies. It engaged RD statisticians to prepare a similar plan for this report. This report is based on a review of tenants receiving RA during FY 2013. The sampling plan consisted of 666 RA payments from a universe of 3,477,458 or .02 percent. The methodology produced a sample with a 99-percent confidence level. This year, as in audits since 2008, the agency used

Agency	Program	Sampling Process
		the Audit Unit staff from the Centralized Servicing Center (CSC) to undertake the study. The study required CSC to evaluate tenant files and income calculations. The IPIA audit was initially designed to mirror efforts undertaken by HUD, since they had been performing IPIA audits for several years prior to RD. HUD's design included testing of the payment process. RD's payment process is different from HUD's in that the amount of the payment is determined at the time of submission of RD Form 3560-8 "Tenant Certification," which is what the audit reviews. The amount calculated at the time that the Tenant Certification is carried forward is the payment amount; there is no human intervention in the process, and there is no opportunity for additional error. Therefore, there is no impact on the improper payment rate. The universe of RA payments made during FY 2013 was 3,477,458. The only parameter used to determine the eligible universe was the RA payment. No other data element, such as location, size of property, number of units, or availability of other RA (such as Section 8) was a consideration. The statisticians were provided a data extract from the Multi-Family Housing Information System (MFIS). The extract contained a list of all tenants receiving RA during FY 2013. The data included month of payment, project name, project identifier (case number/project number), and tenant name and unit number. From the data extract, the statisticians selected the sample by a systematic sample technique. Once the sample was identified, a memo was sent to the borrowers/management agents that explained the process (including detailed instructions), provided the list of tenant payments to be reviewed, and provided a list of documents that needed to be provided to CSC for their review. The data received from the borrower/ management agent was used to compare with agency records. The study required CSC to complete the survey for the selected tenant payments. There was to be no substitution of the selected payment, and, if the management agent was unable to submit the file, the payment would be considered improper. In order to be eligible to receive the benefit of RA, a tenant must be very low- or low-income, their net tenant contribution would be less than the basic rent for the unit, meets the occupancy rules of the property, and has a signed, unexpired Tenant Certification Form (Form RD 3560-08) on file with the borrower. To qualify for RA, a beneficiary must meet income eligibility requirements. In a MFH property, USDA provides a rent subsidy for the benefit of eligible households to reduce their monthly rental payment. This RA payment is made to the property owner (or his/her management agent) to supplement property income (which would otherwise be lost because of the tenant's inability to pay the approved rent). A tenant household must submit an application to reside at a USDA-financed MFH property through a borrower (owner) or their property management agent. The application process requires that the individual or family provide information on the amount and source(s) of income, which are (third party) verified by the property management agent. This income determination is the primary determinant of a family's rent charge

Agency	Program	Sampling Process
		and, in turn, of the amount of RA subsidy that is provided to the property owner. Confirming the tenant's income information is one of the primary tasks of the MFH property owner (or his/her agent). USDA allows as a project expense a monthly management fee to the property manager to manage the property; qualifying expenses covered by this fee include verifying tenant income and ensuring that appropriate subsidies are requested. The agency tested if RD's OCFO paid appropriately on the borrower's request for subsidy. The borrower is required to submit Form 3560-29 "Notice of Payment Due Report," also referred to as the "Project Worksheet." This form contains a list of tenants occupying the units as of the first day of the month prior to the payment due date. This form is reviewed and analyzed for accuracy by the automated system prior to payments being processed. Anomalies are individually reviewed by processing staff to resolve any discrepancies. Borrowers have two options for submitting Form 3560-29 to the agency: 1) mail or fax the form to the Centralized Servicing Center; or, 2) accept the form through the Management Interactive Network Connection (MINC) system, which is a secured Web site. When borrowers use the MINC system, the form is generated from the tenant certifications that are currently on file with the agency. Once the borrower accepts the form in MINC, the information is automatically sent through the MFIS and then to the Automated Multi-Housing Accounting System, without any data entry by CSC. Therefore, the agency's risk for data entry errors is eliminated. In FY 2013, 94 percent of the payments were automatically processed for accuracy and conformance through the MINC system, which left 6 percent that might have data entry errors. The agency used the same methodology for completing the review of these 6 percent of payments as was used for reviewing Tenant Certifications. The agency used statisticians to identify the sample for review. Of the 4,425 payments that were processed manually between October 2012 and September 2013, a sample of 579 payments that required manual intervention was reviewed. Of the 579 payments, zero errors were found. The percentage of the sample size was larger than the tenant certification sample in order to ensure that we obtained an expanded cross section of manually input payments. **Year/Period of Data Sampled:** FY 2013 **Type of Sampling Methodology:** Standard Statistical Sample **Universe Population:** $1,117,574,937 3,477,458 payments **Sample Size:** $233,768 666 payments

Agency	Program	Sampling Process
		Formula Used To Calculate The Sample Size: Sample Size= **Where:** Z: Z Value (e.g. 1.96 for 95% Confidence level or 2.58 for 99 % Confidence level) p: pick for an outcome to occur successfully (.5 used for a conservative sample size needed) q = 1-p: a pick for an unsuccessful outcome C: Confidence interval, expressed as decimal (e.g., .05 = +/- 5) SS: Sample Size SS = 665.64 Correction for Finite Population = 3,477,458 record of payments from Sept 1, 2012 to Sept 1, 2013.(2) New SS = 665.51= 666 Where: Pop = population **List of Controls That Payments Were Tested Against:** Supporting documentation to demonstrate that property managers correctly calculated the requested subsidy may have included the following: 1) a copy of verification of employment for each adult household member, 2) the most recent award or benefit letter for unemployment and unemployment benefits, or social security payments, 3) a copy of the divorce decree, separation agreement, or other document indicating the amount of the required support payments, 4) documentation indicating the amount of money received for the care of foster children or adults, and the anticipated period of time the support will be provided, 5) income tax returns for self-employed individuals, 6) financial institution statements to verify account balances, 7) medical expense documentation used to calculate medical expenses.
Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC) Program Fund	OIG has expressed concerns with the current sampling method and the need for it to be statistically valid as required by IPIA. RMA and OMB have held discussions concerning a replacement sampling plan that meets IPIA requirements, and RMA is in the process of working on a replacement process that can be implemented for the FY 2016 reporting period. ▪ RMA recognizes that substantive concerns have been raised with the current methodology. In response, RMA proposes a significantly modified methodology that will provide a more credible estimate of the amount of improper payments in the Federal crop insurance program. RMA proposes that the agency's improper payment reviews would no longer be conducted as part of the National Program Operations Review process that consisted of reviewing each AIP once every 3 years. Rather, RMA will annually review a random sample of approximately 30 policies issued by each AIP, or about 600 policies in total each year (assuming 20 AIPs). The number of policies reviewed would be sufficiently large to develop an estimate achieving a 95 percent

Agency	Program	Sampling Process
		level of confidence and a margin of error of plus/minus 3 percent, which is required by OMB Circular A-123 Appendix C guidance. Each review would assess whether the amount of premium subsidy and Administrative & Operating (A&O) subsidy for each policy was correct. In addition, for those policies with a claim for loss the review would further assess whether the amount of the indemnity payment was correct. For the individual AIP, the improper payment rate would be calculated as the sum (across all of its policies subject to the review) of the amounts of premium subsidy, A&O subsidy, and indemnity paid in error divided by the sum of premium subsidy, A&O subsidy, and indemnity for the subject policies. To calculate the improper payment rate for the crop insurance program as a whole and for IPERA purposes, the individual AIP improper payment rates would be weighted by their respective shares of total policies, thereby addressing a criticism of the current methodology. RMA plans to present this proposal to OMB so that it can begin implementation by March 2015 and fully report with the revised methodology by FY 2016 reporting. In FY 2014, RMA plans to continue utilizing its current method for reporting purposes. OMB approved the current methodology for FY 2014 but plans to explore the options for what will happen in FY 2015; ▪ RMA completed the random 2010, 2011, and 2012 crop year indemnity reviews during 2011, 2012, and 2013 respectively. The sampling protocol was approved by OMB in 2005 and consists of randomly selecting 50 policies with indemnities greater than $2,500 for each of the companies being reviewed for any particular year. Each policy is completely reviewed to ensure the premium, liability, and indemnity were correctly established. However, we calculate an error rate only on the improper indemnities; ▪ Compliance reviews were conducted on approximately one-third of the companies each year for a total of either 250 or 300 random policy reviews, depending on the number of companies participating for any given year. The error rate reported for a fiscal year is based on the policy review results from 3 prior crop years, e.g., the FY 2014 error rate is based on reviews conducted for the 2010, 2011, and 2012 crop years. The inclusion of policy review results for 3 crop years will typically ensure that every company is included in the error rate calculation; ▪ RMA will continue to build its database of policies randomly selected for review. This database will enable the agency to discern any trends in error patterns and identify the appropriate corrective actions to address the underlying issue; and ▪ Samples are drawn by an autonomous compliance specialist who oversees the compliance review data base and is responsible for data quality control. Limited RMA resources have made it impractical to conduct a statistically valid program review each year. Rather, random policy reviews are conducted by RMA compliance personnel in combination with the National Program Operations Reviews to provide the data necessary to produce an error rate for the purposes of the IPIA.

Agency	Program	Sampling Process
Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIP)	**Year/Period of Data Sampled:** FY 2013 **Type of Sampling Methodology:** NRCS' sampling methodology was a statistical sample stratified with 10 stratums. Our sample was obtained from all Farm Bill financial assistance payments that were paid in FY 2013. We selected payments with the transaction code TC (Treasury Confirmation). **Universe Population:** $2,199,848,820 375,884 payments **Sample Size:** $33,208,150 271 payments **Formula Used to Calculate The Sample Size:** NRCS used the sample size calculator from raosoft.com. We used a confidence level of 90 percent with a margin of error of 5 percent (+/- 2.5 percent). **List of Controls That Payments Were Tested Against:** Each selected sample item was reviewed, based upon supporting documentation, to ensure the following: ▪ Recipient was eligible for payment; ▪ Payment was made to proper recipient; ▪ Payments issued for goods and/or services were delivered within the appropriate period of performance; ▪ Payments were made for the goods and/or services that were reflected on the contract documents; ▪ Payment amounts are equal to or less than the contract amount (not in excess of contract amount); ▪ Appropriate documentation (when applicable) contains the eligible recipient's signature; ▪ An NRCS official signature acknowledging receipt of goods and/or services is present; ▪ Payment amounts agree to invoice amounts/payment requests; and ▪ Payments were supported by adequate program-specific documentation.
NRCS	Hurricane Sandy—Emergency Watershed Protection Program	This program reported $0 outlays for FY 2013 and therefore did not perform a sample.

III. Corrective Actions

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

Exhibit 23: Program Corrective Action Plans

Agency	Program	Corrective Actions
FNS	Supplemental Nutrition Assistance Program (SNAP)	Program regulations require State Agencies (SAs) to analyze data to develop corrective action plans to reduce or eliminate program deficiencies. A State with a high error rate must develop a quality check corrective action plan to address deficiencies revealed through an analysis of its own quality control data. A State with an excessive error rate will be required to invest a specified amount (depending on its error rate and size) designated specifically to Program improvements. The State will also face further fiscal penalties if it fails to lower its error rate in a future fiscal year. **Steps Taken to Improve the Overall Control Environment and Improper Payments:** FNS, through its regional offices, works directly with States to impart the importance of payment accuracy and correct payments to State leadership and to assist them in developing effective corrective action strategies to reduce payment errors. Regional offices provided technical assistance to States throughout FY 2014. FNS administers a State Exchange Program whereby funds are provided to States to facilitate travel to obtain, observe and share information on best practices and effective techniques for error reduction. Coalitions have been formed among States to promote the following: partnerships, information exchange, and collaborative efforts that address mutual concerns and support development of effective corrective action. These activities were conducted throughout FY 2014. Quality Control Payment Error Rates are announced at the end of June in the year following the end of the review period. SAs with error rates of 6 percent or higher are required to submit corrective action plans (CAPs) to FNS addressing these errors [7 CFR 275.16(b) (1)]. These CAPs are open-ended and remain in effect until all deficiencies in program operations have been reduced substantially or eliminated. SAs provided updates to their CAPs through regular, semiannual updates sent to FNS on May1, 2014 and November 1, 2014 respectively [7 CFR 275.17(a)].
FNS	National School Lunch Program (NSLP)	**Actions Taken to Reduce Improper Payments:** Issued a revised *Eligibility Manual* in August 2012. This manual contains information on determining students' eligibility for free and reduced-price meals in the NSLP and the School Breakfast Program (SBP). Conducted five national trainings for Federal and State reviewers on the new Administrative Review (AR) process that was designed

Agency	Program	Corrective Actions
		to ensure a more comprehensive evaluation of school meal programs to improve program integrity. The new AR process was updated to include a review of SBP requirements and was designed to ensure that monitoring process provides effective review of the complex requirements within the school meal programs while also recognizing the resource constraints facing the SAs. The new process includes approaches to reduce improper and erroneous payments and ensure document compliance. The new process also strives to ensure proper implementation of the school meals and other nutrition assistance programs. FNS also incorporated review procedures to assess the financial health of the nonprofit school food service account, including assessing compliance with cost allowability requirements. In addition, *CRE Procedures Manual and Forms and Instructions* was issued in September 2013, and posted to the FNS Web site for those SAs electing to use the CRE procedures for reviews conducted in SY 2013-2014. This update reflects recent legislation and policy aimed at strengthening the monitoring process. Additionally, from FY 2006 to 2013, FNS upgraded its Web-based system for States to report the results of verification activity annually using the *Verification Collection Report* (FNS-742). This reporting mechanism improved the accuracy and timeliness of this data. In 2013, the FNS-742 form itself was improved with requests for additional data, which, along with a simplification of the form's instructions and a more user-friendly layout, now contributes to a more accurate direct certification rate, among other improvements. The new FNS-742 now captures direct certification data broken out by type, data on direct verification, additional information related to verification and program participation, as well as data on verifications for cause. The form was implemented for SY 2013-2014 data collection. Prior to implementation, FNS conducted national training on the new form. FNS has been actively emphasizing to States the importance of using the FNS-742 and other data sources, such as the CRE Data Report (FNS-640), as a way to identify and target corrective action. On October 24, 2011, FNS issued clarification of the verification and reporting processes for categorically eligible foster children. On February 10, 2012, FNS issued a policy memo detailing the school district's ability and responsibilities to verify SBP and NSLP applications beyond the required sample size when there is cause. On August 3, 2011, FNS also issued applications and other materials for households with limited English proficiency. The translated prototype materials, besides being available in English, are now available in 33 other languages and lead to greater accuracy in application data and fewer certification errors. FNS funding from Congress in FY 2004 for the agency to provide technical assistance and training materials from FY 2004 to 2008 to help State and local partners reduce administrative errors and improve Program integrity.

Agency	Program	Corrective Actions
		Plans to Prevent Future Improper Payments: In response to the APEC study conducted in FY 2007, FNS is executing several key measures to improve Federal and State oversight and technical assistance to identify and recover improper payments in the NSLP. The following outlines the proactive measures FNS has taken to strengthen Program integrity: ▪ Required annual training for schools on certification and accountability issues; the training is ongoing; ▪ Provided $47 million for each of 2 years, FYs 2012 and 2013, to SAs to implement the new meal pattern requirements, funding that supports the following: 1) training, 2) technical assistance, and 3) conducting performance-based reimbursement certification activities and validation reviews, and administrative reviews. The FY 2012 allocation had to be obligated by September 30, 2014, and FY 2013 funding must be obligated by September 30, 2015; ▪ FNS annually releases a solicitation for funding to SAs for Administrative Reviews and Training (ART) grants. This funding is made available to perform administrative reviews and training of selected local educational agencies (LEA) identified by the States as having demonstrated a high level of, or high-risk for, administrative error in the NSLP. For this purpose, $4 million has been set aside since FY 2005. Beginning in FY 2009, FNS divided these grant opportunities into two categories: 1) ART Method I for funding to carry out additional administrative reviews in error-prone LEAs, and 2) ART Method II for developing and delivering training to error-prone LEAs and for implementing technologies to help States monitor and identify LEAs at high-risk of administrative errors. From FY 2005 to FY 2013, FNS awarded 60 ART grants to States totaling over $26 million. FY 2014 ART Method II grants applications (received May 2014) included State requests for approximately $4 million in funding for automated monitoring systems and training. These requests are currently under review for possible awards in the fall of 2014; ▪ Through the CN Operational Support Branch, FNS provides ongoing support and technical assistance to State agencies on technology grants and issues in order to assist them in working toward successful program outcomes in the implementation of automated systems to improve the following: 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 program eligibility; and 3) Federal reporting on program outcomes; ▪ Facilitated by the Operational Support Branch, FNS has convened a national workgroup of State, and FNS regional, and national office representatives to identify priorities for State and local automation initiatives to improve program accountability, monitoring, training, data quality, and other program areas where automation is a strong business solution. Initiatives

Agency	Program	Corrective Actions
		already underway in FY 2014 and extending into FY 2015 include the following: o Establishment of model requirements for State-automated information systems used to manage State NSLP programs, including functionality to capture application, certification, direct certification, claiming, program monitoring, and administrative review and other components of State program operations; o Establishment of model requirements for local point-of-service systems used by SFAs for counting, claiming, certification, and application processes; o Work with FNS' Office of Policy Support (OPS) to conduct an intensive data study to establish best practices in the collection, reporting, and monitoring of program data at State and local levels aimed at improving management data; and o Planning for national technology training for SAs to showcase best practices in automation for program operations including Federal reporting, project management, data analytics, direct certification, administrative review, and other topics; the goal of the aforementioned is to assist States in the more effective use of automation and business intelligence to improve program operations and integrity. FNS has an ongoing contract with expert consultants to provide technical assistance directly to States in the areas of training and automation in order to assist States in identifying and targeting LEAs that are at high-risk for operational errors and to assist States with meeting statutory benchmarks for direct certification. In FYs 2013 and 2014, FNS completed over 50 site visits in order to provide SAs with technical assistance on improving automation programs and direct certification, training, and monitoring of program operations with special emphasis on error-prone LEAs. **Administrative Efficiencies to Address Under-Certification Issues:** The *2010 CN Reauthorization (the Healthy, Hunger-Free Kids Act of 2010* [PL 111-296]) added provisions that strengthened the certification process. As a result of this Act, FNS has done the following: ▪ Provided performance awards ($4 million each year for 3 years; School Year (SY) 2011-2012 and 2012 2013 are completed, and SY 2013-2014 is in process). Of the $4 million available, $2 million is for outstanding performance awards for States, and the remaining $2 million is for States showing substantial improvement; ▪ Conducted a phased-in demonstration project that began in SY 2012-2013, in select school districts, to test the potential for direct certification using Medicaid data. FNS is in the process of conducting an evaluation study and, as required by the Act, there will be two Reports to Congress incorporating the results of the evaluation study: the interim report is due no later than October 1, 2014, with a final report due no later than October 1,

Agency	Program	Corrective Actions
		2015. The Act does not indicate a specific end date for this demonstration project. However, the project sets specific goals to include areas serving 10 percent of students certified for free and reduced price meals nationwide by the third year (SY 2014-2015) and ongoing in each subsequent school year; ▪ Provided alternatives to paper application systems in low-income areas; Community Eligibility Provision (CEP) 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 and will be made available nationwide in the SY 2014-2015; and ▪ Reinforced 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 following: o Develop a unified monitoring system to review the NSLP and SBP, including a nutritional assessment for both Programs (i.e., the consolidation of CRE and School Meal Initiative (SMI) into one review of both the NSLP and SBP); the system was implemented in late 2013; o Conduct State administrative reviews of all SFAs on a 3 year cycle beginning in SY 2013-2014 (the former cycle was 5 years); and o Post a summary of schools administrative review final results and make this information available to the public; the transparency requirement will be addressed in the proposed rule, which is in clearance, with a targeted publication date in SY 2014-2015. FNS is completing or has already completed a number of proposed rules resulting from the *2010 CN Reauthorization Act* that will serve to reduce improper payments by doing the following: ▪ Requiring an independent review of applications in order to increase the accuracy of eligibility determinations in school districts that demonstrate high levels of administrative error; the final rule was published in February 6, 2014; implementation of this requirement is required in SY 2014-2015; ▪ Establishing professional standards for school food service personnel, requiring professional education and training standards for certification of local school food service directors and staff, and criteria and standards for the selection of State Directors; a proposed rule for implementing these changes was published on February 4, 2014. FNS received nearly 240 comments on the proposal from a wide variety of stakeholders, and will take this input into account as it develops the final rule. Publication is expected in Spring 2015; ▪ Providing for fines for gross mismanagement and violating program requirements; an additional method for enforcing program compliance; the proposed rule will be published in 2014 and will call for fines for egregious or persistent problems, those that remain unsolved after initial reviews. The SA will be

Agency	Program	Corrective Actions
		able to fine local program operators; and FNS will be able to fine both SAs and local program operators for gross mismanagement; and ▪ Strengthening program compliance by prohibiting any school, institution, or individual that is terminated from one of the Child Nutrition Programs and is on a list of disqualified institutions and individuals from participating in, or administering any of the Child Nutrition Programs; the proposed rule will be published in 2014. The *2010 CN Reauthorization Act* brought further emphasis on improving direct certification rates for children in families receiving SNAP benefits, including setting benchmarks for State direct certification rates with SNAP at 80 percent for SY 2011-2012, 90 percent for SY 2012-2013, and 95 percent for SY 2013-2014 and beyond. Beginning in the Spring of 2013, States not meeting the required direct certification rate benchmarks for a given SY have been required to develop and implement continuous improvement plans (CIP) to describe the activities they will implement to reach more eligible children in future years. FNS approved 16 State plans in FY 2013 and has 28 State plans under review in FY 2014. FNS provides ongoing technical assistance to support States in their efforts, and, in 2012, contracted for additional technical assistance to States in the area of direct certification improvements, including the collecting and sharing of State and LEA best practices. The technical assistance provided under this contract is still ongoing. Individual technical assistance is provided to States in developing and carrying out their CIPs. The Act also provides $4 million in funding annually to be used for direct certification performance awards to up to 15 States each year, for FYs 2012, 2013, and 2014. These awards are made in the categories of “outstanding performance” ($2 million) and “substantial improvement” ($2 million) for States making the greatest strides in direct certification performance with SNAP. Fourteen States received awards in FY 2012, thirteen States in FY 2013, and analysis is underway for FY 2014 awards to be made in September 2014. Prior to the 2010 Reauthorization, Section 749(h) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010 (P.L. 111-180) provided $22 million for FNS to make grants to SAs that administer NSLP and have the lowest rates of children in SNAP households who are directly certified for free meals. SAs may use the grant funds to pay costs associated with improving their direct certification rates. FNS issued a Request for Applications (RFA) in 2010 to allow SAs to apply for the grant funding from November 2010 through July 2012. This funding opportunity has been extended for FY 2013 and FY 2014 to make available remaining funding from the original $22 million to SAs. Thus far, FNS has awarded 41 Direct Certification grants to States totaling over $17 million, to assist in implementing direct certification process improvements. SAs will have one additional opportunity to apply for funding in FY 2014. The purpose of these

Agency	Program	Corrective Actions
		grants is to help fund State efforts to make improvements that will help them reach and maintain the mandated 95 percent benchmark set by the *2010 CN Reauthorization*. SAs were provided with monthly opportunities (from February through July 2014) to apply for FY 2014 Direct Certification Improvement grants. Three applications are pending for award in the fall of 2014. Opportunities to apply will be extended until funding is exhausted. FNS' continuing efforts with direct certification have led to significant improvements e.g., in SY 2012-2013, 89 percent of LEAs directly certified students from SNAP households, a substantial increase from SY 2004-2005. **Other Administrative Actions:** FNS is also promoting States' CN Program integrity efforts by establishing a FNS administrative review CN Program Integrity Office to further promote program integrity efforts, and by supporting technology solutions to State and local program management and monitoring challenges. These integrity efforts began in 2014. A number of studies are currently planned, already underway, or recently completed; these studies also support efforts to reduce erroneous payments, including: ▪ The Regional Office Review of Applications (RORA), an annual report examining administrative error in NSLP during LEA's approval process of free and reduced-price applications. The data collection is annual; reports are issued in the spring or summer of the following year. The RORA 2012 was posted to the Web on June 1, 2013, and the RORA 2013 was posted in 2014; ▪ NSLP and SBP Access, Participation, Eligibility, and Certification Study II (APEC–II), an update of national estimates of overpayment, underpayment and overall erroneous payments, which will measure certification error and meal counting and claiming error in SY 2012-2013, then compare these results with those found in SY 2005-2006. This study will also develop and validate estimation models for updating the erroneous payment estimates annually. In addition, it will produce separate estimates of erroneous payments for LEAs participating in the Community Eligibility Provision and will examine alternatives to develop estimates of erroneous payment estimates at the State level. A final report is expected in early 2015; ▪ State Performance on Enrolling Children Receiving Program Benefits for Free School Meals (Direct Certification), an assessment of the effectiveness of State and local efforts to directly certify children for free school meals. A final report is expected in the fall of 2014; ▪ High-risk Indicators of NSLP Certification Errors, a study that will provide a profile of school districts likely to be at "high-risk" for NSLP certification error through econometric modeling that relates school district characteristics to certification errors. The final report was issued in April 2012;

Agency	Program	Corrective Actions
		▪ The NLSP Direct Certification Improvement Study, an evaluation of the effectiveness of using computerized matching systems to directly certify low-income children from SNAP households. A final report is expected in 2014; ▪ Direct Certification for Children Receiving Medicaid Benefits, a measurement of the effectiveness of direct certification using Medicaid data. An interim report is expected in October 2014, a final report is due in October 2015; ▪ Community Eligibility Study, an examination of the number of schools and LEAs in high-poverty areas that are eligible to receive special assistance payments; the study describes various attributes of those eligible schools and LEAs that elect or do not elect this option. The evaluation also examined the option's impact on program integrity, availability and type of breakfast program, nutritional quality of school meals, and program participation. The final report was released in February 2014; ▪ Universal Meal Service through Census Data, an evaluation conducted by the National Academies' Committee on National Statistics (CNSTAT) and which looked into the use of data from the American Community Survey to develop eligibility estimates for school meals programs in lieu of individual applications. A final report was issued in December 2012; and ▪ School Nutrition and Meal Cost Study, an examination of the relationships between school environment and school food service operations, nutritional quality of meals offered and served in school meal programs, plate waste, costs to produce reimbursable meals, student participation, participant characteristics, and satisfaction and related attitudes toward the school lunch and breakfast programs. Primary data collection will occur in SY 2014-2015. A final report is due in early 2017.
FNS	School Breakfast Program (SBP)	**Actions Taken to Reduce Improper Payments:** ▪ Issued a revised *Eligibility Manual* in August 2012. This manual contains information on determining students' eligibility for free and reduced-price meals in the NSLP and the SBP; ▪ Conducted five national trainings for Federal and State reviewers on the new Administrative Review (AR) process that was designed to ensure a more comprehensive evaluation of school meal programs to improve program integrity. The new AR process was updated to include a review of SBP requirements and was designed to ensure the monitoring process provides effective review of the complex requirements within the school meal programs while also recognizing the resource constraints facing the SAs. The new process includes approaches to reduce improper and erroneous payments, document compliance, and strives to ensure proper implementation of the school meals and other nutrition assistance programs. FNS also incorporated review procedures to assess the financial health of the nonprofit school food service account, including assessing compliance with cost allowability requirements. In addition, *CRE Procedures Manual and Forms and Instructions* was issued

Agency	Program	Corrective Actions
		in September 2013 and was posted to the FNS Web site for those SAs electing to use the CRE procedures for reviews conducted in SY 2013-2014. This update reflects recent legislation and policy aimed at strengthening the monitoring process; ▪ Additionally, from FY 2006 to FY 2013, FNS upgraded its Web-based system for States to report the results of verification activity annually using the *Verification Summary Report* (FNS-742). In FY 2014, FNS changed the report's name to *Verification Collection Report* and now collects data through the Food Program Reporting System. This reporting mechanism improved the accuracy and timeliness of this data. In 2013, form FNS-742 itself was improved with requests for additional data, which, along with a simplification of the form's instructions and a more user-friendly layout, now contributes to a more accurate direct certification rate, among other improvements. The new FNS-742 now captures direct certification data broken out by type, data on direct verification, additional information related to verification and program participation, as well as data on verifications for cause. The form was implemented for SY 2013 2014 data collection. Prior to implementation, FNS conducted national training on the new form. FNS has been actively emphasizing to States the importance of using the FNS-742 and other data sources, such as the *CRE Data Report* (FNS-640), as a way to identify and target corrective action. On October 24, 2011, FNS issued clarification of the verification and reporting processes for categorically eligible foster children. On February 10, 2012, FNS issued a policy memo detailing the school district's ability and responsibilities to verify SBP and NSLP applications beyond the required sample size when there is cause. On August 3, 2011, FNS also issued applications and other materials for households with limited English proficiency. The translated prototype materials, besides being available in English, are now available in 33 other languages and lead to greater accuracy in application data and fewer certification errors. ▪ Secured funding from Congress in FY 2004 for FNS to provide technical assistance and training materials from FYs 2004 to 2008 to help State and local partners reduce administrative errors and improve Program integrity. **Plans to Prevent Future Improper Payments:** In response to the APEC study conducted in FY 2007, FNS is executing several key measures to improve Federal and State oversight and technical assistance to identify and recover improper payments in the NSLP. The following outlines the proactive measures FNS has taken to strengthen Program integrity: ▪ Required annual training for schools on certification and accountability issues; the training is ongoing; ▪ Provided $47 million for each of 2 years, FYs 2012 and 2013, to SAs to implement the new meal pattern requirements, funding that supports training, technical assistance, and conducting performance-based reimbursement certification activities and

Agency	Program	Corrective Actions
		validation reviews, and administrative reviews. The FY 2012 allocation had to be obligated by September 30, 2014, and FY 2013 funding must be obligated by September 30, 2015; ▪ FNS annually releases a solicitation for funding to SAs for *Administrative Reviews and Training* (ART) grants. This funding is made available to perform administrative reviews and training of selected local educational agencies (LEA) identified by the States as having demonstrated a high level of, or high-risk for, administrative error in the NSLP. For this purpose, $4 million has been set aside since FY 2005. Beginning in FY 2009, FNS divided these grant opportunities into two categories: 1) ART Method I for funding to carry out additional administrative reviews in error-prone LEAs, and 2) ART Method II for developing and delivering training to error-prone LEAs and for implementing technologies to help States monitor and identify LEAs at high-risk for administrative errors. From FY 2005 to FY 2013, FNS awarded 60 ART grants to States totaling over $26 million. FY 2014 ART Method II grants applications (received May 2014) included State requests for approximately $4 million in funding for automated monitoring systems and training. These requests are currently under review for possible awards in the fall of 2014; ▪ Through the CN Operational Support Branch, FNS provides ongoing support and technical assistance to SAs on technology grants and issues to assist them in working toward successful program outcomes in the implementation of automated systems to improve the following: 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 program eligibility; and 3) Federal reporting on program outcomes; ▪ Facilitated by the Operational Support Branch, FNS has convened a national workgroup of State, and FNS regional and national office representatives to identify priorities for State and local automation initiatives to improve program accountability, monitoring, training, data quality, and other program areas where automation is a strong business solution. Initiatives already underway in FY 2014 and extending into FY 2015 include: o Establishment of model requirements for State-automated information systems used to manage State NSLP programs, including functionality to capture application, certification, direct certification, claiming, program monitoring, and administrative review and other components of State program operations; o Establishment of model requirements for local point-of-service systems used by SFAs for counting, claiming, certification, and application processes;

Agency	Program	Corrective Actions
		o Work with FNS' Office of Policy Support (OPS) to conduct an intensive data study to establish best practices in the collection, reporting, and monitoring of program data at State and local levels aimed at improving management data; and o Planning for national technology training for SAs to showcase best practices in automation for program operations including Federal reporting, project management, data analytics, direct certification, administrative review, and other topics; the goal of the aforementioned is to assist States in the more effective use of automation and business intelligence to improve program operations and integrity. FNS has an ongoing contract with expert consultants to provide technical assistance directly to States in the areas of training and automation in order to assist States in identifying and targeting LEAs that are at high-risk for operational errors and to assist States with meeting statutory benchmarks for direct certification. In FYs 2013 and 2014, FNS completed over 50 site visits in order to provide SAs with technical assistance on improving automation programs and direct certification, training, and monitoring of program operations with special emphasis on error-prone LEAs. **Administrative Efficiencies to Address Under-Certification Issues:** The *2010 CN Reauthorization (the Healthy, Hunger-Free Kids Act of 2010* [PL 111-296]) added provisions that strengthened the certification process. As a result of this Act, FNS has done the following: ▪ Provided performance awards ($4 million each year for 3 years; SY 2011-2012 and 2012-2013 are completed, and SY 2013-2014 is in process). Of the $4 million available, $2 million is for outstanding performance awards for States, and the remaining $2 million is for States showing substantial improvement; ▪ Conducted a phased-in demonstration project that began in SY 2012-2013, in select school districts, to test the potential for direct certification using Medicaid data. FNS is in the process of conducting an evaluation study and, as required by the Act, there will be two Reports to Congress that will incorporate the results of the evaluation study: the interim Report is due no later than October 1, 2014, with a final report due no later than October 1, 2015. The Act does not indicate a specific end date for this demonstration project. However, the project sets specific goals to include areas serving 10 percent of students certified for free and reduced price meals nationwide by the third year (SY 2014-2015) and ongoing in each subsequent school year; Provided alternatives to paper application systems in low-income areas; Community Eligibility Provision (CEP) 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 and will be made available nationwide in SY 2014-2015; and

Agency	Program	Corrective Actions
		▪ Reinforced 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 following: o Develop a unified monitoring system to review the NSLP and SBP, including a nutritional assessment for both Programs (i.e., the consolidation of CRE and SMI) into one review of both the NSLP and SBP); the system was implemented in late 2013; o Conduct administrative reviews of all SFAs on a 3-year cycle beginning in SY 2013-2014 (the former cycle was 5 years); and o Post a summary of the schools administrative review final results and make this information available to the public; the transparency requirement will be addressed in the proposed rule, which is in clearance, with a targeted publication date in SY 2014-2015. FNS is completing or has already completed a number of proposed rules resulting from the *2010 CN Reauthorization Act* that will serve to reduce improper payments by doing the following: ▪ Requiring an independent review of applications in order to increase the accuracy of eligibility determinations in school districts that demonstrate high levels of administrative error; the final rule was published in February 6, 2014; implementation of this requirement is required in SY 2014-2015; ▪ Establishing professional standards for school food service personnel, requiring professional education and training standards for certification of local school food service directors and staff, and criteria and standards for the selection of State Directors; a proposed rule for implementing these changes was published on February 4, 2014. FNS received nearly 240 comments on the proposal from a wide variety of stakeholders and will take this input into account as it develops the final rule. Publication is expected in Spring 2015; ▪ Providing for fines for gross mismanagement and violating program requirements; an additional method for enforcing program compliance; the proposed rule will be published in FY 2014 and will call for fines for egregious or persistent problems—those that remain unsolved after initial reviews. The SA will be able to fine local program operators, and FNS will be able to fine both SAs and local program operators for gross mismanagement; and ▪ Strengthening program compliance by prohibiting any school, institution, or individual that is terminated from one of the Child Nutrition Programs and is on a list of disqualified institutions and individuals from participating in, or administering, any of the Child Nutrition Programs; the proposed rule will be published in 2014. The *2010 CN Reauthorization Act* brought further emphasis on improving direct certification rates for children in families

Agency	Program	Corrective Actions
		receiving SNAP benefits, including setting benchmarks for State direct certification rates with SNAP at 80 percent for SY 2011-2012, 90 percent for SY 2012-2013, and 95 percent for SY 2013-2014 and beyond. Beginning in the spring of 2013, States not meeting the required direct certification rate benchmarks for a given SY have been required to develop and implement continuous improvement plans (CIP) to describe the activities they will implement to reach more eligible children in future years. FNS approved 16 State plans in FY 2013 and has 28 State plans under review in FY 2014. FNS provides ongoing technical assistance to support States in their efforts, and, in 2012, contracted for additional technical assistance to States in the area of direct certification improvements, including the collecting and sharing of State and LEA best practices. The technical assistance provided under this contract is still ongoing. Individual technical assistance is provided to States in developing and carrying out their CIPs. The Act also provides $4 million in funding annually to be used for direct certification performance awards to up to 15 States each year, for FYs 2012, 2013, and 2014. These awards are made in the categories of "outstanding performance" ($2 million) and "substantial improvement" ($2 million) for States making the greatest strides in direct certification performance with SNAP. Fourteen States received awards in FY 2012; thirteen States received awards in FY 2013, and analysis is underway for FY 2014 awards to be made in September 2014. Prior to the 2010 Reauthorization, Section 749(h) of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2010 (P.L. 111-180) provided $22 million for FNS to make grants to SAs that administer NSLP and have the lowest rates of children in SNAP households who are directly certified for free meals. State agencies may use the grant funds to pay costs associated with improving their direct certification rates. FNS issued a Request for Applications (RFA) in 2010 to allow SAs to apply for the grant funding from November 2010 through July 2012. This funding opportunity has been extended for FY 2013 and FY 2014 to make available remaining funding from the original $22 million to SAs. Thus far, FNS has awarded 41 Direct Certification grants to States, totaling over $17 million, to assist in implementing direct certification process improvements. SAs will have one additional opportunity to apply for funding in FY 2014. The purpose of these grants is to help fund State efforts to make improvements that will help them reach and maintain the mandated 95 percent benchmark set by the *2010 CN Reauthorization Act*. SAs were provided with monthly opportunities (from February through July 2014) to apply for FY 2014 Direct Certification Improvement grants. Three applications are pending for award in the fall of 2014. Opportunities to apply will be extended until funding is exhausted. FNS' continuing efforts with direct certification have led to significant improvements e.g., in SY 2012-2013, 89 percent of

Agency	Program	Corrective Actions
		LEAs directly certified students from SNAP households, which was a substantial increase from SY 2004-2005. **Other Administrative Actions:** FNS is also promoting States' CN Program integrity efforts by establishing an FNS administrative review CN Program Integrity Office to further promote program integrity efforts, and by supporting technology solutions to State and local program management and monitoring challenges. These integrity efforts began in 2014. A number of studies are currently planned, already underway, or recently completed, which also support efforts to reduce erroneous payments, including the following: ▪ The Regional Office Review of Applications (RORA), an annual report examining administrative error in NSLP during LEA's approval process of free and reduced-price applications. The data collection is annual; reports are issued in the spring or summer of the following year. The RORA 2012 was posted to the Web on June 1, 2013, and the RORA 2013 was posted in 2014; ▪ NSLP and SBP Access, Participation, Eligibility, and Certification Study II (APEC-II), an update of national estimates of overpayment, underpayment and overall erroneous payments, which will measure certification error and meal counting and claiming error in SY 2012-2013, then compare these results with those found in SY 2005-2006. This study will also develop and validate estimation models for updating the erroneous payment estimates annually. In addition, it will produce separate estimates of erroneous payments for LEAs participating in the Community Eligibility Provision and will examine alternatives to develop estimates of erroneous payment estimates at the State level. A final report is expected in early 2015; ▪ State Performance on Enrolling Children Receiving Program Benefits for Free School Meals (Direct Certification), an assessment of the effectiveness of State and local efforts to directly certify children for free school meals. A final report is expected in the fall of 2014; ▪ High-risk Indicators of NSLP Certification Errors, a study that will provide a profile of school districts likely to be at "high-risk" for NSLP certification error through econometric modeling, which relates school district characteristics to certification errors. The final report was issued in April 2012; ▪ The NLSP Direct Certification Improvement Study, an evaluation of the effectiveness of using computerized matching systems to directly certify low-income children from SNAP households. A final report is expected in 2014; ▪ Direct Certification for Children Receiving Medicaid Benefits, a measurement of the effectiveness of direct certification using Medicaid data. An interim report is expected in 2014, a final report is due in October of 2015;

Agency	Program	Corrective Actions
		▪ Community Eligibility Study, an examination of the number of schools and LEAs in high-poverty areas that are eligible to receive special assistance payments, and which describes various attributes of those eligible schools and LEAs that elect or do not elect this option. The evaluation will also examine the option's impact on program integrity, availability and type of breakfast program, nutritional quality of school meals, and program participation. The final report was released in February of 2014; ▪ Universal Meal Service through Census Data, an evaluation conducted by the National Academies' Committee on National Statistics (CNSTAT) and which looked into the use of data from the American Community Survey to develop eligibility estimates for school meals programs in lieu of individual applications. A final report was issued in December 2012; and ▪ School Nutrition and Meal Cost Study, an examination of the relationships among 1) school environment and school food service operations; 2) nutritional quality of meals offered and served in school meal programs; 3) plate waste; 4) costs to produce reimbursable meals; 5) student participation; 6) participant characteristics; and 7) satisfaction and related attitudes toward the school lunch and breakfast programs. Primary data collection will occur in SY 2014-2015. A final report is due in early 2017.
FNS	Special Supplemental Nutrition Program for Women, Infants and Children (WIC)	**Certification Error** **Actions Taken To Reduce Improper Payments:** ▪ FNS issued Policy Memorandum 2013-3, Income Eligibility and Documentation in the Special Supplemental Nutrition Program for Women, Infants and Children (WIC), to all WIC State agencies on April 26, 2013, to address income documentation; ▪ FNS held a series of seven regional Webinars in FY 2014, which provided training and technical assistance on the Income Eligibility Guidance and addressed specific questions and circumstances raised by WIC SAs; ▪ FNS updated the FY 2014 WIC State Plan guidance for consistency with the Income Eligibility policy memorandum; and ▪ FNS conducted a series of Webinars for all FNS Regional Offices on the WIC Priority System/Caseload Management to assist WIC SAs with caseload management procedures. **Actions Planned To Reduce Improper Payments:** ▪ FNS formed a Certification/Eligibility (CE) Management Evaluation (ME) workgroup on July 14, 2014, to revise a uniform set of evaluation criteria; ▪ FNS will conduct ME Reviews in Certification/Eligibility for all 90 WIC States agencies during FYs 2015 and 2016; and ▪ FNS will conduct quarterly reviews of the CE Reviews to track milestones.

Agency	Program	Corrective Actions
		Vendor Error **Actions Taken To Reduce Improper Payments:** ▪ FNS completed 34 ME reviews in WIC Vendor Management during FY 2013; ▪ FNS performed an internal review of WIC ME procedures and made updates to improve the management of the ME review process; ▪ FNS conducted a program integrity meeting with regional vendor managers and program integrity staff in May 2014 in order to identify vendor management policies or practices that contribute to high program costs; and ▪ FNS Headquarters created a WIC Program Integrity and Monitoring Branch responsible for vendor management oversight policy. **Actions planned to reduce improper payments:** ▪ FNS plans to complete Vendor MEs in all geographical States, the District of Columbia, and Puerto Rico MINC 2014; ▪ FNS will review and analyze the findings from the Vendor MEs and write a final report; and ▪ FNS will continue to work with WIC SAs to strengthen vendor management policies, to address vendor management findings identified in the ME reviews, and to take appropriate and allowable action when vendors defraud or overcharge the program.
FNS	Child and Adult Care Food Program (CACFP)	**Actions Taken to Reduce Improper Payments:** In 2014, FNS issued guidance materials to clarify existing regulation, policy and instruction; to provide resources to new Program staff and to assist States and institutions in developing or improving existing policies and resources. These materials focus on the following areas of CACFP administration: 1. Monitoring Handbook for SAs. 2. Serious deficiency, Suspension, Appeals for State Agency and sponsoring organization. 3. Guidance for Management Plans and Budgets. 4. Revision of FNS Instruction 796-2, Financial Management: Child and Adult Care Food Program. 5. Independent Child Care Centers Handbook. The Multi-State Sponsors Handbook will be published at the end of FY 2014. In the second quarter of 2014, FNS, with the assistance of SA staff, conducted two national refresher trainings on the guidance handbooks. These training sessions provided an overview of the guidance handbooks and refresher training on critical requirements of the Program. Discussion, Q&As, scenarios and case studies provided SAs the opportunity to share administrative strengths and work through operational weaknesses.

Agency	Program	Corrective Actions
		Plans to Prevent Future Improper Payments: Management Evaluations (MEs) in FYs 2014, 2015 and 2016 – FNS Regional offices will conduct management evaluations of each SA , to ensure SAs compliance with Program regulations and the Healthy, Hunger-Free Kids Act of 2010 (HHFKA; PL 111-296). Beginning in FY 2017, FNS will begin selecting SAs for management evaluations each fiscal year based on a risk-based approach using a ME Risk Assessment Tool rather than selecting SAs based on a calendar cycle. The HHFKA strengthened CACFP administration, certification, and monitoring processes by: ▪ Providing additional CACFP audit funding in FY 2016, thereby making additional monies available to SAs for Program improvement. The audit funds may equal a maximum of 2 percent of the CACFP funds used by each SA during the second preceding fiscal year. The SA must demonstrate it can effectively utilize this funding for program improvement. This provision will be addressed in a proposed rule expected to be published in 2014; ▪ Simplifying area eligibility determinations in CACFP, allowing the use of all levels of school data (elementary and secondary) for tiering determinations. This requirement was included in the final rule entitled "Child Nutrition Programs: Nondiscretionary Amendments Related to the Healthy, Hunger-Free Kids Act of 2010, 78 FR 13443, February 28, 2013." See https://www.fns.usda.gov/sites/default/files/FR_Rule-022813.pdf; and ▪ Requiring sponsoring organizations to conduct periodic unannounced site visits at not less than 3-year intervals to sponsored child and adult care, and family or group day care homes; at least one scheduled site visit each year at these centers and homes; and that the timing of unannounced reviews be varied in such a way that it makes the reviews unpredictable to sponsored facilities. This was implemented in policy memorandum "Child Nutrition Reauthorization 2010: Varied Timing of Unannounced Reviews in the Child and Adult Care Food Program" issued April 7, 2011. See https://www.fns.usda.gov/sites/default/files/CACFP-16-2011.pdf. This provision was also included in the proposed rule "Child and Adult Care Food Program: Amendments Related to the HHFKA" 77 FR 21018, April 9, 2012. FNS anticipates issuing a final rule in 2014. In addition, FNS has issued policy memos on the following program areas, which are intended to minimize meal counting and claiming errors, thus decreasing improper payments: ▪ Area Eligibility Using Census Data, issued May 28, 2014; ▪ Sharing Aggregate Data to Expand Program Access and Services in Child Nutrition Programs, issued April 24, 2014;

Agency	Program	Corrective Actions
		▪ Effective Date of Free or Reduced Price Meal Eligibility Determinations, issued December 12, 2013; ▪ School and Census Data, issued November 12, 2013; ▪ Census Data Release: Fiscal Year 2014, issued November 8, 2013; ▪ Eligibility Based on Census Data, issued February 21, 2013; ▪ Eligibility Based on School Data, issued November 23, 2012; ▪ Guidance on Income Eligibility Determinations and the Duration of Eligibility, issued February 10, 2011; ▪ Area Eligibility for FDCHs, issued December 22, 2010; ▪ Extending Categorical Eligibility to Additional Children in a Household, issued May 3, 2010; ▪ Meal Disallowance Policies for Family Day Care Homes, issued March 31, 2009; and ▪ Record Maintenance Requirements for FDCH providers, issued February 24, 2009. FNS has planned or is already conducting three studies that also strengthen the financial integrity process and work toward improving the balance of erroneous payments, including: ▪ CACFP Sponsor Tiering Determination, an evaluation providing a national estimate of the share of CACFP participating FDCHs approved for an incorrect level of per meal reimbursement, or reimbursement tier for their circumstances; annual data collection with results typically posted in summer of the following year. CACFP Assessment of Sponsor Tiering Determinations 2012 was posted to the FNS Web site on August 8, 2013; ▪ CACFP Improper Payment Meal Claims Assessment, which will evaluate the feasibility of a parent-recall interview methodology for developing national improper payment estimates of the share of CACFP-participating FDCH meals approved by providers for an incorrect level of per meal reimbursement. This study was completed in 2014, but it never was put on the FNS Web site. It found that parental recall of meals served to their child while in attendance at the FDCH was unreliable due to a low match rate between parent-recalled meals and actual meals served. The study concluded that it was not feasible to use the parental recall data on specific meals (breakfast, morning snack, lunch, afternoon snack, supper, and evening snack) to estimate erroneous meal claims. As a result, a new CACFP Improper Payment Meal Claims Study will be awarded in 2014 to explore an alternative method of measuring the rate of erroneous payments to CACFP FDCHs for meals claimed for reimbursement (see below); and ▪ A study relating to the CACFP, an examination of best practices of States in soliciting sponsors for an afterschool supper program. This study was completed in November 2011, and is currently on the Child Nutrition Web site as a resource.

<table>
<tr><th>Agency</th><th>Program</th><th>Corrective Actions</th></tr>
<tr><td></td><td></td><td>There are two additional CACFP studies on the FY 2014 Research and Evaluation Plan related to CACFP improper payments that are yet to be awarded:

Improper Payments in CACFP Centers
This study will provide a comprehensive measure of the level of erroneous payments (dollars and rates) to child care centers and center sponsors participating in CACFP. It builds on the methods developed for school meals in the Access, Participation, Eligibility and Certification (APEC) study series. Estimates will be designed to meet the measurement requirements of the Improper Payments Elimination and Recovery Act of 2010 (IPERA). The findings from this study would complement the annual measure of reimbursement “tiering” errors in FDCHs for IPERA-reporting on CACFP.

CACFP Family Day Care Homes Meal Claims Feasibility Study
The study would examine ways to provide a measure of erroneous payments to FDCHs participating in CACFP. Different methods of estimating improper payments and their rates will be developed and a feasibility study will be conducted in an effort to determine the best means to meet requirements under the IPERA.</td></tr>
<tr><td>FNS</td><td>Hurricane Sandy—Commodity Assistance Program</td><td>FNS internal controls and actions have reduced the potential for errors, resulting in TEFAP reporting a zero-percent improper payment rate for funding received through the Disaster Relief Act. These actions include enhanced internal controls, monitoring and reviews of State and local partners, and additional reporting requirements.</td></tr>
<tr><td>FSA, CCC</td><td>Milk Income Loss Contract (MILC) Program</td><td>Actions Taken to Reduce Improper Payments:
The authorization to administer this program expired on September 1, 2014. Therefore, no further actions are planned.</td></tr>
<tr><td>FSA, CCC</td><td>Loan Deficiency Payments (LDP)</td><td>Actions Taken to Reduce Improper Payments:
▪ A notice was issued to the field offices on August 11, 2014, listing the specific eligibility requirements for a LDP.
▪ A follow-up notice with additional eligibility requirements for a LDP, issued October 6, 2014. A table was included, listing the applicable forms for each requirement.

Actions Planned to Reduce Improper Payments:
▪ A notice will be issued to the field offices listing the results of the IPIA highlighting the cause of the improper payments found. Handbook paragraphs with the correct procedure will be referenced for each cause.
▪ A conference call or VTC will be scheduled with State office specialists to go over each of the findings in the IPIA. State office specialists will be required to hold meetings or conference calls with their county offices to go over the findings.</td></tr>
</table>

Agency	Program	Corrective Actions
		▪ An online training course on the LDP policy requirements will be available on either the DAFP or DAFO site. County Office employees working with any aspect of LDP will be required to take the course. Amend policy to require CCC-770 LDP be completed by each county office employee for the first 5 LDP they process each crop year.
FSA, CCC	Direct and Counter-Cyclical Payments (DCP)	**Actions Taken to Reduce Improper Payments:** The DCP Program authority was repealed in the 2014 Farm Bill, and the last payment cycle of 2013 DCP direct payments occurred during October and November of 2013. FSA provides continual compliance and oversight in the delivery of all authorized programs to minimize the risks associated with the disbursement of improper payments; however, the level of risk associated with issuing an improper payment for a program no longer authorized is null. Therefore, no action was taken in FY 2014 to reduce improper payments for the DCP program. **Actions Planned to Reduce Improper Payments:** No further DCP payments are to be made as the program has ended.
FSA, CCC	Miscellaneous Disaster Programs (MDP)	**Actions Taken to Reduce Improper Payments:** Updated Handbook directives issued May 5, 2014, reemphasizing State and county FSA employee responsibilities. **Actions Planned to Reduce Improper Payments:** Supplemental Revenue Assistance Payments (SURE) program was not reauthorized in the 2014 Farm Bill and has expired based on adverse weather events and natural disasters having to occur on or before September 30, 2011. Sign up for 2012 SURE was held from May 5 through August 29, 2014, and only two applications were processed for payment.
FSA, CCC	Noninsured Assistance Program (NAP)	**Action Taken to Reduce Improper Payments:** A National Notice was issued to field offices to reinforce current program policies and procedures in September 2013. **Actions Planned to Reduce Improper Payments:** ▪ National NAP training will be held the week of November 3 through November 7 in San Antonio, Texas. Acreage reporting policy and procedure will also be discussed during NAP training. ▪ A new NAP handbook is being written to incorporate Farm Bill changes, improvements, and recommendations made by NAP task force members from various States. The new handbook will be issued to the field in January 2015. For those employees who made the errors that caused improper payments, the actual County Office Review Program (CORP) finding(s) will be documented in their FY 2015 performance plan.

Agency	Program	Corrective Actions
		▪ Additional Acreage Reporting Target Reviews will be conducted by CORP staff during FY 2015. ▪ A National NAP Notice will be issued to field offices in November 2014 to reinforce current program policies and procedures.
FSA, CCC	Hurricane Sandy—Emergency Conservation Program	**Actions Taken to Reduce Improper Payments:** ▪ State Office/County Office training VTC (4/8/13) ▪ Program Technician training ▪ District Director reviews **Actions Planned to Reduce Improper Payments:** ▪ State Office conference call ▪ County Executive Director training ▪ Program Technician training ▪ District Director reviews
FSA, CCC	Hurricane Sandy—Emergency Forest Restoration Program	This program reported $0 outlays for FY 2013, and therefore did not perform a sample.
FS	Wildland Fire Suppression Management (WFSU)	**Actions Taken to Reduce Improper Payments:** Acquisitions Management (AQM) modified the agreement related to this transaction which allows for the Indirect Cost charged on the invoice. The modification also removes OMB Circular A-87 (for the 2 CFR 225 Cost Principles) from this Fire Agreement's Terms and Conditions, which should be exempted from Cost Principles per the Cooperative Forestry Protection Act. Action completed May 28, 2014. **Actions Planned to Reduce Improper Payments:** AQM will provide additional training to Grants & Agreements Specialists on criteria that should be included in agreements. Training is an ongoing occurrence.
FS	Hurricane Sandy—Emergency Forest Restoration Program	This program reported $0 outlays for FY 2013, and therefore did not perform a sample.
FS	Hurricane Sandy—Capital Improvement and Maintenance (CMDF)	**Actions Taken to Reduce Improper Payments:** There were no Hurricane Sandy-CMDF improper payments identified during FY 2014 (testing FY 2013 transactions), no specific correction action is required. **Actions Planned to Reduce Improper Payments:** Through continuous improvement and strengthening of internal controls, internal monitoring and reviews of potential improper payments, centralizing of accounting functions, improved communications, and follow-up prior to payment authorizations, the Forest Service has significantly reduced the potential for errors.

Agency	Program	Corrective Actions
RD	Rental Assistance Program (RAP)	**Actions Planned to Reduce Improper Payments:** ▪ RD State Office staff is required to follow-up on each instance of error found in the audit and either: 1) obtain appropriate supporting documentation for the subsidy amount paid, or 2) begin recovery of unauthorized assistance amounts. Anticipated completion date December 2014; and ▪ RD will meet with key industry groups to discuss this year's audit findings. Anticipated completion date December 2014.
RMA	Federal Crop Insurance Corporation (FCIC) Program Fund	**Actions Taken to Reduce Improper Payments:** The agency is party to an information exchange agreement between the Social Security Administration and the U.S. Department of Agriculture for the Death Master File. The agreement was effective May 1, 2014. **Actions Planned to Reduce Improper Payments:** ▪ Design, develop, and implement an improper payments program that is IPIA-compliant for the FY 2016 reporting period; and ▪ Implement Section 11021 of the 2014 Farm Bill by hiring in FY 2015 the following staff to improve program integrity efforts: o Six field employees to conduct additional Large Claim Reviews and to review new program applicant reviews, as well as to conduct additional operation evaluation and review of current Approved Insurance Providers; o Eighteen compliance field employees to conduct increased field compliance activities; o Five headquarters employees to improve improper payment sampling, reduce improper payments and audits; o A headquarters and field person to provide one additional special investigator to the field and a coordinator in headquarters; and o A contractor to re-design and implement the review process of partner company activity including: testing of payments; evaluation and testing of internal controls; and performance reporting. Study improper payments sampling method and design and deploy program.
NRCS	Farm Security and Rural Investment Act Programs (FSRIP)	**Entity Participants Not Registered in SAM.gov** **Action Taken to Reduce Improper Payments:** ▪ Reminder about SAM.gov registration requirement for entities was provided at May video teleconference for program personnel. Completed May 2014; ▪ The SAM.gov fact sheet that is provided to entity participants was updated to correct broken internet links. Completed August 2013; ▪ Requirement for entity registration in SAM.gov was added to the practice reminder letter that is sent to all participants annually. Completed December 2013;

Agency	Program	Corrective Actions
		▪ Added language to the program application reminding entity participants of the requirement to register to SAM.gov. Completed February 2014; ▪ National Bulletin was issued to instruct program personnel to verify that entity participants have registered in SAM.gov prior to making obligations and payments. Completed August 2014; ▪ A National Bulletin has been issued regarding the new Agricultural Conservation Easement Program (ACEP), enacted under the new Farm Bill. The bulletin included guidance and a reminder about the SAM.gov registration requirement for entities. Completed July 2014. **Participant Overpaid Due to a Calculation Error** **Actions Planned to Reduce Improper Payments:** ▪ Payment functionality will be deployed in the National Easement Staging Tool (NEST) that will provide additional controls related to payment type through cross referencing of programmatic and financial data. Target date is December 2014; ▪ A pre-payment checklist for easement acquisition transactions will be implemented. Target date is December 2014. **Land Not Owned by Participant for the Required Timeframe** **Actions Taken to Reduce Improper Payments:** Land ownership requirement is tracked in the National Easement Staging Tool (NEST) as a required data element for the Wetlands Reserve Program (WRP). The new Agricultural Conservation Easement Program (ACEP) Wetland Reserve Easement enrollment option reduced the ownership requirement from 7 years to 24-months. Completed February 2014. **Actions Planned to Reduce Improper Payments:** A pre-payment checklist for easement acquisition transactions will be implemented. Target date is December 2014. **Funds Disbursed Prior to Office of the General Counsel (OGC) Title Opinion** **Actions Planned to Reduce Improper Payments:** Reminder of policy will be provided on an EPD net conference. Target date is October 2014. **Funds Disbursed Without Required National Headquarters (NHQ) National Appraiser Opinion** **Actions Taken to Reduce Improper Payments:** ▪ Regular reminders of appraisal policy are provided by the National Appraiser. Completed November 2013. ▪ The NHQ Easement Program Division sent a letter to the State that made the improper payment to remind easement program personnel of the appraisal review requirements. Completed September 2014. ▪ The NHQ National Appraiser reviewed the appraisal associated with the improper payment. Completed August 2014.

Agency	Program	Corrective Actions
		Actions Planned to Reduce Improper Payments: Appraisal review requirements will be reviewed during an Easement Program division net conference by the National Appraiser. Target date is first quarter of FY 2015. **Funds Disbursed Despite Failure of Appraisal Technical Review** **Actions Taken to Reduce Improper Payments:** ▪ Regular reminders of appraisal policy are provided by the National Appraiser. Completed November 2013; and ▪ Appraisal review requirements were reviewed during an Easement Program division net conference by the National Appraiser. Completed September 2014. **Actions Planned to Reduce Improper Payments:** A pre-payment checklist for easement acquisition transactions will be implemented. Target date is December 2014. **Full-Price Paid Instead Of Installment Payments As Requested** **Actions Planned to Reduce Improper Payments:** Payment functionality will be deployed in the National Easement Staging Tool (NEST) that will provide additional controls related to payment type through cross referencing of programmatic and financial data. Target date is December 2014.
NRCS	Hurricane Sandy—Emergency Watershed Protection Program	This program reported $0 outlays for FY 2013, and therefore did not perform a sample.

IV. Improper Payment Reporting

The following exhibit shows USDA's high-risk programs. See the notes for an explanation of the program's other applicable information.

Exhibit 24: Improper Payments Reporting Results

Improper Payments (IP) Reporting Results (In Millions)								
Program	Results Reported in FY 2013				Results Reported in FY 2014			
	Target IP %	Outlays $	IP %	IP $	Target IP %	Outlays $	IP %	IP $
Supplemental Nutrition Assistance Program, FNS	3.81%	74,639	3.42%	2,553	3.80%	76,087	3.20%	2,437
National School Lunch Program, FNS [Note #1]								
Total Program	15.10%	11,304	15.69%	1,774	15.30%	11,463	15.25%	1,748
Certification Error			8.81%	996			8.37%	959
Counting/Claiming Error			6.88%	778			6.88%	789
School Breakfast Program, FNS [Note #1]								
Total Program	24.36%	3,290	25.26%	831	24.43%	3,605	25.61%	923
Certification Error			9.47%	312			9.81%	354
Counting/Claiming Error			15.79%	519			15.79%	569
Women, Infants and Children, FNS								
Total Program	4.00%	4,520	4.38%	198	4.28%	4,517	4.55%	206
Certification Error			2.97%	134			2.87%	130
Vendor Error			1.41%	64			1.68%	76
Child and Adult Care Food Program, FNS [Note #2]								
Total Program	1.53%	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FDCH – Tiering Decisions		917	1.09%	10	1.48%	930	1.05%	10
FDCH – Meal Claims			N/A	N/A			N/A	N/A
Hurricane Sandy—Commodity Assistance Program, FNS	N/A	N/A	N/A	N/A	N/A	5.7	0.0%	0
Milk Income Loss Contract Program, FSA	1.80%	401	0.17%	1	1.80%	283	0.41%	1
Loan Deficiency Payments, FSA	0.40%	0.1	N/A	N/A	0.40%	0.2	18.80%	0

Improper Payments (IP) Reporting Results (In Millions)								
Program	Results Reported in FY 2013				Results Reported in FY 2014			
	Target IP %	Outlays $	IP %	IP $	Target IP %	Outlays $	IP %	IP $
Direct and Counter-Cyclical Payments, FSA	0.35%	0	N/A	N/A	0.33%	4,619	0.71%	33
Miscellaneous Disaster Programs, FSA								
Total Program	2.10%	655	3.78%	24	N/A	N/A	N/A	N/A
Livestock Forage Disaster Program (LFP)		85	2.72%	2	N/A	N/A	N/A	N/A
Supplemental Revenue Assistance Payments (SURE)		570	3.94%	22	3.50%	1,778	2.75%	49
Noninsured Assistance Program, FSA	4.97%	256	5.23%	13	4.97%	346	4.25%	15
Hurricane Sandy—Emergency Conservation Program, FSA	N/A	N/A	N/A	N/A	N/A	0.4	0.02%	0
Hurricane Sandy—Emergency Forest Restoration Program, FSA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wildland Fire Suppression Management, FS	0.02%	835	0.00%	0.0	0.02%	751	0.00%	0
Hurricane Sandy—Emergency Forest Restoration Program, FS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy—Capital Improvement and Maintenance, FS	N/A	N/A	N/A	N/A	N/A	0.3	0.00%	0
Rental Assistance Program, RD	2.50%	1,108	1.79%	20	2.20%	1,117	1.99%	22
Federal Crop Insurance Corporation Program Fund, RMA	4.00%	10,828	5.23%	566	5.15%	17,430	5.58%	972
Farm Security and Rural Investment Act Programs, NRCS [Note #3]	0.03%	2,277	6.93%	158	6.70%	2,200	23.08%	508
Hurricane Sandy—Emergency Watershed Protection Program, NRCS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

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.

Exhibit 25: Detailed Breakout of Improper Payments Reporting

Detailed Breakout of Improper Payments Reporting for FY 2014										
	Total Improper Payments (In Millions)	IP %	Overpayment (In Millions)	Overpayment %	Underpayment (In Millions)	Underpayment %	Incorrect Disbursement (In Millions)	Incorrect Disbursement %	Incomplete Paperwork (In Millions)	Incomplete Paperwork %
Supplemental Nutrition Assistance Program, FNS	2,437	3.20%	1,985	2.61%	453	0.60%	2,437	3.20%	0	0.00%
National School Lunch Program, FNS [Note #1]	1,748	15.25%	1,326	11.57%	421	3.67%	1,748	15.25%	0	0.00%
School Breakfast Program, FNS [Note #1]	923	25.61%	795	22.04%	128	3.57%	923	25.61%	0	0.00%
Special Supplemental Program for Women, Infants and Children, FNS	206	4.55%	145	3.20%	61	1.35%	206	4.55%	0	0.00%
Child and Adult Care Food Program, FNS [Note #2]	10	1.05%	9	0.98%	1	0.07%	10	1.05%	0	0.00%
Hurricane Sandy—Commodity Assistance Program, FNS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Milk Income Loss Contract Program, FSA	1	0.41%	0.8	0.33%	0.2	0.08%	1	0.41%	0	0.00%
Loan Deficiency Payments, FSA	0	18.80%	0	16.10%	0	2.70%	0	2.70%	0	16.10%
Direct and Counter-Cyclical Payments, FSA	33	0.71%	33	0.71%	0	0.00%	33	0.71%	0	0.00%
Miscellaneous Disaster Programs, FSA, SURE	49	2.75%	40	2.23%	9	0.52%	39	2.14%	10	0.61%
Noninsured Assistance Program, FSA	15	4.25%	14	4.05%	1	0.20%	11	3.11%	4	1.14%

Detailed Breakout of Improper Payments Reporting for FY 2014										
	Total Improper Payments (In Millions)	IP %	Overpayment (In Millions)	Overpayment %	Underpayment (In Millions)	Underpayment %	Incorrect Disbursement (In Millions)	Incorrect Disbursement %	Incomplete Paperwork (In Millions)	Incomplete Paperwork %
Hurricane Sandy—Emergency Conservation Program, FSA	0	0.02%	0	0.02%	0	0.00%	0	0.02%	0	0.00%
Hurricane Sandy—Emergency Forest Restoration Program, FSA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wildland Fire Suppression Management, FS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Hurricane Sandy—Emergency Forest Restoration Program, FS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy—Capital Improvement and Maintenance, FS	0	0.00%	0	0.00%	0	0.00%	0	0.00%	0	0.00%
Rental Assistance Program, RD	22	1.99%	16	1.40%	7	0.59%	12	1.03%	11	0.96%
Federal Crop Insurance Corporation Program Fund, RMA	972	5.58%	914	5.25%	58	0.33%	972	5.58%	0	0.00%
Farm Security and Rural Investment Program, NRCS [Note #3]	508	23.08%	508	23.08%	0	0.00%	508	23.08%	0	0.00%
Hurricane Sandy – Emergency Watershed Protection Program, NRCS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

The following exhibit shows future year outlays and improper payment estimates for USDA's high-risk programs.

Exhibit 26: Improper Payments Reduction Outlook

Improper Payment Reduction Outlook (In Millions)									
Program	FY 2015 Reporting			FY 2016 Reporting			FY 2017 Reporting		
	Outlays $	IP %	IP $	Outlays $	IP %	IP $	Outlays $	IP %	IP $
Supplemental Nutrition Assistance Program, FNS	79,741	3.42%	2,718	77,624	3.42%	2,655	74,906	3.42%	2,562
National School Lunch Program, FNS	11,717	15.17%	1,777	11,950	14.79%	1,767	12,000	14.43%	1,732
School Breakfast Program, FNS	3,843	24.43%	939	4,075	23.62%	963	4,095	22.84%	935
Women, Infants and Children, FNS	4,647	4.18%	194	4,900	4.08%	200	5,072	3.98%	202
Child and Adult Care Food Program, FNS [Note #2]	956	1.43%	14	960	1.38%	13	970	1.33%	13
Hurricane Sandy—Commodity Assistance Program, FNS	0	0.00%	0	N/A	N/A	N/A	N/A	N/A	N/A
Milk Income Loss Contract Program, FSA	0	1.80%	0	0	1.80%	0	0	1.80%	0
Loan Deficiency Payments, FSA	5	0.40%	0	10	0.40%	0	10	0.35%	0
Direct and Counter-Cyclical Payments, FSA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Miscellaneous Disaster Programs, FSA LFP SURE	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Noninsured Assistance Program, FSA	168	4.90%	8	168	4.80%	8	168	4.80%	8
Hurricane Sandy—Emergency Conservation Program, FSA	1	1.50%	0	1	1.45%	0	1	1.40%	0

Improper Payment Reduction Outlook (In Millions)									
Program	FY 2015 Reporting			FY 2016 Reporting			FY 2017 Reporting		
	Outlays $	IP %	IP $	Outlays $	IP %	IP $	Outlays $	IP %	IP $
Hurricane Sandy—Emergency Hurricane Sandy—Emergency Forest Restoration Program, FSA	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Wildland Fire Suppression Management, FS	1,000	0.02%	0	1010	0.02%	0	1018	0.02%	0
Hurricane Sandy—Emergency Forest Restoration Program, FS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Hurricane Sandy—Capital Improvement and Maintenance, FS	1.45	0.02%	0	1	0.02%	0	0	N/A	N/A
Rental Assistance Program, RD	1,221	1.90%	23	1,282	1.89%	24	1300	1.88%	24
Federal Crop Insurance Corporation Program Fund, RMA	8,733	5.75%	502	7,653	5.70%	436	7,611	5.65%	430
Farm Security and Rural Investment, NRCS [Note #3]	2,714	9.90%	269	2,873	9.70%	279	3,101	9.50%	295
Hurricane Sandy—Emergency Watershed Protection Program, NRCS	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A

Note #1: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error.

Note #2: 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.

Note #3: NRCS' testing processes have undergone changes since FY 2012 to create more robust testing criteria for all financial assistance payments. The primary cause of the increase in improper payments that were identified relate to entity participants not registering in SAM.gov as required.

V. Recapture of Improper Payments Reporting

The Department uses contractors to recover overpayments when it conducts audits required by the Improper Payments Elimination and Recovery Act of 2010 (IPERA). Some recovery audits do not meet the criteria of IPERA, and are conducted differently. One contract addresses overpayments to vendors that provide goods and services to USDA, and one contract addresses program overpayments.

The first contract mentioned above, the Supplier Credit Recovery Audit (SCRA) initiative, addresses vendor overpayments. USDA's SCRA contractor uses proprietary software to analyze vendor billing and invoice records to identify possible overpayments. USDA validates the results, collects overpayments from the vendors, and distributes the recovered funds according to the disbursement scheme outlined in IPERA. Through this process, USDA has identified $616,183 in overpayments from August 2013 through July 2014.

Under the second contract, possible program overpayments are detected by a contractor using proprietary software that scans program databases provided by USDA. The contractor provides its findings to USDA program staff, who then determine whether the findings represent collectable overpayments. This effort differs significantly from the SCRA initiative. SCRA overpayments are generally straightforward, and usually involve invoices that were incorrect, goods that were not delivered or that were delivered in the wrong quantity, bills that were paid twice, or services that were not performed according to the original contract. Program overpayments, however, are more complex, and often involve funds that have changed hands several times, or funds that are dispersed to States or other entities, which in turn provide services to vulnerable populations.

Rental Assistance Program (RAP) overpayments have been the focus of a recovery audit pilot to test the new initiative. The pilot project revealed the extent of time and resources that must be dedicated to validating possible overpayments in such an initiative. Lessons learned from this pilot will be used in new opportunities, and will help to design recovery audits that are more focused, and that consume fewer resources.

The following exhibits are designed to illustrate payment recapture audit efforts. Exhibit 27 shows how recovery payments are reported for audits.

Exhibit 27: 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 Out-standing (CY)***	% of Amount Outstanding out of Amount Identified (CY)
Rental Assistance Program*	Benefit	$1,108	$0.323	$0.014	$0.040	78%**	$0.042	100.00%
Supplier Credit Recovery Audit*	Contract	$4,300	$4,300	$0.616	$0.616	100%	$0.000	0.00%
USDA Total		$5,408	$4,300	$0.630	$0.656	96%**	$0.042	6.67%

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%	$0.174	$0.106	$0.188	$0.146	$0.042	$0
$0	0.0%	$0.000	$0.000	$0.616	$0.616	$0.000	$0
$0	0.0%	$0.174	$0.106	$0.804	$0.762	$0.042	$0

* Exhibit 27 represents the one-year period September 1, 2013 – July 31, 2014. The column titled "Actual Amount Reviewed and Reported (CY)" represents the amount the recovery auditing contractor reported as potential improper payments.

** These amounts are based on cumulative results for the Rental Assistance Program because it is a multiyear project with identification and recovery crossing fiscal years.

*** The current year's amount outstanding includes receivables identified in the current and prior fiscal years.

The following exhibit shows how these annual targets, based on the rate of recovery, are used to drive performance.

Exhibit 28: 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	$0.014	$0.040	78%	85%	85%	85%
Supplier Credit Recovery Audit	Contract	$0.616	$0.616	100%	100%	100%	100%

The following shows an aging schedule of outstanding overpayments in 6-month periods.

Exhibit 29: 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	$0.003	$0.011	$0.028
Supplier Credit Recovery Audit	Contract	$0.000	$0.000	$0.000

The following exhibit shows a summary of how recovered amounts have been used.

Exhibit 30: 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
Supplier Credit Recovery Audit	Contract	N/A	N/A	N/A	N/A	N/A	N/A

Exhibit 30 shows disposition of recaptured funds as Not Applicable (N/A) because recoveries reported in Exhibit 25 for the two-year period of September 1, 2012 through August 31, 2014, had not been disbursed as of August 31, 2014.

Exhibit 31 includes USDA improper payments identified and recovered, listed by source, from the fourth quarter FY 2013 to the third quarter of FY 2014. It includes amounts from prior years, as well as cumulative totals. The prior year column includes recoveries from FY 2004 through FY 2013.

Exhibit 31: Overpayments Recaptured

Overpayments Recaptured Outside of PRRA Initiative (In Millions)						
Agency Source	FY 2014 Amount Identified	FY 2014 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	$35.64	$1.82	$930.38	$893.80	$966.02	$895.62
Identified Internally & Post Payment Reviews	$240.19	$209.13	$961.92	$698.19	$1,202.11	$907.32
Identified by OIG & Government Accountability Office (GAO) Audits	$2.17	$1.83	$193.61	$0.13	$195.78	$1.96
Self-reported by recipient	$0.49	$0.31	$0.46	$0.11	$0.95	$0.42
Reports from the Public	$0.42	$0.02	$6.08	$6.01	$6.50	$6.03
Other Sources	$21.60	$21.38	$7.85	$5.12	$29.45	$26.50
USDA Total	**$300.51**	**$234.49**	**$2,100.30**	**$1,603.36**	**$2,400.81**	**$1,837.85**

VI. Accountability

The following steps were taken to ensure that agency managers are held accountable for reducing and recovering improper payments:

FNS

SNAP
FNS has a corporate priority to maintain a high standard of integrity in SNAP. This priority includes specific goals to support achievement of error rate goals, use multiple strategies to support payment accuracy and to participate actively in efforts related to the President's Executive Order on Improper Payments. The agency goals and priorities are incorporated into each manager's performance plan.

SBP
USDA has a strategic objective to improve nutrition assistance program management that is managed by FNS and includes a measure to improve the accuracy of school administrative processes that certify children for school meals. As part of its actions to advance this objective, FNS sets annual priority goals and initiatives, including specific goals applicable to programs at high-risk for erroneous payments. These agency goals and priorities are incorporated into each manager's performance plan.

NSLP
USDA has a strategic objective to improve nutrition assistance program management that is managed by FNS and includes a measure to improve the accuracy of school administrative processes that certify children for school meals. As part of its actions to advance this objective, FNS sets annual priority goals and initiatives, including specific goals applicable to programs at high-risk for erroneous payments. These agency goals and priorities are incorporated into each manager's performance plan.

WIC
FNS has a corporate priority to improve program management. Within this priority are specific goals applicable to programs at high-risk for erroneous payments. The agency goals and priorities are incorporated into each manager's performance plan.

CACFP
FNS has a corporate priority to improve stewardship of Federal funds. Within this priority are specific goals applicable to programs at high-risk for erroneous payments. The goal for CACFP is to continue management improvements. The agency goals and priorities are incorporated into each manager's performance plan.

FSA

MILC

The following are steps that have or will continue to be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- FSA has a performance management program to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides improper payments to be included in the State Executive Director (SED) Performance Plan, element 5, titled "Program Management."
- National and State Office (STO) managers are held accountable for ensuring that program policies and procedures are provided to the STO and County Office (COF) employees accurately and on a timely basis. Federal managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the national level. FSA Federal employees' performance elements are directly related to FSA's Strategic Plan;
- COF employees, including the County Executive Director, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans.
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any action necessary for senior management to address accountability.
- 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.
- **NOTE**: Authorization to administer MILC expired on September 1, 2014.

LDP

The following are steps that have or will continue to be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the SED Performance Plan, element 5, titled "Program Management."
- National and STO managers are held accountable for ensuring that program policies and procedures are provided to the STO and COF employees accurately and on a timely basis. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to FSA's Strategic Plan.

- COF employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans.
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.
- Employees at all levels of the agency will be held accountable for efficient and accurate delivery of all FSA programs.
- In order to effectively prevent improper payments, SED's having field offices with high improper error rates may require, within specific field offices, additional:
  - Supervisory follow-up or performance actions;
  - Payment review or approval levels; and
  - Required use of CCC-770 LDP checklist for all LDPs processed.

DCP

The following are steps that have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments.

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the SED Performance Plan, element 5, titled "Program Management." (In place for FY 2014.)
- National and STO managers are held accountable for ensuring that program policies and procedures are provided to the State and County Office Employees accurately and on a timely basis. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to FSA's Strategic Plan. (in place for FY 2014.)
- County Office Employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans. (In place for FY 2012.)
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.
- FSA's 2012-2016 Strategic Plan provides that, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its strategic planning documents. (In FSA's 2012-2016 Strategic Plan.)
- **NOTE:** DCP program authority was repealed in the 2014 Farm Bill.

SURE

The following are steps that have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments.

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. (This program provides for improper payments to be included in the SED Performance Plan, element 5, titled "Program Management".)
- National and STO managers are held accountable for ensuring that program policies and procedures are provided to the State and county office employees accurately and on a timely basis. National Office managers are also held accountable as reflected in the performance-based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to FSA's Strategic Plan.
- County office employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulation, policies, and procedures through their performance plans.
- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.
- FSA's 2012-2016 Strategic Plan provides that, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its strategic planning documents. (In FSA's 2012-2016 Strategic Plan)
- **NOTE:** SURE program was not reauthorized in the 2014 Farm Bill.

NAP

The following are steps that have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments.

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the SED Performance Plan, element 5, titled "Program Management." (In place for FY 2014)
- National and STO managers are held accountable for ensuring that program policies and procedures are provided to the State and county office employees accurately and on a timely basis. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to FSA's Strategic Plan. (In place for FY 2014)
- County office employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated

on program delivery and their compliance with regulations, policies, and procedures through their performance plans. (In place for FY 2014)

- Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.
- FSA's 2012-2016 Strategic Plan provides that, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its strategic planning documents. (In FSA's 2012-2016 Strategic Plan).

ECP

The following are steps that have or will be taken to ensure agency managers are held accountable for reducing and recovering improper payments:

- FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the SED Performance Plan, element 5, titled "Program Management."
- National and STO managers are held accountable for ensuring that program policies and procedures are provided to the State and county office employees accurately and on a timely basis. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the national level. FSA employees' performance elements are directly related to FSA's Strategic Plan.
- County office employees, including the CED, are responsible for making payments to producers and following all administrative steps in doing so. Employees will be evaluated on program delivery and their compliance with regulations, policies, and procedures through their performance plans
- FSA's 2012-2016 Strategic Plan provides that, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its strategic planning documents. (In FSA's 2012-2016 Strategic Plan.)

FS

WFSU

Management will be made aware of improper payments identified and held accountable for reduction and recoveries of improper payments. Forest Service Handbook 6500-2012-1, Chapter 6540.44, directs managers and payment staffs to manage and monitor the implementation of payment policies in accordance with direction issued by the Office of Chief Financial Officer (OCFO) to provide appropriate control environment that effectively prevents, detects, and recovers improper payments. The Forest Service utilizes IPIA statistical testing, review of improper payments and recoveries, and the High-Dollar Overpayment Quarterly 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 Forest Service. In addition, 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.

CMDF

Management will be made aware of improper payments identified and held accountable for reduction and recoveries of improper payments. FS Handbook 6500-2012-1, Chapter 6540.44, directs managers and payment staffs to manage and monitor the implementation of payment policies in accordance with direction issued by OCFO to provide an appropriate control environment that effectively prevents, detects, and recovers improper payments. The Forest Service utilizes IPIA statistical testing, review of improper payments and recoveries, and will begin including the High-Dollar Overpayment Quarterly Report, upon direction being provided by OCFO's Fiscal Policy Division, to detect improper payments. These analytics assist in identifying the number and dollar value of improper payments that have been identified and recovered by FS. In addition, 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.

RHS

- STO Directors and program managers' performance plans include appropriate performance elements regarding IPIA and recovery of unauthorized assistance. Timeframe: Completed.
- Deputy Administrator of MFH Programs continues to 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. For staff managing the RA program, appropriate performance elements regarding IPIA, and recovery of unauthorized assistance are included.

RMA

RMA has revised its strategic plan and reviews annual performance tied to position specific standards to ensure RMA management takes future corrective actions to address program vulnerabilities that are intended to reduce program errors and increase efficiency. Furthermore, a strategic objective element aligned with RMA's major goals has been placed into every employee's performance plan beginning in FY 2005. For example, compliance personnel have a standard that ties to the goal associated with improving program integrity. These requirements are functioning as demonstrated by ongoing corrective actions for non-compliant companies.)

NRCS

NRCS included specific language regarding the prevention, identification and recovery of improper payments in the State conservationists' performance plans. In addition, the importance of reducing improper payments has been a topic of multiple national Webinar teleconferences, individual discussions with State Conservationists, and several National Bulletins. NRCS will continue to focus on reducing improper payments during the course of FY 2015.

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 OMB to develop action plans that focus available resources on the most critical needs with regard to improper payment measurement and risk reduction.

FNS

SBP

The SBP does not have an administrative infrastructure for producing yearly estimates of improper payment rates and dollar values. FNS uses its periodic nationally representative APEC study to provide a baseline error rate estimate and an "aging" methodology to update this estimate annually, using program administrative data and macroeconomic indicators. FNS has also worked with OMB to provide an annual estimate using an approved methodology to estimate payment errors. While Congress did not appropriate funds for a new APEC study in FY 2012, recognizing the importance of updated estimates of erroneous NSLP/SBP payments, FNS sought and received authority to reprogram funds from other appropriated accounts to fund this study. In April 2012, FNS launched the APEC-II study for school year 2012-2013. The continuance of this study will enable FNS to estimate and measure changes in erroneous payments over time and would help inform FNS, Congress, the States, and advocacy partners for the development of additional guidance, training, and policy options.

The FNS FY 2015 budget requests an increase in funding for the following SBP program integrity line items to establish and maintain effective internal controls to reduce improper payments:

CN Training and Technical Assistance—an increase of $121,000 was requested ($8.016 million available in FY 2014). Effective and continual training and technical assistance are necessary to help States properly administer the Child Nutrition program to ensure States are equipped to identify and prevent fraud and abuse. This is especially critical because of the changes made to these vital programs by the 2010 CN Reauthorization, which, besides reauthorizing these programs, also instituted new requirements on State agencies; and

CN Payment Accuracy—an increase of $287,000 was requested ($9.617 million available in FY 2014). FNS believes that robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of erroneous payments. This increase supports FNS' dedicated commitment to this effort. FNS will use $3 million of the increased funding to support and promote States' CN Program integrity efforts by establishing a FNS administrative review CN Program Integrity Response Team to further promote program integrity efforts, and to support technology solutions for State and local program management and monitoring challenges.

FNS FY 2015 budget reflects the same level of funding as in previous years to continue effective internal control measures to promote program integrity in the following direct appropriations:

Technical Assistance Program Integrity—$4 million is made available for ongoing training and technical assistance to State agencies and Regional offices to further promote program integrity efforts.

Grants to States for Administrative Reviews—FNS annually releases funding to State agencies for Administrative Reviews and Training of selected local educational agencies (LEAs) identified by the States as having demonstrated a high-level of, or high-risk for administrative error in the NSLP. For this purpose, $4 million was set aside in FY 2005, and for each fiscal year thereafter.

Coordinated Review Effort—$10 million to provide training and technical assistance for State agencies responsible for reviewing local school food authorities that participate in the school meal programs. Local administrative reviews help ensure that school children are offered meals that meet regulatory standards and that the financial claims associated with those meals are appropriate.

NSLP

The NSLP does not have an administrative infrastructure for producing yearly estimates of improper payment rates and dollar values. FNS uses its periodic nationally representative APEC study to provide a baseline error rate estimate and an "aging" methodology to update this estimate annually using program administrative data and macroeconomic indicators. FNS also worked with OMB to provide an annual estimate using an approved methodology to estimate payment errors. While Congress did not appropriate funds for a new APEC study in FY 2012, recognizing the importance of updated estimates of erroneous NSLP/SBP payments, FNS sought and received authority to reprogram funds from other appropriated accounts to fund this study. In April 2012, FNS launched the APEC-II study for SY 2012-2013. The continuance of this study will enable FNS to estimate and measure changes in erroneous payments over time and will help inform FNS, Congress, the States, and advocacy partners of the development of additional guidance, training, and policy options.

The FNS FY 2015 budget requests an increase in funding for the following NSLP program integrity line items to establish and maintain effective internal controls to reduce improper payments:

CN Training and Technical Assistance—an increase of $121,000 was requested ($8.016 million enacted in FY 2014). Effective and continual training and technical assistance are necessary to help States properly administer the Child Nutrition program to ensure States are equipped to identify and prevent fraud and abuse. This is especially critical because of the changes made to these vital programs by the 2010 CN Reauthorization, which, besides reauthorizing these programs, also instituted new requirements on State agencies.

CN Payment Accuracy—an increase of $287,000 was requested ($9.617 million enacted in FY 2014). FNS believes that robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of erroneous payments. This increase supports FNS' dedicated commitment to this effort. FNS will use $3 million of the increased funding to support and promote States' CN Program integrity efforts by establishing a FNS administrative review CN Program Integrity Response Team to further promote program integrity efforts, and to support technology solutions to State and local program management and monitoring challenges.

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Grants to States for Administrative Reviews—FNS annually releases funding to State agencies for Administrative Reviews and Training of selected local educational agencies (LEAs) identified by the States as having demonstrated a high-level of, or high-risk for administrative error in the NSLP. For this purpose, $4 million was set aside in FY 2005 and for each FY thereafter.

Coordinated Review Effort – $10 million to provide training and technical assistance for State agencies responsible for reviewing local school food authorities that participate in the school meal programs. Local administrative reviews help ensure that school children are offered meals that meet regulatory standards and that the financial claims associated with those meals are appropriate.

CACFP

CACFP does not have an infrastructure or methods for producing yearly estimates of improper payment rates and dollar values. FNS is actively developing measurement methodologies for one component of the program that will yield measurement of risk of improper payments for that component.

CACFP has three distinct parts: Child Care Centers, Adult Day Care facilities and FDCHs. Overall, program funding is provided to State agencies that provide funds to sponsoring organizations to pay for claims for reimbursable meals served at provider sites. Sites can be as large as an institution or as small as a household. Each part of CACFP has its own reimbursement structure. Payments and claim information are transferred between FNS, State agencies, program sponsors and program sites; each transaction represents a risk for improper payment. Because requirements vary significantly for each different type of program sponsor and site, a full and rigorous assessment of the rate of improper payments is extremely complex. FNS did not have the resources to develop a measurement approach for erroneous payments in CACFP, and therefore submitted a request for resources in the FY 2006 budget process. The original plan was to develop a program-wide study that would examine reimbursements for meals served and develop program error measurements that complied with the requirements of the IPIA. Because of the complexities of the program, FNS estimated that it would cost $20 million to measure improper payments at the precision required by the IPIA. Although the FY 2006 Budget request included funds designated for the nationally representative CACFP erroneous payments study, funds were not provided by Congress.

The FNS FY 2015 budget requests an increase in funding for the following program integrity line items to establish and maintain effective internal controls to reduce improper payments:

CN Training and Technical Assistance—an increase of $121,000 was requested ($8,016 million enacted in FY 2014). Effective and continual training and technical assistance are necessary to support the CACFP oversight activities and to help States properly administer the Child Nutrition program so as to ensure States are equipped to identify and prevent fraud and abuse. This is especially critical because of the changes made to these vital programs by the HHFKA, which reauthorized these programs and instituted new requirements on State agencies.

CN Payment Accuracy—an increase of $287,000 was requested ($9,617 million enacted in FY 2015). FNS believes that robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of erroneous payments. This increase supports FNS' dedicated commitment to this effort.

FSA

MILC

Web-based software (e-MILC) has been developed to validate eligibility entries and monthly payment rates thereby reducing the occurrence of improper payments to MILC applicants. Payment rates are entered into the system at the National office and payments are calculated using e-MILC software. Payments are reviewed through the National Payment System (NPS) prior to disbursement, therefore leaving little room for improper payments

Infrastructure improvements include:

- FSA continually identifies areas of weakness and recommends improvements needed to current software in addition to providing applicable enhancements to increase efficiencies in program execution. Starting with the 2008 program year, software was enhanced to provide State office Specialist reports by county and State. Reports will assist State office specialists in monitoring MILC activity and the disbursement of payments.
- By re-engineering business processes and adopting enhanced and modernized information technology, FSA has improved the delivery of programs. This modernization effort is a collaborative, cross-functional effort within FSA to advance and streamline business processes, and to achieve compliance by the oversight, management, and accountability of

administering FSA programs. As these new processes are under development, budgeted allocations are vital to incorporate these efficiencies.

LDP

The Price Support Division currently uses an online system called eLDP to process all LDP requests. The eLDP system with its enhanced efficiency will eliminate many of the errors that have resulted in improper payments.

Issue a National notice at the beginning of harvest to remind and reinforce current program policies and procedures to State and county offices. Make certain all program handbooks are up-to-date and have been amended with the current policy.

By re-engineering business processes and adopting enhanced and modernized information technology, FSA has improved the delivery of programs. This modernization effort is a collaborative, cross-functional effort within FSA to advance and streamline business processes, and to achieve compliance by the oversight, management, and accountability of administering FSA programs. When fully functional, this process will check the LDP eligibility requirements for the applicable producer before any payment is issued.

DCP

Utilization of a checklist, the CCC-770 DCP, DCP Contract Checklist, for county office Employees may be used prior to payment. County Executive Directors and District Directors may review/spot-check the completed CCC-770s to help identify apparent internal control deficiencies and address additional training needs to reduce future errors.

- Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating.
- Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance.
- Compliance reviews and spot-checks are required to ensure the accuracy of payments and the integrity of FSA programs. Annually, based on a statistical sampling method, producers nationwide are selected for compliance review and spot-check. County Offices are required to complete spot-checks and reviews for the various programs and activities in which the selected producers participate for the year, and record the results of these reviews in the National Compliance Review database. This reporting mechanism allows the National Office to monitor the overall integrity of each program being implemented.
- A forthcoming DCP notice, providing detailed findings discovered during the FY 2014 DCP Statistical Sample, including established policy and procedure references for each finding. State office division chiefs and specialists will be instructed to review this notice in detail to develop corrective actions, as needed, and ensure that County offices follow applicable program procedures issued through national notices and program handbooks.
- Issue various national notices and handbook amendments to State and County Offices reinforcing current program policies and procedures.

- Improve the quality of field guidance by implementing a process whereby program directives are vetted by at least 6 field office employees before directives are approved and issued nationwide.

SURE

The key components shown in this section below, even though shown in previous fiscal years, remain in place as effective controls in the management of SURE.

- Utilization of an optional checklist, the FSA-770 SURE checklist, for County Office Employees may be used prior to payment. County Executive Directors and District Directors may review/spot-check the completed FSA-770s to help identify apparent internal control deficiencies and address additional training needs to reduce future errors.
- Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating.
- Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance.
- Compliance reviews and spot-checks are required to ensure the accuracy of payments and the integrity of FSA programs. Annually, based on a statistical sampling method, producers nationwide are selected for compliance review and spot-check. County Offices are required to complete spot-checks and reviews for the various programs and activities in which the selected producers participate for the year, and record the results of these reviews in the National Compliance Review database. This reporting mechanism allows the National Office to monitor the overall integrity of each program being implemented.
- A SURE Handbook Amendment was issued in May 2014, emphasizing FSA employee responsibilities and providing guidance and limiting factors for determining eligible 2012 SURE participants. Currently only two 2012 SURE applications have been processed nationwide. Since SURE is a very complex and complicated program, resources to develop a fully automated program were curtailed. As a result, the application process is still manual, utilizing a spreadsheet process. Significant importance is placed on the ability to conduct second-party reviews of the data entered into the application.
- Improve the quality of field guidance by implementing a process whereby program directives are vetted by at least 6 field office employees before directives are approved and issued nation-wide.

NAP

Utilization of a checklist, the CCC-770 NAP checklist, for County Office Employees may be used prior to payment. County Executive Directors and District Directors may review/spot-check the completed CCC-770s to help identify apparent internal control deficiencies and address additional training needs to reduce future errors.

- Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating.

- Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance.
- Compliance reviews and spot-checks are required to ensure the accuracy of payments and the integrity of FSA programs. Annually, based on a statistical sampling method, producers nationwide are selected for compliance review and spot-check. County Offices are required to complete spot-checks and reviews for the various programs and activities in which the selected producers participate for the year, and record the results of these reviews in the National Compliance Review database. This reporting mechanism allows the National Office to monitor the overall integrity of each program being implemented.
- A forthcoming NAP Notice, providing detailed findings discovered during the FY 2014 NAP Statistical Sample, including established policy and procedure references for each finding. STO division chiefs and specialists will be instructed to review this notice in detail to develop corrective actions, as needed, and to ensure that County offices follow applicable program procedures issued through national notices and program handbooks and provide additional program training where needed for the identified weaknesses. District Directors will be instructed to review this notice with County Executive Directors and Program Technicians within their respective districts. A Video Teleconference will be held with all STOs to review the NAP Notice and detailed findings.
- Issue various national notices and handbook amendments to State and County Offices reinforcing current program policies and procedures.
- Improve the quality of field guidance by implementing a process whereby program directives are vetted by at least 6 field office employees before directives are approved and issued nation-wide.

ECP

Compliance reviews and spot-checks are required to ensure the accuracy of payments and the integrity of FSA programs. Annually, based on a statistical sampling method, producers nationwide are selected for compliance review and spot-check. County offices are required to complete spot-checks and reviews for the various programs and activities in which the selected producers participate for the year, and record the results of these reviews in the National Compliance Review database. This reporting mechanism allows the National Office to monitor the overall integrity of each program being implemented.

- Provide training on improper payments to field personnel and educate them on the importance of control procedures as well as the potential risks of noncompliance.
- Integrate the employee's individual performance results related to reducing improper payments into his/her annual performance rating.
- Utilization of a checklist. The CCC-770-ECP1 checklist may be used during the ECP agreement approval process; the CCC-770-ECP2 may be completed before the issuance of cost-share payment. County Executive Directors and District Directors may review/

spot-check the completed CCC-770s to help identify apparent internal control deficiencies and address additional training needs to reduce future errors.

- Contact STO managers where the majority of improper payments were identified during IPIA reviews to determine possible training and/or job aids the State and County Office staff may need to assist in facilitating compliance to controls.
- Improve the quality of field guidance by implementing a process whereby program directives are vetted by at least 6 field office employees before directives are approved and issued nation-wide.
- Issue various national Notices and handbook amendments to State and County Offices reinforcing current program policies and procedures.

FS

WFSU

The AQM community will provide additional training to Grants and Agreements specialists on the correct language and criteria to cite in various types of agreements. A remedy ticket was created with a contractor to correct system configurations on how prompt pay interest is calculated on late payments; action is complete and the system calculations are accurate. Per Departmental Regulation 1010-001, FS OCFO certifies to all organizational changes that may have a potential impact on internal controls.

FS currently has sufficient resources to establish and maintain effective internal controls, human capital, information systems, and other infrastructure to reduce improper payments.

CMDF

Although no improper payments were found during testing, FS is continually reviewing the improper payment process and internal controls to ensure systems are working adequately. Future enhancements to reduce improper payments include agency implementation of the "Do Not Pay" Portal to ensure ineligible vendors are excluded from doing business with the Government. Per Departmental Regulation 1010-001, the FS OCFO certifies to all organizational changes that may have a potential impact on internal controls.

Forest Service currently has sufficient resources to establish and maintain effective internal controls, human capital, information systems, and other infrastructure to reduce improper payments.

RMA

- For FY 2015, RMA requested an increase of $2,265,000 and 12 staff years for improved compliance.
- RMA requests funding for an additional 12 staff years to improve the agency's ability to act upon previous audit findings, improve improper payment rates, and reduce audit findings in the future. This funding will provide salary and expenses for 12 employees as well as any

necessary travel, supplies, contracts, and agreements to support these employees. OIG audits have concluded that RMA does not have an adequate sampling methodology to estimate improper payments. OIG encouraged RMA to request additional funding that would allow improved sampling for improper payments.

- As required under IPIA, it is critical for RMA to ensure a decrease in improper payment rates in the Federal crop insurance program. The need to reduce improper payment rates will only grow as the Agricultural Act of 2014 is implemented. The additional staffing that RMA proposes will leverage industry best practices to provide a strong network for addressing improper payments and fraud prevention in the agency. This network will include a management position under the compliance division to oversee IPIA activities, with a focus on improving the sampling methodology and reducing the improper payment rate. Additionally, 11 other staff years will be added in the 6 regional compliance offices to support the reduction of improper payments and implementation of new sampling methodologies across the Nation.

NRCS

- Utilizing existing resources, NRCS established a task force to review the processes related to improper payments. This task force will be identifying strengths and weaknesses in the processes, identifying best practices used throughout the Federal arena, and making recommendations.
- The Easement Division of NRCS established an internal control team to review easements and ensure compliance. The team was launched in September 2014, and will be in full-operation by the first quarter of FY 2015.
- Additionally, in FY 2014, NRCS continued to develop its methodology for complying with the "Do Not Pay" requirements. Added resources may be needed to meet the reporting requirements for this effort. Currently, NRCS must check each registration manually. As part of this effort, registration verification is required for the majority of the open obligations, which average 140,000 at any given time. As part of this effort, NRCS is looking at automating the verification process for SAM.gov registrations, which will require analysis, definition, development and implementation.

VIII. Barriers

FNS

SNAP

Some policy choices, many embodied in law, impact the risk of improper payments and the ability to mitigate them. Congress, through legislation, defines the limits of authority for accountability. Specifically, the 2002 Farm Bill restricted the liability levels States can be sanctioned due to high-error rates, and it also restricted the amount of bonus-funding available to States that do a good job reducing and maintaining a low-error rate. Also, in many instances the goal of providing easy access to benefits must be balanced with the goal of reducing improper and erroneous payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is decentralized and can involve a myriad of governmental and non-governmental organizations. Assuring compliance with program rules represents a formidable challenge to FNS given the number of locations, the volume of transactions, and the level of benefits available.
- States and localities tend to focus on managing local funds, rather than Federal funds. One hundred percent of benefit costs and approximately half of administrative expenses incurred by State agencies are funded by Federal appropriations. Although this distribution of costs has contributed to the strength of the nutrition safety net with national eligibility standards and program access, States and localities may reasonably be expected to put a higher priority on managing programs funded with local revenues than those subsidized by the Federal Government.
- Proper implementation of nutrition assistance programs requires a high-degree of accuracy. This accuracy helps to ensure that benefits are generally well-targeted to those most in need, that there is uniformity of access across the country, and that benefits can only be used for food. Such exacting standards and the associated complex policies do, however, create a significant number of opportunities for error.

SBP

Recent Child Nutrition reauthorization legislation, while it did include some changes requested by the Administration to improve accountability, limited USDA's ability to act in this area because of concerns about potential barriers to participation. In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. In addition, program administration is highly decentralized; 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 improper payments of school meals 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 who often use certification data to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

NSLP

Recent Child Nutrition reauthorization legislation, while it included some changes requested by the Administration to improve accountability, limited USDA's ability to act in this area because of concerns about potential barriers to participation. In many instances, the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. In addition, program administration is highly decentralized; 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 improper payments of school meals 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 who often use certification data to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

WIC

Like many government programs and functions, Federal nutrition assistance was not designed with integrity and accuracy as its primary purpose. Some policy choices, many embodied in law, greatly impact the risk of improper payments and the ability to mitigate them. Congress, through legislation, defines the limits of authority for accountability. In many cases, accountability loses out to access concerns. In many instances the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. Provisions that improve access can increase the risk of improper payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is highly decentralized and can involve a myriad of governmental and non-governmental organizations. For example, as of June 2014 there are 1,832 local WIC agencies involved in WIC eligibility determination and benefit delivery. Many of these local agencies simply do not have the capacity to develop robust accountability processes. This puts a special burden on Federal and State oversight and technical assistance systems;
- States and localities tend to focus on managing local funds, rather than Federal funds. One hundred percent of WIC food benefit costs and most of the administrative expenses incurred by State agencies are funded by Federal appropriations. Although this has contributed to the strength of the nutrition safety net with national eligibility standards and program access, States, and local agencies typically place a higher priority on managing programs funded with State and/or local revenues than those funded by the Federal government; and
- Proper implementation of nutrition assistance programs requires a high-degree of accuracy. This accuracy helps to ensure that benefits are generally well-targeted to those most in need,

that there is uniformity of access across the country, and that benefits can only be used for food. Such exacting standards do, however, create a significant number of opportunities for error.

CACFP

Like most government programs and functions, Federal nutrition assistance was not designed with integrity and accuracy as its primary purpose. Some policy choices, many embodied in law, greatly impact the risk of improper payments and the ability to mitigate them. Congress, through legislation, defines the limits of authority for accountability. In many cases, accountability is a secondary consideration to access concerns. In many instances the mandated goal of providing easy access to benefits must be balanced against the goal of reducing improper and erroneous payments. Provisions that improve access can increase the risk of improper payments. While the risks involved vary by program, some general characterizations can be made:

- Program administration is highly decentralized and can involve a myriad of governmental and non-governmental organizations. For example, there are approximately 58,403 child and adult care centers, 824 family day care home sponsoring organizations, and approximately 117,621 family home day care providers through which benefits are distributed. Many of these simply do not have the capacity to develop robust accountability processes. This puts a special burden on Federal and State oversight and technical assistance systems;
- One hundred percent of benefit costs and a significant portion of administrative expenses incurred by State agencies are funded by Federal appropriations. Although this distribution of costs has contributed to the strength of the nutrition safety net with national eligibility standards and program access, States and localities may reasonably be expected to put a higher priority on managing programs funded with local revenues than those subsidized by the Federal Government; and
- Proper implementation of nutrition assistance programs requires a high-degree of accuracy. This accuracy helps to ensure that benefits are generally well-targeted to those most in need, that there is uniformity of access across the country, and that benefits can only be used for food. Such exacting standards do, however, create a significant number of opportunities for error.

FSA

One barrier that limits FSA's ability to recover improper payments is the U.S. Department of Agriculture Reorganization Act of 1994, Section 281. This legislation provides that "[E]ach decision of a State, county, or area committee or an employee of such a committee, made in good faith in the absence of misrepresentation, false statement, fraud, or willful misconduct shall be final not later than 90 calendar days after the date of filing of the application for benefits, [and] ...no action may be taken...to recover amounts found to have been disbursed as a result of the decision in error unless the participant had reason to believe that the decision was erroneous." This statute is commonly referred to the "Finality Rule."

FS

WFSU
We have not identified any statutory or regulatory barriers that would limit corrective actions in reducing improper payments; and

CMDF
We have not identified any statutory or regulatory barriers that would limit corrective actions in reducing improper payments.

RHS

The agency does not have the statutory authority similar to HUD to gain access to HHS Directory of New Hires, IRS, SSI and DOL data to share with field offices and management agents. Having these resources will better enable borrowers and management agents to confirm and verify income information from tenants, on whose behalf Rental Assistance subsidies are provided. The Department submitted the legislation as part of the FY 2015 budget submission.

RMA

RMA is not subject to any critical statutory or regulatory barriers for reducing improper payments.

NRCS

- Verification of eligibility has been a challenge for NRCS. Adjusted Gross Income (AGI) eligibility has been delegated to FSA, and NRCS has successfully coordinated with FSA to implement FSA's validation of adjusted gross income certifications so that any FSA changes in eligibility determinations are immediately effective for NRCS conservation program payments. For contracts prior to FY 2013, AGI eligibility was not validated by FSA prior to obligation. It was retroactively validated after obligation and after payments had been made to the participants. Therefore participants could misrepresent their income and related improper payments could not be avoided. For FY 2014, with the exception of the Agricultural Management Assistance program, AGI eligibility is not in effect. For FY 2015, AGI will be verified by FSA prior to obligation. Therefore, any improper payments related to AGI will relate to only pre-2014 contracts;
- Additionally, NRCS' Conservation Security Program must pay participants in advance of the implementation of conservation enhancement activity. NRCS is statutorily required to pay participants at the beginning of the fiscal year in which the conservation enhancement activity is scheduled to be implemented. Since these payments are made in advance, improper payments are sometimes detected via annual quality assurance reviews but cannot always be prevented. The Conservation Security Program has now been replaced by the Conservation Stewardship Program. Under the Stewardship program, payments are not made in advance of performance;

- Furthermore, NRCS' improper payment issues related to entities not registering in SAM.gov should be greatly reduced when Treasury's "Do Not Pay" Portal is fully functional. Once the system is fully operational, NRCS will be able to utilize this data source during the pre-award and pre-payment processes to ultimately help reduce improper payments; and
- The significant majority of the errors identified in the annual testing are related to the failure of entity participants to register in SAM.gov as required prior to receiving payment. NRCS has changed its policy to require verification of the SAMS registration prior to issuing payments.

IX. Additional Comments

No additional comments.

X. Do Not Pay Initiative

USDA manages a highly-diverse portfolio of grants, cooperative agreements, loans, insurance, contracts, and direct payments within the Federal Government. While the Department collectively uses most existing databases, their application can be generally categorized as follows:

- Contracts, grants, cooperative agreements, and insurance programs are verified against the System for Award Management (SAM) exclusions (also known as Excluded Parties List System) at pre-award;
- Loans are verified against Credit Alert System or Credit Alert Interactive Verification Reporting System, SAM Exclusion, and Debt Check at pre-award; and
- USDA also validates payments and awards against the Death Master File for specific programs and activities.
    - RMA verifies against the Death Master File at pre-award;
    - FSA verifies many of its programs at pre-payment;
    - RD screens applicants and their principals through SAM at pre-award;
    - FNS Service requires State agencies to verify SNAP applicants against the Death Master File before they can be approved to receive benefits; and
    - All USDA disbursement files are verified by Treasury and all hits are adjudicated monthly.

USDA programs generally are not using the List of Excluded Individuals/Entities on HHS' OIG system or the Prisoner Update Processing System of the SSA, at this time.

OCFO has been and continues to provide agencies with onboarding efforts into the Treasury "Do Not Pay" (DNP) Portal. Once widespread use of the DNP Portal goes "live", all post-award adjudication will be conducted online. As additional data sources become available through the DNP Portal, it will be more widely used for pre-award verification.

Exhibit 32: Implementation of the Do Not Pay Initiative to Prevent Improper Payments

	Number (#) of payments reviewed for improper payments	Dollars of payments reviewed for improper payments (In Millions)	Number (#) of improper payments stopped	Dollars of improper payments stopped (In Millions)	Number (#) of improper payments not stopped	Dollars of improper payments not stopped (In Millions)
Reviews with the Death Master File Only	24,190,220	$54,552	0	$0	9	$0.03

Exhibit 32 shows data from October 2013 through May 2014. The data from June 2014 through September 2014 was not available in time for publication.

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 submits 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.

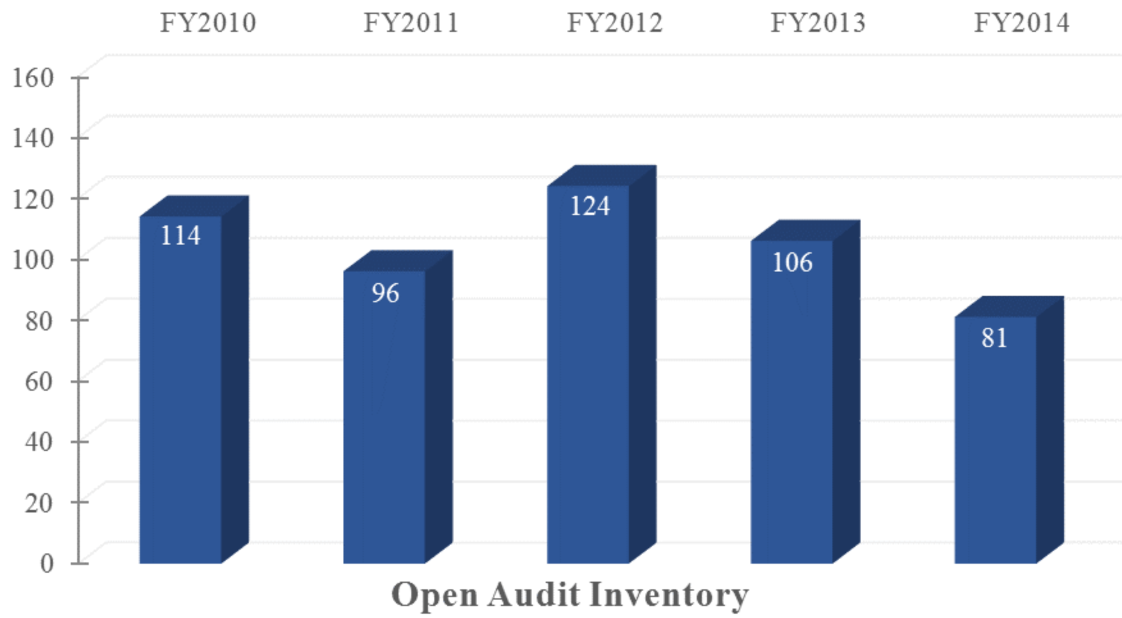
OIG audits USDA's programs, systems, and operations. It then recommends improvements to management based on its findings. Management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, 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 needs to be completed.

Fiscal Year Results (as of July 31, 2014)

USDA agencies closed 41 audits in fiscal year (FY) 2014. As of July 31, 2014, OIG and USDA agencies reached management decisions on 16 audits. As shown in the following exhibit, the Department's inventory of open audits decreased in FY 2014 by 24 percent from 106 to 81.

Exhibit 33: Open Audit Inventory



Note: The FY 2013 ending balance was revised from 102 to 106 to include 4 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 33 and Exhibit 35.

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 (see Exhibit 34 for definitions):

- 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);
- The number of new management decisions reached;
- The disposition of audits with final action;
- Resolved audits that remain open one year or more past the management decision date and require an additional reporting element; and
- The date issued, dollar value, and an explanation of why final action has not been taken.

Exhibit 34: Audit Follow-Up Definitions

Term	Definition
Disallowed Cost (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 operations, or the 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 contracts 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 41 audits that achieved final action during the fiscal year, 10 contained disallowed costs (DC). The number of DC audits remaining in the inventory at the end of the fiscal year is 22, with a monetary value of $65,868,605. See Exhibit 35 below.

Exhibit 35: Inventory Of Audits with Disallowed Costs

Audits with Disallowed Costs (DC)	# of Audits	Amount ($)
Beginning of the Period – October 2013	27	$68,633,424
Plus: New Management Decisions	5	$70,699,867
Total Audits Pending Collection of DC	32	$139,333,291
Adjustments (see Exhibit 36)		$35,061,736
Revised Subtotal		$104,271,555
Less: Final Actions (Recoveries)	10	$38,402,950
Audits with DC Requiring Final Action at the End of the Period—July 2014	22	$65,868,605

Exhibit 35 and Exhibit 37 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 35 and Exhibit 37 does not equal the total resolved audit inventory balance in Exhibit 33. Beginning balance in Exhibit 35 was adjusted to include one audit with DC that was transmitted from OIG after the August 30, 2013 reporting period.

As shown in Exhibit 35 above, for DC audits that achieved final action in FY 2014, OIG and management agreed to collect $73,464,686. Adjustments were made totaling $35,061,736 (48 percent of the total) for the following reasons: (1) agency discovery; (2) legal decisions; (3) write-offs; and (4) appeals. Management recovered the remaining $38,402,950.

Exhibit 36: Distribution of Adjustments to Disallowed Cost

Category	Amount ($)
Agency Discovery	$17,668
Legal Decisions	$35,000,000
Write-offs	$41,500
Appeals	$2,568
Total	$35,061,736

Final action occurred on 6 audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is 9 with a monetary value of $649,811,236 (see Exhibit 37).

Exhibit 37: Inventory of Audits with Funds to Be Put to Better Use (FTBU)

Audits with FTBU	# of Audits	Amount ($)
Beginning of the Period	13	$505,506,654
Plus: New Management Decisions	2	$191,942,964
Total Audits Pending	15	$697,449,618
Less: Final Actions	6	$47,638,382
Audits with FTBU Requiring Final Action at the End of the Period	9	$649,811,236
Disposition of FTBU:		
FTBU Implemented		$47,638,382
FTBU Not Implemented		0
Total FTBU Amounts for Final Action Audits		$47,638,382

Exhibit 35 and Exhibit 37 include only those open audits with DC and FTBU, respectively. Additionally, some audits contain both DC and FTBU amounts. For these reasons, the number of audits shown as the ending balances in Exhibit 35 and Exhibit 37 does not equal the total resolved audit inventory balance in Exhibit 33. Beginning balance in Exhibit 37 was adjusted to include two audits with FTBU that were transmitted from OIG after the August 30, 2013 reporting period.

The numbers of audits open one or more years without final action in FY 2014 increased from 60 to 63 audits, or a 5 percent increase. The 63 audits include an additional 23 audits that reached one year past management decision date during FY 2014. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits.

Exhibit 38: Increase in the Number of Audits Open One or More Years Past the Management Decision Date (MDD)

Audits One Year or More Past MDD	# of Audits
Beginning of the period	60
Less: audits closed	20
Subtotal FY 2014 audits one year or more past MDD	40
Plus: Audits that turned one year during FY 2014	23
Ending Balance as of July 31, 2014	63

Agencies have completed all planned corrective actions on 12 audits that are pending collection of associated DC (see Exhibit 39 below).

Exhibit 39: 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 ($)	FTBU ($)
5	$11,824,596	$1,042,000	46	$14,448,522	$7,281,950	12	$38,578,422	$3,810,087

Management's Report on Audit Follow-Up

Audits without final action one year or more past MDD, and behind schedule are listed individually in Exhibit 40. The audits are categorized by the reason final action has not occurred. More detailed information on audits on-schedule, and audits under collection, is available from OCFO.

Exhibit 40: 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)						
01601-2-32	7/15/2013	12/31/2014	National Organic Program—Organic Milk Operations	$0	$0	Pending Administrative Action
AMS Subtotal (1)				$0	$0	
Animal and Plant Health Inspection Service (APHIS)						
33601-3-CH	2/20/2003	9/30/2014	Safeguards to Prevent Entry of Prohibited Pests And Diseases into The United States	$0	$0	Issuance of Policy Guidance & Legislation
33601-7-CH	8/14/2007	9/30/2014	Review of Customs and Border Protection's Agricultural Inspection Activities	$0	$0	
50601-8-TE	1/28/2005	12/31/2014	Controls over APHIS Issuance of Genetically Engineered Organisms Release Permits	$0	$0	
50601-16-TE	5/31/2011	12/31/2014	Controls over Genetically Engineered Animal and Insect Research	$0	$0	
APHIS Subtotal (4)				**$0**	**$0**	

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Agricultural Research Service (ARS)						
50601-6-TE	3/4/2004	12/31/2014	ARS Controls Over Plant Variety Protection and Germplasm Storage	$0	$0	Issuance of Policy Guidance & Legislation
50601-10-AT	3/8/2004	01/31/2015	ARS Follow-Up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	$0	$0	
ARS Subtotal (2)				**$0**	**$0**	
Commodity Credit Corporation (CCC)						
06401-20-FM	11/9/2005	12/31/2014	CCC's Financial Statements for FY 2005 and 2004	$0	$0	Pending Administrative Action
CCC Subtotal (1)				**$0**	**$0**	
Food and Nutrition Service (FNS)						
27002-11-13	9/28/2012	12/31/2016	Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts	$0	$0	Pending Administrative Action
27099-49-TE	3/10/2008	5/31/2015	Disaster Food Stamp Program for Hurricanes Katrina and Rita in Louisiana, Mississippi and Texas	$0	$0	Issuance of Policy Guidance & Legislation
27601-1-23	1/3/2013	12/31/2014	National School Lunch Program-Food Service Management Company Contracts	$0	$0	Pending Administrative Action
27601-12-SF	11/18/2011	9/30/2014	Review of Management Controls for the Child and Adult Care Food Program	$2,486,633	$0	Issuance of Policy Guidance & Legislation
27601-16-AT	3/31/2008	8/31/2015	FNS Food Stamp Employment and Training	$0	$0	Issuance of Policy Guidance & Legislation
50601-14-AT	8/16/2010	12/31/2014	Effectiveness and Enforcement of Suspension and Debarment Regulations	$0	$0	Pending Administrative Action
FNS Subtotal (6)				**$2,486,633**	**$0**	

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Forest Service (FS)						
08601-55-SF	6/16/2011	10/31/2014	Forest Service Administration of Special Use Program	$0	$5,387,567	Issuance of Policy Guidance & Legislation
FS Subtotal (1)				**$0**	**$5,387,567**	
Farm Service Agency (FSA)						
03601-18-CH	8/10/2010	12/31/2014	Farm Loan Security	$0	$0	Pending IT System Implementation & Enhancements
FSA Subtotal (1)				**$0**	**$0**	
Food Safety and Inspection Service (FSIS)						
24601-1-31	5/9/2012	12/31/2014	Application of FSIS Sampling Protocol for Testing Beef Trim for *E. Coli* O157:H7	$0	$0	Issuance of Policy Guidance & Legislation
24601-1-41	5/9/2013	12/31/2014	Inspection and Enforcement Activities at Swine Slaughter Plants	$0	$0	
24601-3-31	3/22/2013	12/31/2014	E. *coli* Testing of Boxed Beef	$0	$0	
50601-6-HY	7/15/2009	12/31/2014	Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	$0	$0	Pending IT System Implementation & Enhancements
50601-1-23	11/30/12	12/31/2014	Controls Over Shell Egg Inspections	$0	$0	Pending Administrative Action
FSIS Subtotal (5)				**$0**	**$0**	

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Natural Resources Conservation Service (NRCS)						
10401-1-11	11/8/2011	9/30/2014	Financial Statements for FY 2011	$0	$0	Issuance of Policy Guidance & Legislation
10401-2-FM	11/13/2008	9/30/2014	Financial Statements for FY 2008	$0	$0	Pending Internal Monitoring/ Program Reviews
10401-3-FM	11/4/2009	7/31/2015	Financial Statements for FY 2009	$0	$0	Pending Internal Monitoring/ Program Reviews
10401-4-FM	11/8/2010	9/30/2015	Financial Statements for FY 2010	$0	$0	
10703-1-AT	3/25/2013	6/30/2015	Recovery Act—Rehabilitation of Flood Control Dams	$0	$1,440,028	Pending Administrative Action
10703-1-KC	9/8/2010	12/31/2014	NRCS American Reinvestment and Recovery Act (ARRA) Emergency Watershed Protection Program Flood-plain Easement Phase I	$0	$0	
10703-3-KC	3/14/2012	11/30/2014	ARRA, Emergency Watershed Protection Program Floodplain Easements, Easement Applications on Non-Agricultural Land	$0	$0	Issuance of Policy Guidance & Legislation
NRCS Subtotal (7)				**$0**	**$1,440,028**	
Office of the Chief Financial Officer (OCFO)						
50024-4-11	3/14/2013	10/30/2014	USDA Improper Payments Elimination and Recovery Act of 2010 Compliance Review for FY 2012	$0	$0	Pending Internal Monitoring/ Program Reviews
50401-3-11	11/15/2012	12/30/2014	USDA's Consolidated Financial Statements for FY 2011 and 2012	$0	$0	Pending Internal Monitoring/ Program Reviews
OCFO Subtotal (2)				**$0**	**$0**	

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Office of the Chief Information Officer (OCIO)						
50501-1-IT	8/15/2011	9/30/2015	OCIO USDA's Management and Security Over Wireless Handheld Devices	$0	$0	Pending Administrative Action
50501-1-12	4/19/2012	3/31/2015	USDA's Configuration, Management, and Security over Domain Name System Servers	$0	$0	Issuance of Policy Guidance
50501-2-IT	11/19/2010	09/30/2015	OCIO FY 2010 Federal Information Security Management Act	$0	$0	Pending IT System Implementation & Enhancements
50501-15-FM	11/18/2009	3/30/2015	OCIO FY 2009 Federal Information Security Management Act	$0	$0	Issuance of Policy Guidance
88401-1-11	9/26/2012	9/30/2015	Review of Selected Controls at the National Information Technology Center	$0	$0	Pending Administrative Action
88401-1-12	8/2/2012	9/30/2015	OCIO's FY's 2010 and 2011 Funding Received for Security Enhancements	$0	$0	
88501-1-12	1/31/2013	9/30/2015	Review of Selected Controls of the eAuthentication System	$0	$0	Pending IT System Implementation & Enhancements
OCIO Subtotal (7)				**$0**	**$0**	

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC ($)	FTBU ($)	
Rural Development (RD)						
04601-18-CH	9/27/2012	6/30/2015	Project Cost and Inspection Procedures for the Rural Rental Housing Program	$0	$0	Issuance of Policy Guidance & Legislation
04703-2-CH	9/28/2011	9/30/2014	Controls over Eligibility Determinations for Single Family Housing Guaranteed Loan Recovery Act Funds (Phase 2)	$0	$0	
09703-1-22	3/26/2013	4/30/2015	Rural Utilities Service Controls Over Recovery Act Water and Waste Loans and Grants Expenditures and Performance Measures	$0	$454,355	Administrative Action
34099-2-AT	9/14/2011	9/30/2014	Business and Industry Loan Program Omnivest Resources Inc.	$4,052,351	$0	Issuance of Policy Guidance & Legislation
34601-4-AT	1/10/2003	9/30/2014	Rural Business-Cooperative Service's (RBS) Lender Servicing of Business and Industry Guaranteed Loans in Georgia	$0	$0	
34601-6-AT	6/25/2010	9/30/2014	RBS Intermediary Relending Program	$7,909,538	$0	
34601-15-TE	9/30/2003	9/30/2014	RBS National Report on the Business and Industry Loan Program	$0	$0	
34703-2-TE	12/5/2011	9/30/2014	American Recovery and Reinvestment Act—Business and Industry Guaranteed Loans, Phase 2	$0	$0	
34703-1-32	3/29/2013	9/30/2014	American Recovery and Reinvestment Act—Business and Industry Guaranteed Loans, Phase 3	$0	$0	Issuance of Policy Guidance & Legislation
RD Subtotal (9)				**$11,961,889**	**$454,355**	
Total Number Audits (46)			**Total**	**$14,448,522**	**$7,281,950**	

Freeze the Footprint

The Office of Management and Budget Memorandum M-12-12, Promoting Efficient Spending to Support Agency Operations effort, The U.S. Department of Agriculture (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 41: Freeze the Footprint Baseline Comparison

Square Footage (SF) (SF In Millions)	Fiscal Year 2012 Baseline	2014 Current Year (CY)	Change (2012-2014)
	35.93	35.56	-.37

Exhibit 42: Reporting Of Operation and Maintenance Costs—Owned and Directly Leased Buildings

Operations and Maintenance (O&M) Costs (In Millions)	Fiscal Year 2012 Baseline	2013 (CY-1)	Change (2012-2013)
	$560	$547	-$13

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.

USDA continues to support “Freeze the Footprint” by identifying opportunities for disposal, consolidation, and increased utilization of office and warehouse space. USDA is doing this by the formation of the Space Utilization Management Council with a mission to work with USDA agencies and the General Services Administration in developing and implementing programs designated to realize increased space utilization. USDA has also created a Center of Excellence (COE) for Leasing to concentrate on cost-saving efforts for the more than 3,000 direct lease portfolio. Finally, USDA has updated Departmental Regulation 1620-002, “USDA Space Management Policy”, to reflect a 150-square foot per person utilization rate that is all-inclusive. These actions and continued focus are examples of how USDA is managing the office and warehouse square footage at or below the baseline FY 2012 totals.

Acronyms

A

A&O—Administrative & Operating
AARC—Alternative Agricultural Research and Commercialization Corporation
ACEP—Agricultural Conservation Easement Program
ACFO-FS—Associate Chief Financial Officer for Financial Systems
ADA—Antideficiency Act
AR—Administrative Review
AFMSS—Automated Fluid Mineral Support System
AFR—Agency Financial Report
AGI—Adjusted Gross Income
AGPMR—Agriculture Property Management Regulation
AMS—Agricultural Marketing Service
APEC—Access, Participation, Eligibility and Certification
APHIS—Animal and Plant Health Inspection Service
APR—Annual Performance Report
AQI—Agricultural Quarantine Inspection
AQM—Acquisition Management
ARRA—American Reinvestment and Recovery Act of 2009
ARS—Agricultural Research Service
ART—Administrative Reviews and Training
ATA—Actual Time Automation

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
CAP—Corrective Action Plan
CBO—Certificates of Beneficial Ownership
CCC—Commodity Credit Corporation
CED—County Executive Director
CEP—Community Eligibility Provision
CFR—Code of Federal Regulations
CI—Condition Index
CIO—Chief Information Officer
CIP—Continuous Improvement Plan
CM—Continuous Monitoring
CMDF—Construction Disaster Fund Supplemental
CN—Child Nutrition
CND—Child Nutrition Division
CNPP—Center for Nutrition Policy and Promotion
CNSTAT—National Academies' Committee on National Statistics
CO—Contracting Officer
CoC—Cushion of Credit
COF—County Office
COR—Contracting Officer's Representative
CORE—Core Accounting System
CORP—County Office Review Program
CRE—Coordinated Review Effort
CRP—Conservation Reserve Program
CSAM—Cyber Security Assessment and Management
CSC—Centralized Servicing Center
CSS—Country Strategy Statement
CVV—Cash Value Voucher
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

EAAP—Economic Adjustment Assistance to Users of Upland Cotton Program

ECP—Emergency Conservation Program

eDRS—electronic Disqualified Recipient System

eFMS—Electronic Funds Management System

EO—Executive Order

EPD—Easement Programs Division

EQIP—Environmental Quality Incentives Program

ERS—Economic Research Service

EWPP—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

FSSP—Federal Shared Service Provider

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

HHFKA—Healthy, Hunger-Free Kids Act

HIMP—Hazard Analysis and Critical Control Point-based Inspection Models Project

HUD—Department of Housing and Urban Development

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 Educational Agency
LFP—Livestock Forage Disaster Program

M

MAL—Marketing Assistance Loan
MAR—Maximum Allowable Reimbursement
MD&A—Management's Discussion and Analysis
MDD—Management Decision Date
MDP—Miscellaneous Disaster Programs
MILC—Milk Income Loss Contract
MFH—Multi-Family Housing
MFIS—Multi Family Housing Information System
ME—Management Evaluation
MINC—Management Interactive Network Connection
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
NHQ—National Headquarters
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
NTE—Not-to-Exceed

O

OCFO—Office of the Chief Financial Officer
OCIO—Office of the Chief Information Officer
OGC— Office of the General Counsel
OIG—Office of Inspector General
OMB—Office of Management and Budget
OPPM—Office of Procurement and Property Management
OPS—Office of Policy Support

P

PAR—Performance and Accountability Report
PHA—Priority Heritage Assets
PHIS—Public Health Information System
PIP—Practice Incentive Payments
PMC—Plant Materials Centers
POA&Ms— Plan of Action Milestones
PP&E—Property, Plant, and Equipment
PRRA—Payment Recapture/Recovery Auditing
PRV—Plant Replacement Value
PSU—Primary Sampling Unit
PVO—Private Voluntary Organizations
PY—Previous Year

R

RA—Rental Assistance
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
RFA—Request for Application
RHIF—Rural Housing Insurance Fund
RHS—Rural Housing Service
RMA—Risk Management Agency
RME—Risk Management Education
RMF—Risk Management Framework
RO—Regional Office
RORA—Regional Office Review of Applications
RUS—Rural Utilities Service

S

SA—State Agency
SAM—System for Award Management
SAP—*Salmonella* Action Plan (SAP)
SAP— Systems, Applications, and Products
SBP—School Breakfast Program
SBR—Statement of Budgetary Resources
SCRA—Supplier Credit Recovery Audit
SDA—Socially Disadvantaged Farmers
SED—State Executive Director
SER—Single Effective Rate
SFA—School Food Authority
SFH—Single Family Housing
SIP—Signup Incentive Payments
SITC—Smuggling, Interdiction and Trade Compliance
SMI—School Meal Initiative
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

TAAF– Trade Adjustment Assistance for Farmers
TANF—Temporary Assistance to Needy Families
TB—Technical Bulletin
TEFAP— Report of the Emergency Food Assistance Program
TME—Target Management Evaluations
TPMC—Tucson Plant Materials Center

U

ULO—Unliquidated Obligations
USAID—United States Agency for International Development
USDA— U.S. Department of Agriculture
USGCB—U.S. Government Configuration Baseline
USSGL—U.S. Standard General Ledger
UTN—Universal Telecommunications Network

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—Wetlands Reserve Program