



Agency
Financial Report **2016**

*Creating prosperity for self-sustaining, repopulating
and economically thriving communities.*

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U.S. Department of Agriculture
Director, Office of Adjudication
1400 Independence Avenue, SW
Washington, DC 20250-9410
Fax: (202) 690-7442
E-mail: program.intake@usda.gov

About the Report

The purpose of the U.S. Department of Agriculture (USDA) fiscal year (FY) 2016 *Agency Financial Report* (AFR) is to inform Congress, the President, and the American people on how USDA has used Federal resources entrusted to the Department in FY 2016 in order to do the following: expand economic opportunity through innovation; help rural America to thrive while promoting agriculture production sustainability that better nourishes the population; and preserve and conserve the Nation's natural resources. USDA has demonstrated good stewardship of financial resources by putting in place well controlled and managed business lines and financial management systems and processes. USDA has chosen to produce both an AFR and an *Annual Performance Report* (APR) for FY 2016. USDA will include its FY 2016 APR with its Congressional Budget Justification and will post this AFR on the following [Department Web Page](#).

This AFR provides high-level financial and highlighted performance results with assessments of controls, a summary of challenges, and USDA stewardship information. The AFR enables the President, Congress, and the public to assess USDA accomplishments and understand its financial position. 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 report satisfies the reporting requirements contained in the following laws and regulations:

- Improper Payments Elimination and Recovery Act of 2010;
- Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA);
- Government Performance and Results Modernization Act of 2010;
- Improper Payments Information Act of 2002;
- Reports Consolidation Act of 2000;
- Government Management Reform Act of 1994;
- Chief Financial Officers Act of 1990;
- Federal Managers' Financial Integrity Act of 1982;
- Federal Financial Management Improvement Act of 1996;
- Office of Management and Budget Circular A-123, Management's Responsibility for Internal Controls; and
- Office of Management and Budget Circular A-136, Financial Reporting Requirements.

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 annual budget submission.

This report is to be posted on these Web sites: [Performance.gov](https://www.performance.gov) and the [USDA Performance Improvement and Accountability at USDA](#) Web page. Previous reports are posted as well.

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Message from Secretary Vilsack

In fulfillment of our duty to the people, the President, and Congress, the U.S. Department of Agriculture (USDA) respectfully submits the Fiscal Year 2016 Agency Financial Report.



For more than 7 years, I have had the honor and privilege of serving as Secretary of Agriculture. I have traveled to all 50 states and heard rural Americans—from local businesses, community leaders, farmers, ranchers and other Americans far and wide, from all walks of life talk about the impact that USDA's staff, programs and services have on their lives. I could not be more proud of the work the men and women of USDA do each and every day.

In fiscal year (FY) 2016, the final full year of this Administration, these men and women continued to press on in their work and celebrate the many successes of programs they have helped to implement. While 2016 was not without its challenges, these were outshined by achievements in every one of USDA's mission areas on behalf of the American people. We saw record amounts of credit and support delivered to America's farmers and ranchers, the lowest child food insecurity rates on record, and booming local and regional and organic sales, to name several.

Our efforts not only supported the most productive agricultural sector in the world, but also helped rural communities become places where businesses, farm and non-farm alike, prosper and create jobs. Even as commodity prices have weakened and farm incomes have decreased, the rural economy remains strong. Our work to increase trade, grow the bioeconomy, strengthen local and regional food systems, and expand conservation have resulted in a more resilient rural economy.

Like urban areas, rural America is continuing to recover from the Great Recession. Median income for farm households remains near the historic high of 2014—35 percent higher than median U.S. household income in 2015. Nationally, the real median household income for middle class Americans saw a record 5.2 percent increase in 2015. While the nonmetro rates of unemployment still lag behind the metro areas, nonmetro rates have been recovering at about the same pace, and we know that both are approaching pre-recessional levels of around 5 percent, providing increasing opportunities for farm families. While the population of rural areas has been flat or declining lately, we also see that the proportion of adults living in rural

areas with some college training now exceeds metro areas. Those bode well for rural America, and we have seen poverty in nonmetro areas falling in 2015 to its lowest point since 2008.

A major component of USDA's mission is to provide food assistance to America's most vulnerable citizens, including children. A September 2016 report by USDA's Economic Research Service shows that since President Obama took office, 7.9 million fewer people are struggling to provide adequate food for themselves or household members. The report also shows that in 2015, household food insecurity fell 1.3 percentage points from 2014 and 2.2 points from 2011—the peak of the recession. At the same time, very low food security has dropped to 5 percent from a peak of 5.7 percent. The report showed the lowest figures on record for food insecurity among children—a major achievement in our country's efforts to ensure every child has a safer, healthier future filled with unlimited opportunity.

In 2016, this Administration continued its strong support for the Supplemental Nutrition Assistance Program (SNAP). SNAP kept at least 4.7 million people, including nearly 2.1 million children, out of poverty in 2014. During the 2014-2015 school year, over 97 percent of schools successfully met the nutrition standards of the Healthy, Hunger-Free Kids Act by serving meals with more whole grains, fruits, vegetables, lean protein, and low-fat dairy, and less sodium and fat. In the first year of nationwide implementation of the Community Eligibility Provision (CEP), we have also seen progress in reducing the administrative burden on schools and improving program integrity while increasing the number of low-income children certified for school meals. About 60 percent of eligible schools in nearly 3,000 school districts are participating in CEP, reaching more than 8.5 million students.

Over 22 million students participate in free and reduced-price meals during the school year, but only a fraction are participating in summer meals. Because hunger does not take a vacation during the summer months when school meals are unavailable, we have expanded the Summer EBT for Children demonstration pilots over the last 2 years. Rigorous evaluations of Summer EBT pilots demonstrate how the program effectively reduces food insecurity and improves nutrition. In tandem, we have expanded summer food programs—serving nearly 4 million children in the summer of 2015.

Records were also set last year in terms of agricultural trade. In FY 2015, American agricultural producers achieved \$139.7 billion in exports, the third highest year on record and up 45 percent from FY 2009. Agricultural exports totaled over \$911 billion for the period FY 2009 through FY 2015, the best 7-year stretch in history. The volume and value of agricultural exports support more than one million American jobs both on and off the farm each year, a significant part of the estimated 11.5 million jobs supported by exports all across the country. Agricultural exports support farm income, which translates into more economic

activity in rural areas. Each dollar of agricultural exports is estimated to stimulate another \$1.27 in business activity.

USDA's efforts knocked down trade barriers to U.S. exports in more than 18 countries, reopening markets to U.S. agricultural exports. In 2015 alone, USDA resolved foreign access market issues involving U.S. agricultural exports valued at \$3.6 billion. In 2016, Saudi Arabian and Peruvian markets reopened for U.S. beef; the South Korean market reopened for U.S. poultry; and the South African market reopened for U.S. poultry, pork, and beef.

U.S. agricultural exports to Panama, Colombia, and South Korea grew by nearly 28 percent, from \$7.6 billion in FY 2012, when the trade agreements with those countries first went into effect, to \$9.7 billion in FY 2015, supporting approximately 73,000 American jobs. Following years of USDA-led technical exchange, the United States and China signed an agreement in 2015 to expand market access for U.S. apples from just two varieties to all U.S.-grown varieties. The Chinese apple market could be worth nearly \$100 million per year to U.S. producers. U.S. agricultural exports to all U.S. Free Trade Agreement partners grew from \$15.5 billion in 1994 to \$57 billion in 2015, a nearly four-fold increase in 20 years.

Closer to home, USDA has established an in-country presence in Cuba to cultivate key relationships, gain firsthand knowledge of the country's agricultural challenges and opportunities, and begin to explore fruitful information exchanges and research collaboration. To strengthen our bond, USDA also will allow the 22 industry-funded Research and Promotion Programs and 18 Marketing Order organizations to conduct authorized research and information exchange activities in Cuba.

USDA has also made significant strides in expanding our domestic markets for agricultural goods. The growing consumer interest in buying locally produced products has created major new market opportunities for American farmers, ranchers, and food-related businesses while opening the doors of USDA to new stakeholders. USDA resources to strengthen local and regional food systems extend throughout the supply chain, starting with producers, including new insurance offerings to help diversified operations better manage risk, right-sized loans for farms of all sizes, financial support for season-extending tools like high tunnels, and innovative programs to make food safety verification more affordable.

The value of local food sales has grown from \$5 billion in 2008, and some industry sources estimate that sales could hit \$20 billion by 2019. Between 2009 and 2015, USDA invested over \$1 billion in more than 40,000 local and regional food businesses and infrastructure projects. Today, more than 160,000 farmers and ranchers nationwide are tapping into growing consumer demand by selling their products locally. USDA support has helped to nearly double the number of food hubs since 2009; and there are now over 8,500 farmers markets nationwide, an increase of almost 98 percent since 2006.

USDA is also helping producers tap into the market for local and regional foods in schools, which are now serving healthier breakfasts, lunches, and snacks. In the 2013-14 school year alone, which is the most recent data available, school districts spent nearly \$800 million on locally and regionally sourced food.

Between 2008 and 2015, the number of farmers markets and direct marketing farmers that accepted SNAP rose from about 750 to almost 6,500. Over \$19 million in SNAP dollars was spent at farmers markets in 2015, up from less than \$3 million in 2008. This is a win-win for both farmers and SNAP participants, and it shows how our investments are simultaneously improving the health of low-income shoppers and bolstering the incomes of local farmers.

We have also taken significant steps to grow the emerging bioeconomy, which creates new uses for agricultural products and is bringing manufacturing jobs back to rural America. Environmentally, the increased use of biobased products currently displaces about 300 million gallons of petroleum per year—equivalent to taking 200,000 cars off the road. Since 2009, Rural Development has supported almost 400 biofuel producers with the production of advanced biofuels through the Bioenergy for Advanced Biofuel Program. Further, the Department has helped roughly 15,000 rural small businesses, farmers, and ranchers improve their bottom lines by installing renewable energy systems and energy efficiency solutions. This focus on renewable energy has resulted in support for the construction of six advanced biofuels production facilities, over 4,000 wind and solar renewable electricity generation facilities, and more than 100 anaerobic digesters to help farm operations capture methane to produce electricity.

In 2015, we made available \$100 million in grants under the Biofuel Infrastructure Partnership (BIP), estimated to nearly double the number of fueling pumps nationwide that supply renewable fuels, such as E15 and E85, to American motorists. As of 2016, 21 states are participating in the BIP, with matching funds from state and private partners, providing \$210 million to build nearly 5,000 pumps at over 1,400 fueling stations to strengthen the rural economy and increase the demand for agricultural commodities used in the production of biofuels. We are also proud of our effort to partner with the U.S. Department of Energy (DOE) and the U.S. Department of the Navy to create advanced drop-in biofuels that will power both the U.S. Department of Defense and private-sector transportation throughout America—which to date has led to the procurement of 77.7 million gallons of blended drop in biofuel—and with the Federal Aviation Administration, DOE, and the commercial aviation sector to sustainably increase the production and use of alternative jet fuel.

Under this Administration, we have added 70 new categories of qualified biobased products to our catalog for Federal procurement, which includes over 14,000 products. Currently, more than 2,700 products have received certification to display the USDA Certified Biobased

Product label, creating and increasing consumer and commercial awareness about a material's biobased (new carbon) content as one measure of its environmental footprint. We awarded funds through the Forest Service's Wood Innovations Grants Program and the U.S. Tall Wood Building Prize Competition to support pioneering demonstration projects, business planning, and research that can advance new markets for mass timber construction that can support the health and resilience of our forests and our forested communities alike.

Another way that USDA is strengthening the rural economy is by expanding natural resources conservation. During this Administration, we have enrolled a record number of private working lands in conservation programs and implemented strategies to restore our forests and clean our water supply. This has also created significant economic opportunities in the forms of recreation and improved resilience to withstand major weather events.

A new model for conservation investment established by the 2014 Farm Bill for the Regional Conservation Partnership Program (RCPP) has allowed USDA to leverage \$800 million to support 115 high-impact conservation projects across the Nation that will improve the nation's water quality, support wildlife habitat, and enhance the environment. In addition to RCPP, NRCS addresses water quality conservation concerns through other landscape-scale water quality conservation initiatives, such as the Great Lakes Restoration Initiative (GLRI). From 2009-2015, over \$22 million in GLRI funds were used to install conservation practices on 103,000 acres in the Western Lake Erie Basin.

USDA is experiencing record demand from producers interested in participating in the Conservation Reserve Program (CRP), which improves water quality, prevents soil erosion, and strengthens wildlife habitat. The recent general and CRP Grassland sign-ups were the most selective enrollment periods in CRP's 30-year history with a record high Environmental Benefits Index cut-off, ensuring that conservation benefits are being maximized. USDA accepted 101,000 acres in the first-ever CRP Grasslands enrollment, providing participants with financial assistance for establishing approved grasses, trees and shrubs on pasture and rangeland that can continue to be grazed. More than 70 percent of these acres are diverse native grasslands under threat of conversion, and more than 97 percent of the acres have a new, military veteran, or underserved farmer or rancher as a primary producer.

Using the authorities provided in the 2014 Farm Bill, we have developed "The Building Blocks for Climate Smart Agriculture and Forestry" strategy to reduce net emissions and enhance carbon sequestration by over 120 million metric tons of CO₂ equivalent (MMTCO_{2e}) per year by 2025, while also boosting productivity and resilience in the face of a changing climate. Conservation programs on private working lands have reduced net greenhouse gas emissions by over 360 million metric tons since 2009, and through this initiative we will give producers the tools and resources to continue their global leadership in meeting our climate and food

security challenges moving forward. Since the announcement of these building blocks, USDA and its partners have taken actions to reduce Greenhouse Gas (GHG) emissions and increase carbon sequestration from agriculture, forests, and rural areas.

Finally, any discussion of conservation and adapting to a changing climate would be incomplete without USDA's expressing the need to fix fire budget funding. The frequency and intensity of wildfire is increasing while the cost of controlling the spread of wildfire is rising, and the way we pay for fire suppression constrains the agency's capacity to realize additional gains through efficiencies and partnerships alone. Planned wildland firefighting (suppression) activities are currently funded entirely within the U.S. Forest Service budget based on a 10-year rolling average. Today, the agency spends over half of its budget on fire management activities and has seen a corresponding 39-percent decline in non-fire staffing since 1998. Left unchecked, two out of every three dollars appropriated to the Forest Service will be spent on fire programs in the next 10 years. In addition to the rising costs of fire, when appropriated resources fall short, as they did in 2015 by \$700 million dollars, the Forest Service is forced to transfer funds from non-fire programs to cover the costs of suppression. These mid to late season transfers stop projects, cause uncertainty and instability in planning, and impact the agency's ability to implement projects. Congress must provide a comprehensive solution that will address both the growth of fire programs as a percent of the agency's budget and the compounding problem of fire transfers.

To create a strong resilient farm economy built around trade, the bioeconomy, local and regional food systems, and conservation, it was clear that we must have basic investments to set the stage for growth. To accomplish this, we have made historic investments in rural communities, making them more attractive to non-farm businesses and talented hard-working individuals looking for opportunities. In FY 2015 alone, we helped 141,000 rural Americans become homeowners.

USDA also supports innovation to keep U.S. agriculture competitive. Long-term agricultural productivity growth relies on innovation through research funded by both the public and private sectors. Innovations in animal/crop genetics, chemicals, equipment, and farm organization all result in American farmers producing more with less. I am proud that during my service as Secretary, we have increased investments in peer-reviewed competitive grants through the Agriculture and Food Research Initiative (AFRI) from \$201.5 million in FY 2009 to \$350 million in FY 2016, while still achieving growth in formula funding to our partner institutions of higher education.

However, over the past 2 years, the combination of a strengthening dollar and relatively high global production leading to lower prices for commodities has resulted in large drops in 2015 and 2016 net farm income, relative to the 2011 through 2014 period. USDA expects real net

farm income this year to be the lowest since 2009. Demand for farm loans has been increasing, driven in part by the need to cover operating expenses as commodity prices have fallen more quickly than costs. As a result, the debt-to-asset ratio for U.S. producers has increased over the past 2 years, but in aggregate is still near historic lows. While the data suggest that net farm income remains relatively high by historical standards—for example, the 5-year average of net farm income since 2014 has ranged between \$85 billion (for 2012–2016) to \$96 billion (for 2010–2014), the highest levels since the mid-1970’s—and that most farms have a strong balance sheet and delinquency rates remain lower than the 2005 to 2014 average, it is clear that financial stress is increasing and that some producers are more exposed to financial risk.

The current conditions are leading to increased uncertainty and concern in rural America, but the current farm safety net that was created during the last Farm Bill is providing support for producers. In 2015, government farm program payments totaled about \$10.8 billion and are expected to increase to nearly \$13.8 billion in 2016. In addition the crop insurance program offset more than \$6 billion in farm losses in 2015 and is expected to cover more than \$9 billion in 2016.

Last year, USDA enrolled 1.76 million farmers in the new Agriculture Risk Coverage (ARC) and Price Loss Coverage (PLC) programs by conducting an unprecedented education campaign. ARC and PLC are a part of the farm-safety net, providing assistance only when there are year-to-year crop revenue or commodity price downturns. ARC and PLC will provide more than \$7 billion to farmers this year, roughly 10 percent of net farm income as projected by USDA. In addition, more than half of all dairy farms in the U.S.—over 23,000—have enrolled in the Margin Protection Program for Dairy (MPP-Dairy). This voluntary program provides financial assistance to participating farmers when the margin—the difference between the price of milk and feed costs—falls below the coverage level selected by the producer. In 2015, over \$11 million in payments were made to over 4,600 dairy operations for the May/June payment period. This is the largest payment for any 2-month period since MPP-Dairy was enacted in 2014.

The 2014 Farm Bill indefinitely extended the Farm Service Agency’s livestock disaster programs and the Tree Assistance Program. Since the passage of the Farm Bill, these programs have paid producers over \$6 billion dollars to recover from natural disasters, including drought and wildfires.

USDA has continued to strengthen crop insurance to ensure the program works for all farmers and ranchers. The Risk Management Agency (RMA) has expanded access to crop insurance options for organic and specialty crop producers through new and innovative programs, including the Whole-Farm Revenue Protection policy, and coverage options that allow organic farmers to protect their products at the market value. The number of crops eligible for organic

premium pricing went from four in 2011 to 57 for the 2016 crop year. The number of acres insured by organic producers grew from 576,700 in 2009 to 1.1 million in 2016. The new Whole-Farm Revenue plan is being offered in all counties in the United States in 2016. In addition, RMA has worked to ensure that new crop insurance programs from the 2014 Farm Bill are available for as many crops as possible. The Supplemental Coverage Option (SCO) is now available for 58 crops, and the Actual Production History Yield Exclusion is available for 50 crops. The Stacked Income Protection Plan for Producers of Upland Cotton (STAX) is currently available for every county that has a crop insurance policy for cotton. Peanut Revenue Protection is available in every county with peanut coverage, and Margin Protection Insurance is available for wheat, corn, rice, and soybeans in select counties. Finally, the new and beginning farmers and ranchers incentives authorized in the 2014 Farm Bill make crop insurance more affordable for beginning farmers and ranchers by providing a 10-percent premium discount, on top of the premium subsidy all producers receive, as well as a waiver of the catastrophic and additional coverage of administrative fees. Over 13,500 producers have taken advantage of these incentives and saved around \$14.5 million annually in premiums and administrative fees because of the incentives.

USDA worked with crop insurance companies to educate farmers and ranchers about the new conservation compliance requirements in the 2014 Farm Bill, and as a result, over 98 percent of Federal crop insurance participants provided the documentation necessary to comply with those requirements and maintain their benefits.

Access to credit remains a critical issue for producers, in particular for small and beginning farmers and ranchers. Since 2009, USDA has provided approximately 276,000 loans totaling over \$39.5 billion to farmers and ranchers. In 2016 alone, FSA has made over 28,000 direct loans and nearly 10,000 guaranteed loans for a record loan volume of nearly \$6.2 billion.

While the Farm Bill has resulted in a strong safety net for producers, the Department has also utilized other existing authorities to provide assistance to producers when possible. We have used the Commodity Credit Corporation's (CCC's) statutory authority to implement the Cotton Ginning Cost-Share (CGCS) program, which is providing needed assistance to financially stressed cotton producers. Through the CGCS program, eligible producers receive a one-time cost share payment to expand and maintain the domestic marketing of cotton. The program has provided about \$328 million to assist cotton producers. We approved more than \$320 million in section 32 purchases that have the dual benefits of helping producers and providing nutritious foods to those in need, including a \$20 million cheese buy to assist the dairy industry.

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.

Despite USDA's many successes, continued improvement is needed to remediate the Department existing material weakness and financial system noncompliance. To accomplish this goal, management continues to implement corrective action plan activities. Therefore, I provide a modified statement of 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.

USDA is often referred to as "the People's Department," and this past year the men and women who are employed here have delivered record service that has impacted every single American in some way. While my time as Secretary is coming to a close, I am confident that all Americans, especially those in rural communities, will continue to see results from this dedicated team for years to come.



Thomas J. Vilsack
Secretary of Agriculture

December 5, 2016

Section I

Management's Discussion and Analysis

About USDA

President Abraham Lincoln founded the U.S. Department of Agriculture (USDA) in 1862 with the goal of providing effective leadership to the Nation on food, agriculture, natural resources, and related issues. Since 1862, the dedicated public servants at USDA help millions of Americans every day. As Americans, you are part of the USDA story that has had a tradition of excellence in public service for over 150 years.

We would like you to learn more about USDA and the Agencies and Offices that touch every American, every day. More information about the Department, our history, and our leaders can be found at www.usda.gov.

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

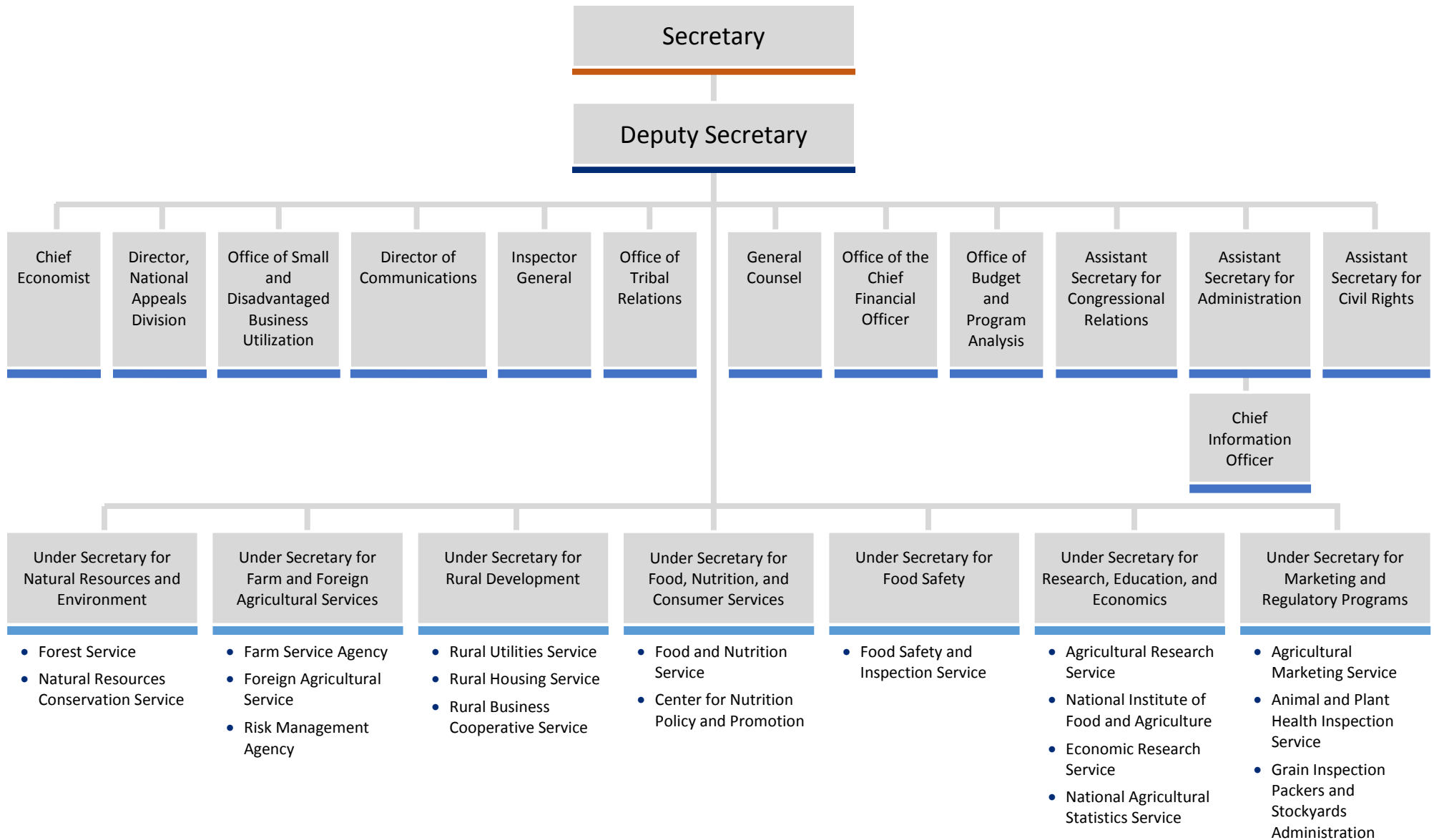
To expand economic opportunity through innovation, helping rural America to thrive; to promote agriculture production sustainability that better nourishes Americans while also helping feed others throughout the world; and to preserve and conserve our Nation's natural resources through restored forests,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

Core Values

Our success depends on the following:

- **Transparency**—Making the Department’s management processes more open so that the public can learn how USDA supports Americans every day.
- **Participation**—Providing opportunities for USDA constituents to shape and improve services provided by the Department.
- **Collaboration**—Working cooperatively at all governmental levels domestically and internationally on policy matters affecting a broad audience.
- **Accountability**—Ensuring that the performance of all employees is measured against the achievement of the Department’s strategic goals.
- **Customer Focus**—Serving USDA’s constituents by delivering programs that address their diverse needs.
- **Professionalism**—Building and maintaining a highly skilled, diverse, and compassionate workforce.
- **Results Oriented**—Measuring performance and making management decisions in order to direct resources to where they are used most effectively.

USDA Organization Chart



USDA Mission Areas

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. A brief description of USDA's seven mission areas follows and may be found at: [USDA Mission Areas](#).

Farm and Foreign Agricultural Services (FFAS)

Farm and Foreign Agricultural Services helps to keep America's farmers and ranchers in business as they face the uncertainties of weather and markets. FFAS delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength of the agricultural economy. The agencies under FFAS are as follows:

- [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, Nutrition and Consumer Services works to harness the Nation's agricultural abundance to end hunger and improve health in the United States. It administers Federal domestic nutrition assistance programs. The Center for Nutrition Policy and Promotion, which links scientific research to the nutritional needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education.

- [Center for Nutrition Policy and Promotion \(CNPP\)](#)
- [Food and Nutrition Service \(FNS\)](#)

Food Safety

The Office of Food Safety ensures that the Nation's commercial supply of meat, poultry, and egg products is safe, wholesome, and properly labeled and packaged. This mission area also plays a key role in the President's Council on Food Safety and has been instrumental in

coordinating a national food safety strategic plan among various partner agencies including the Department of Health and Human Services and the Environmental Protection Agency.

- [Food Safety and Inspection Service \(FSIS\)](#)

Marketing and Regulatory Programs (MRP)

Marketing and Regulatory Programs facilitates domestic and international marketing of U.S. agricultural products and ensures the health and care of animals and plants. MRP agencies are active participants in setting national and international standards, and include as follows:

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

Natural Resources and Environment (NRE)

Natural Resources and Environment ensures the health of the land through sustainable management. Its agencies work to prevent damage to natural resources and the environment, restore the resource base, and promote good land management.

- [Forest Service \(FS\)](#)
- [Natural Resources Conservation Service \(NRCS\)](#)

Research, Education, and Economics (REE)

Research, Education, and Economics is dedicated to the creation of a safe, sustainable, competitive U.S. food and fiber system, as well as strong communities, families, and youth through integrated research, analysis, and education. These agencies include as follows:

- [Agricultural Research Service \(ARS\)](#)
- [Economic Research Service \(ERS\)](#)
- [National Agricultural Statistics Service \(NASS\)](#)
- [National Institute of Food and Agriculture \(NIFA\)](#)
- [National Agricultural Library \(NAL\)](#)

Rural Development (RD)

Rural Development is committed to helping improve the economy and quality of life in all of rural America by providing financial programs to support essential public facilities and services such as water and sewer systems, housing, health clinics, emergency service facilities, and electric and telephone service. Rural Development promotes economic development by providing loans to businesses through banks and community-managed lending pools, while also assisting communities to participate in community empowerment programs.

- [Rural Housing Service](#)
- [Rural Utilities Service](#)
- [Rural Business Cooperative Service](#)

Strategic Plan and Program Performance

USDA Performance, Goals, and Results FY 2016

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 five Agency Priority Goals (APGs) for fiscal years (FY) 2016 and 2017 that identify near-term goals to help USDA progress toward meeting our longer term strategic goals and objectives. USDA's APGs are as follows:

- Access and Opportunity for Beginning Farmers and Ranchers;
- Soil Health and Sustainability;
- Increasing assistance for rural, persistent poverty communities;
- Pollinator Habitat Health; and
- Increased food security and diet quality.

More information and reports on the APGs and quarterly progress can be found at <https://www.performance.gov/agency/departments-agriculture?view=public#apg>.

For purposes of the AFR, a performance summary is provided using the Department's key performance indicators as a mechanism to gauge progress in achieving priorities, goals, and

strategic objectives. In FY 2016, USDA had 38 key performance indicators, as reflected in the Department's FY 2016 Annual Performance Plan (<https://www.obpa.usda.gov/budsum/fy16budsum.pdf>).

The following tables and discussion provide 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. The tables provide key performance indicator historical results, and includes FY2016 preliminary results indicating anticipation in meeting/not meeting performance targets.

Final performance information and a detailed discussion of results for the Department's FY 2016 performance goals, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the FY 2016 USDA Annual Performance Report. The report is planned to be released with the President's 2018 budget in February and will be available on the [USDA Performance Improvement and Accountability](#) website.

The data used by the Department to measure performance is collected using standardized methodology. This methodology has been vetted by federally employed scientists and policymakers, and, ultimately, the leadership and Under Secretaries of each respective mission area. All attest to the completeness, reliability, and quality of the data.

GOAL #1: RURAL PROSPERITY

A vibrant American economy depends on a prosperous rural America. Our four primary pillars of economic opportunity in agriculture are: 1) exports, 2) local food systems, 3) conservation and outdoor recreation, and 4) enhancing the bio-based 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.

Exhibit 1: USDA Strategic Plan Goal #1 – Rural Prosperity Key Performance Indicators

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Number of jobs created or saved through USDA financing of businesses	52,468	44,419	41,202	52,697	40,877	Met
Homeownership opportunities provided	153,027	170,055	146,388	141,314	173,150	Unmet ¹
Health Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	7.3%	5.4%	6.8%	12.0%	4.5%	Met

¹ Direct Program obligations exceeded FY 2016 early year expectations. In response to strong program demand, the agency utilized the Secretary's 7-percent interchange authority to increase program funding and provide homeownership opportunities for an additional 430 low- and very low- income rural borrowers. Guaranteed program obligations fell short of projections due to multiple market and program factors including: continuing weakness in the refinance market; lenders' adjustment to new Truth in Lending Act and Real Estate Settlement Procedures Act Integrated Disclosure (TRID) rules; the reduction in program-eligible areas caused by the recent Farm Bill adjustment to the rural definition population limit; and most importantly, limited inventory in the lower-priced end of the housing market. As a result of the Guaranteed program shortfall, Rural Development did not provide 129,862 new single family housing homeownership opportunities, which was the lower bound of its target range, and therefore, did not meet target expectations. The program is projecting demand to increase in FY 2017, with the introduction of lower origination fees, a new construction loan product, and increased outreach to underserved areas.

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Safety Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	3.7%	3.4%	3.7%	7.2%	2.7%	Met
Educational Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	6.4%	9.3%	6.2%	7.9%	4.5%	Met
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	8.3	8.7	4.6	5.5	5.1	Met
Number of borrowers/subscribers receiving new or improved telecommunications services (millions)	.06	.12	.084	.095	.120	Unmet ²
Number of population receiving new or improved service from agency funded water facilities (millions)	2.5	1.8	2.2	2.4	2.2	Met

² In March 2016, The Federal Communications Commission released a Report and Order, Order and Order on Reconsideration, and Further Notice of Proposed Rulemaking, reforming the universal service program for rate-of-return carriers. The order made a number of changes to the mechanisms that provide substantial revenue to rate-of-return carriers. All existing loan applications had to be held until applicants provided information that took into consideration the impact of the Order on the feasibility of the loan request. This added about 2 to 3 months to the loan processing time, thereby having to carry over some loans to complete in FY 2017. Of the 22 loans processed, 8 applications were not feasible thereby reducing the number of new subscribers. Loan demand is trending higher, however since as many as 15 applications were received towards the end of the fiscal year the processing will be completed in FY 2017 and if approved the associated subscribers will be counted in FY 2017.

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (\$ In Billions)	\$1.46	\$1.48	\$1.50	\$1.52 ³	\$1.55	Met
Percentage of Direct and Guaranteed lending to Socially Disadvantaged Farmers (SDA)	13.30%	13.60%	14.20%	15.00%	14.00%	Met
Percentage of Direct and Guaranteed lending to Beginning Farmers (BF)	68.80%	70%	79.2%	85.6%	76.5%	Met
Normalized value of risk protection provided to agricultural producers through the Federal Crop Insurance Program (\$ In Billions)	\$62.10	\$66.00	\$67.90	\$68.7	\$63.3	Met
Value of trade preserved annually through USDA staff intervention leading to resolution of foreign market access issues such as U.S. export detainment, restrictive Sanitary/ Phytosanitary or Technical Barrier to Trade issues and trade regulations (\$ In Billions)	\$3.70	\$3.80	\$6.40	\$3.6	\$4.1	Met

³ The 2015 actual result shown on the FY 2015 Agency Financial Report was reported incorrectly, this report reflects the corrected 2015 actual results.

GOAL #2: 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 U.S. carbon dioxide emissions. To help improve the health of our natural resources, USDA has worked to increase the annual acres of public and private forest lands which are being restored or enhanced and to increase the percentage of national forests and grasslands in compliance with a climate change adaption and mitigation strategy.

Exhibit 2: USDA Strategic Plan Goal #2 – Resource Conservations, Restoration, and Resiliency Key Performance Indicators

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Conservation Reserve Program (CRP) restored wetland acreage (millions of acres)	2.29	2.09	2.00	1.93	1.9	Met
Conservation Technical Assistance (CTA) land with conservation applied to improve water quality (millions of acres)	N/A	N/A	18.2	18.1	17.9	Unmet ⁴
CTA cropland with conservation applied to improve soil quality (millions of acres)	N/A	N/A	6.2	6.0	5.9	Met
CTA grazing and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	N/A	13.1	13.1	13.0	Unmet ⁵

⁴ The minor shortfall was due primarily to the fact that new hiring has only recently caught up with attrition. New hires take some time to be productive. Only in FY2016 did hiring finally exceed attrition.

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Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Environmental Quality Incentives Program (EQIP) land with conservation applied to improve water quality (millions of acres)	N/A	N/A	12.3	12.7	12.0	Unmet ⁶
EQIP cropland with conservation applied to improve soil quality (millions of acres)	N/A	N/A	3.1	3.0	3.0	Met
EQIP grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	N/A	14.8	13.9	13.9	Met
EQIP non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres)	N/A	N/A	1.4	1.4	1.1	Met
Annual acres of public and private forest lands restored or enhanced (millions of acres)	2.57	2.533	2.91	3.10	2.9	Met
Volume of timber sold (billion board feet)	2.644	2.610	2.831	2.867	3.2	Met
Percentage of National Forests and Grasslands in compliance with a climate change adaptation and mitigation strategy	36%	49%	64%	89%	100%	Met
Percentage of National Forests and Grassland watersheds in properly (class 1 watersheds) functioning condition	52%	52%	52%	52%	52%	Met

⁶ The minor shortfall was due primarily to various factors that contributed to a delay in conservation implementation of some very large tracts of land initially planned for application in FY 2016. These acres are now scheduled for FY 2017 and FY 2018.

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Acres of Wildland Urban Interface hazardous fuels treated to reduce the risk of catastrophic wildfire (millions of acres)	1.867	1.737	1.725	1.577	1.800	Met

GOAL #3: INCREASED EXPORTS AND GLOBAL FOOD SECURITY

Working with other Federal partners, USDA is working toward 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 with 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.

Exhibit 3: USDA Strategic Plan Goal #3 – Increased Exports and Global Food Security

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Cumulative number of biotechnology products deregulated by USDA based on scientific determinations that they do not pose a plant pest risk to agriculture	93	102	109	117	122	Met

GOAL #4: 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. Over the past 4 years, USDA's food assistance programs have contributed to a steady decrease in the prevalence of food insecurity in households with children. Regarding USDA's Food Safety and Inspection Service (FSIS)-regulated meat, poultry, and processed egg products, USDA also saw that the estimated illnesses attributed to the FSIS regulated products decreased by 12 percent from FY 2009 to FY 2015.

Exhibit 4: USDA Strategic Plan Goal #4 – Safe and Nutritious Food

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Prevalence of food insecurity in households with children	20%	19.5%	19.2%	16.6%	18.8%	Deferred ⁷
Annual percentage of eligible people participating in SNAP	83%	85%	85%	N/A	85.0%	Deferred ⁸
SNAP payment accuracy rate	96.6%	96.8%	96.3%	N/A	96.3%	Deferred ⁹
SNAP benefits redeemed at farmers markets and direct marketing farmers annually (millions)	\$16.60	\$ 17.5	\$ 18.8	\$19.4	\$ 20.00	Deferred ¹⁰
Annual percentage of eligible people participating in the National School Lunch Program	57.6%	55.7%	54.8%	55.4%	56.8%	Met ¹¹

⁷ The actual measure for 2016 will be released in September 2017.

⁸ FY 2016 data will be available in 2018.

⁹ FY 2016 data will be available in 2018.

¹⁰ FY 2016 data will be available in 2017.

¹¹ Rationale for Met Range: Thresholds for 4.1.2 reflect the margin of error in forecasts of future participation, estimated at 5 percent for school meals programs. This reflects the pattern of variance between actual and target performance for both programs during the past 5 years. For FY 2016, this percentage range allows for actual performance that meets the targets in the range of 54.0-59.6 percent.

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs	15.5%	16.3%	17.5%	17.1%	17.2%	Deferred ¹²
Increase percentage of broiler plants passing the carcass Salmonella Verification Testing Standard	90%	90%	92%	96%	95%	Unmet ¹³
Percentage of establishments with a functional food defense plan (annual measure)	77%	83%	84%	85%	90%	Unmet ¹⁴
Total illnesses from all FSIS products	479,621	427,171	386,265	382,123	363,547	Unmet ¹⁵

¹² Initial reports for 2016 will be available in December 2016.

¹³ While FSIS did not meet the FY2016 target for the percent of broiler establishments passing the carcass Salmonella verification testing standard, the overall percent of establishments' passing the standard has risen consistently over the past 5 years, and in Q4, FSIS failed to meet the target as a result of just 2 establishments not meeting the target.

¹⁴ While FSIS did not meet the FY2016 target for voluntary adoption of food defense plans, it has seen a 34% increase since 2006. FSIS will continue to focus on small and very small establishments, which represent a majority of those that have not adopted a plan, and will also focus on assessing to what extent all establishments have good practices in place.

¹⁵ FSIS set illness reduction targets for FY2020 with the goal of achieving ambitious Healthy People 2020 targets. FSIS did not achieve the FY2016 All Illness target; however, FSIS did meet its E. coli O157:H7 and Lm targets. FSIS did not meet these targets in FY16 because the data used to determine illnesses attributable to FSIS regulated products—CDC outbreak data from 2011-2013—excluded a very large outbreak in FDA-regulated shell eggs, and included a large outbreak in FSIS regulated chicken products. As our current methodology includes only 3 years of data, large outbreaks coming into or falling out of the dataset highly influences the attribution estimates.

GOAL #5: DEPARTMENTAL MODERNIZATION

Through its *Blueprint for Stronger Service*, USDA is building and implementing a modern workforce, and exercising good stewardship of the resources entrusted to the Department. During FY 2016, 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.

Exhibit 5: USDA Strategic Plan Goal #5 – Departmental Modernization

Fiscal Year	2012 Actual	2013 Actual	2014 Actual	2015 Actual	2016 Target	2016 Preliminary
Number of employees participating in core telework	7,926	9,723	10,455	11,798	12,000	Met
Amount of leased office and warehouse space controlled by USDA (millions of square feet)	26	25.6	24.9	23.9	23.7	Met

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

Farmers and ranchers operate in highly competitive markets, both domestically and internationally. Rapid shifts in consumer demands associated with quality, convenience, taste, and nutrition dictate that farming, ranching, and marketing infrastructures become more fluid and responsive. National security is a significant, ongoing priority for the U.S. Department of Agriculture (USDA). USDA science research, education, and extension will continue to be the foundation for understanding developments and making advances in solving agricultural and societal challenges. 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 internationally;
- 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 internationally;
- 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 debt;
- 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 as well as the environment, and the ability of the public and private sectors to collaborate effectively on food safety, security, and related emergency preparedness efforts.

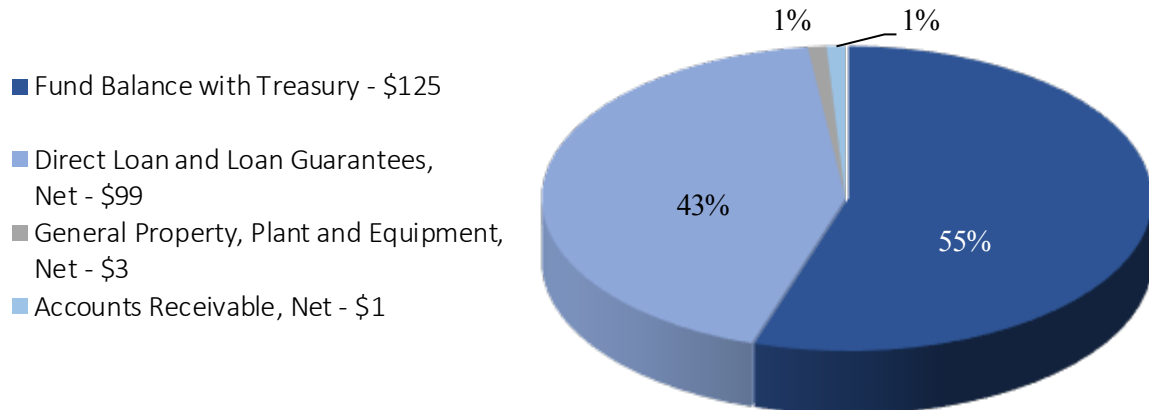
Analysis of Financial Information and Highlights

Balance Sheet

TOTAL ASSETS

Total assets for FY 2016 were \$228 billion. The following exhibit presents FY 2016 total assets.

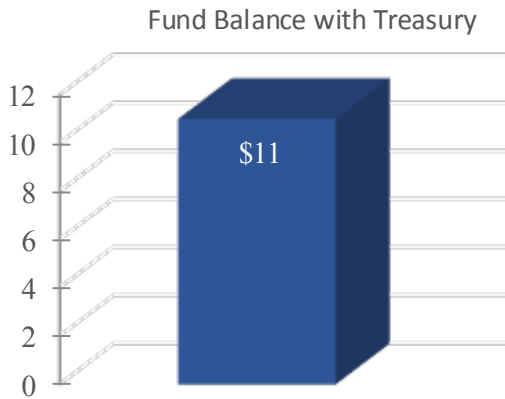
Exhibit 6: Total Assets (\$ In Billions)



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 87 percent of the total Department loan programs. Loan programs administered by FSA represent 10 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. These 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)



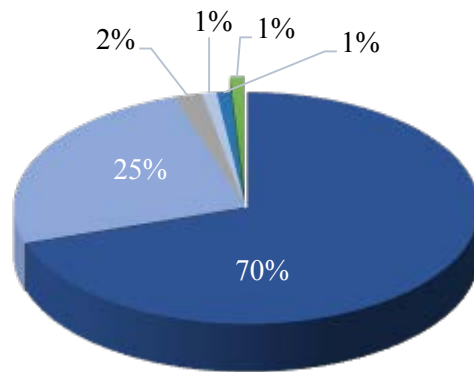
The increase in Fund Balance with Treasury was primarily due to a \$5 billion increase at FNS for SNAP and a \$5 billion increase at RD for the Guaranteed Single Family Housing program.

TOTAL LIABILITIES

Total liabilities for FY 2016 were \$174 billion. The following exhibit presents FY 2016 total liabilities.

Exhibit 8: Total Liabilities (\$ In Billions)

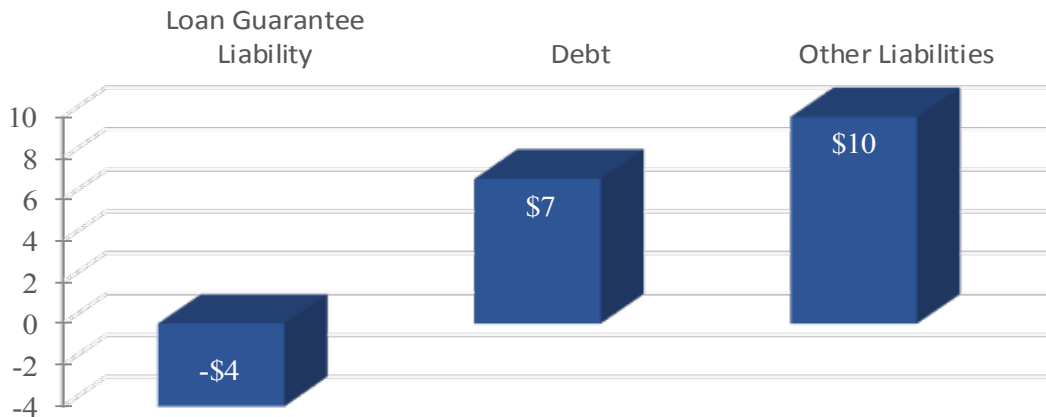
Debt	\$122
Other	\$44
Benefits Due and Payable	\$4
Accounts Payable	\$2
Loan Guarantee Liability	\$1
Federal Employee and Veteran Benefits	\$1



Debt is the single largest liability on USDA’s balance sheet. It represents amounts owed primarily to Treasury by CCC, FSA and RD. For CCC, the debt primarily represents financing for price support, export credit guarantees, disaster programs and loans related to farm storage facilities. For FSA, the debt primarily represents financing to support direct and guaranteed loan programs, with the majority supporting operating, ownership, and emergency loans. 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)

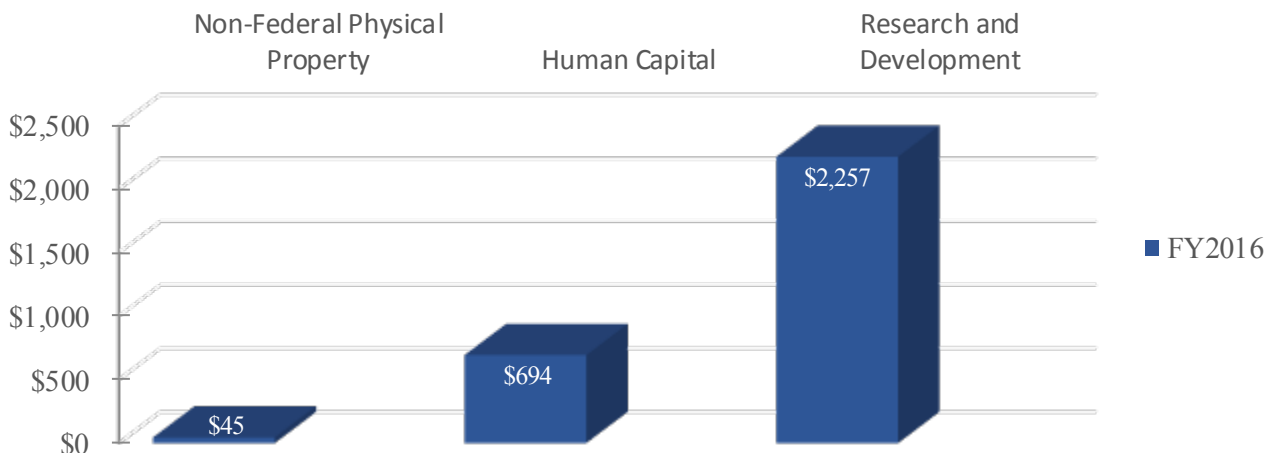


Loan Guarantee Liability decreased primarily due to Guaranteed Rural Housing at RD. Debt increased \$7 billion at CCC primarily due to ARC and PLC. Other Liabilities increased \$6 billion primarily due to Guaranteed Rural Housing at RD and \$4 billion at CCC due to ARC, PLC and the Conservation Reserve Program.

Stewardship Investments (Unaudited)

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 stewardship investments.

Exhibit 10: Stewardship Investments (\$ In Millions)



Statement of Assurance

The U.S. Department of Agriculture (USDA) is providing modified 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 two instances of non-compliance with laws and regulations. Management is providing reasonable assurance that the internal controls over operations are effective. The details of the exceptions are provided in the FMFIA, FFMIA, and Summary of Financial Statement Audit and Management Assurances sections of this report.



USDA assessed its financial management systems and internal controls over the effectiveness and efficiency of operations and compliance with applicable laws and regulations as of September 30, 2016, and financial reporting as of June 30, 2016. 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 (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and Internal Control.

In fiscal year (FY) 2015, the Forest Service identified an Antideficiency Act (ADA) violation for FY 1990 through FY 2009 under 31 United States Code (U.S.C.) § 1341(a)(1). The violation related to the agency's employment in California of two citizens of Palau. This use of Federal appropriations violated a general provision of appropriations acts from FY 1990–2009, which prohibited the use of appropriations to employ non-U.S. citizens. This 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 million 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 completed 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 million 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.

In FY 2015, an erroneous transaction was identified associated with the StrikeForce Initiative funded through transfers from USDA agencies for FY 2010 and 2011. No ADA violation occurred and all transactions have been corrected.


In FY 2015, The Foreign Agricultural Service (FAS) identified a potential violation of the ADA that may have occurred in its FY 2009 appropriation. FAS has completed its analyses and identified the causes of this potential violation. A corrective transaction was processed to clear the negative cash balances and the U.S. Department of the Treasury (Treasury) and the OMB approved the transaction on June 30, 2016. Therefore, the FY 2009 appropriation no longer has a negative cash balance. FAS has requested a final determination on the status of the potential ADA violation from the Office of the General Counsel.

USDA's Office of Inspector General determined that improper bank reconciliations were completed for two ratifications totaling \$17,709 on behalf of the Office of the Assistant Secretary for Civil Rights (OASCR). As a result of the improper reconciliations, two USDA offices each paid for a procurement contract that should have been charged to OASCR. This ultimately resulted in OASCR's FY 2012 appropriation potentially being augmented, which was considered a possible ADA violation. A review determined that the temporary augmentation of OASCR's account, which was corrected with available (unobligated) FY 2012 funds, did not result in an ADA violation. All that was necessary was for the OASCR to correct the improper charges using the FY 2012 appropriation.

In FY 2016, the Office of the Chief Financial Officer (OCFO) received a determination on four ADA violations. General Provision (GP) 706 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2016, Pub. L. 114-113, Div. A (Dec. 18, 2015), prohibits the USDA from making certain obligations for information technology (IT) projects without the prior written approval of the Chief Information Officer (CIO). Specifically, GP 706 states, "none of the funds available to the Department of Agriculture for information technology shall be obligated for projects, contracts, or other agreements over \$25,000 prior to receipt of written approval by the Chief Information Officer." OCFO obligated funds in excess of the \$25,000 on four occasions prior to an approved Acquisition Approval Request (AAR) from the CIO. These violations are in the process of being reported to Congress and the President.

In FY 2016, Commodity Credit Corporation (CCC) identified a potential ADA violation that may have occurred in CCC expenditures. Expenditures for CCC interest to Treasury appear to have exceeded amounts initially apportioned by OMB. CCC expended approximately \$37 million in interest to Treasury, more than the apparently apportioned amount of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury. FSA will seek further review of the legal authority of CCC with respect to the apportionment requirements with the Office of the General Counsel in conjunction with the Office of Management and Budget.

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, 2016, and (2) financial reporting as of June 30, 2016.



Thomas J. Vilsack
Secretary of Agriculture

December 5, 2016

Federal Managers' Financial Integrity Act Report on Management Control

Background

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

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

The U.S. Department of Agriculture (USDA) evaluated its internal controls in accordance with Office of Management and Budget (OMB) Circular No. A-123, Management's Responsibility for Enterprise Risk Management and 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 decisively 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 2016 Results

The Department has two existing material weaknesses in internal controls over financial reporting: information technology and financial management. The material weakness for financial management is due to improvements needed in accounting and internal controls related to the Natural Resources Conservation Service (NRCS) and the Commodity Credit Corporation (CCC). USDA also has one existing system non-conformance related to Funds Control Management within the CCC, which will be resolved by the end of FY 2019.

The fiscal year 2015 results disclosed that the Federal Crop Insurance Corporation (FCIC) did not have adequate controls over estimating losses on insurance claims. Similar deficiencies were not identified during the current year audit. The FY 2015 report also disclosed improvements were needed in the credit reform subsidy model and the process to assess the results of the re-estimates for Rural Development's Guaranteed Single Family Housing program. Again, similar deficiencies were not identified in the current year audit. The FY 2015 material weakness for the credit reform subsidy model has been reassessed as a significant deficiency for FY 2016.

The Food and Nutrition Service and the Farm Service Agency (FSA) 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.

The Secretary's Statement of Assurance provides modified 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 2016 accomplishments and FY 2017 planned actions toward resolving the outstanding material weaknesses.

Exhibit 11: Summary of Outstanding Material Weaknesses

1. USDA Information Technology (IT)	
Material Weaknesses Existing	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)
Overall Estimated Completion Date	FY 2017
FY 2016 Accomplishments:	FY 2017 Planned Actions:
<ul style="list-style-type: none"> ▪ Monitored Plan of Actions and Milestones (POA&Ms) identified as part of the IT Material Weakness. Tracked and reported on progress weekly to USDA leadership, and ensured proper and full remediation of weaknesses across the USDA enterprise; ▪ Performed security assessments to analyze component agencies' information architecture and related processes to develop a threat profile; ▪ Performed penetration testing: OCIO expects the U.S. Department of Homeland Security (DHS) to continue their scans under the Binding Operational Directive, and the Agricultural Security Operation Center plans to continue integration with the DHS Continuous Diagnostics Mitigation program; ▪ Enhanced centralized configuration management monitoring tools (Tivoli Endpoint Manager/BigFix) to monitor agency assets running specific operating systems; ▪ Formalized its internal monitoring processes into a Standard Operating Procedure; 	<p>The Office of the Chief Information Officer (OCIO) will:</p> <ul style="list-style-type: none"> ▪ Continue to monitor and close outdated 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 security assessments to analyze component agencies' information architecture and related processes to develop a threat profile; ▪ Continue to perform penetration testing: OCIO expects the U.S. Department of Homeland Security (DHS) to continue their scans under the Binding Operational Directive, and the Agricultural Security Operation Center plans to continue integration with the DHS Continuous Diagnostics Mitigation program; ▪ Continue to enhance centralized configuration management monitoring tools (currently IBM BigFix, formerly known as Tivoli Endpoint Manager) to monitor agency assets running specific operating systems;

1. USDA Information Technology (IT)

Material Weaknesses Existing

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)

Overall Estimated Completion Date

FY 2017

FY 2016 Accomplishments:	FY 2017 Planned Actions:
<ul style="list-style-type: none"> ▪ Waited on the finalization of the DHS’s Continuous Diagnostics and Monitoring (CDM), which will further enhance OCIO’s configuration management oversight function and timely coordination with subcomponents to ensure policy compliance; ▪ Enforced Personal Identity Verification (PIV) / Homeland Security Presidential Directive (HSPD) 12 mandatory compliance for privileged and non-privileged users to meet published FY 2016 Conservation Activity Plan (CAP) and Federal Information Security Management (FISMA) goals; and ▪ Developed additional implementation guidance for multi-factor authentication for network and application access. 	<ul style="list-style-type: none"> ▪ Continue to formalize its internal monitoring processes into a Standard Operating Procedure; ▪ USDA is waiting on the finalization of the DHS’s Continuous Diagnostics and Monitoring (CDM), which will further enhance OCIO’s configuration management oversight function and timely coordination with subcomponents to ensure policy compliance; ▪ Continue to further enforce PIV/HSPD12 mandatory compliance for privileged and non-privileged users to meet published FY 2017 CAP and FISMA goals; and ▪ Continue to develop additional implementation guidance for multi-factor authentication for network and application access, as needed.

2. Financial Management — Natural Resources Conservation Service

Material Weakness Existing

The Natural Resources Conservation Service (NRCS) was unable to provide sufficient evidential matter in support of certain transactions and account balances.

In addition, improved accounting and controls are needed over expenses.

Overall Estimated Completion Date

FY 2017

FY 2016 Accomplishments:	FY 2017 Planned Actions:
<p>NRCS:</p> <ul style="list-style-type: none"> ▪ Reviewed the results of supporting obligation balances that include referenced accruals; ▪ Developed and issued formal instruction for entering accruals that reference an obligation; ▪ Reconciled feeder systems (financial assistance, contracts, travel, etc.) with the financial system; and ▪ Engaged with an external firm to perform 100% review of all direct entry documents and any feeder system documents where reconciliation is not practical. 	<p>NRCS will:</p> <ul style="list-style-type: none"> ▪ Monitor the activity of upward and downward adjustments to ensure balances are appropriate. ▪ Monitor open obligations to ensure they are recorded and liquidated timely. ▪ Enhance policy and control procedures for period end accruals.

2. Financial Management – Commodity Credit Corporation

Material Weaknesses Existing

The Commodity Credit Corporation (CCC) needs to address material weaknesses identified in the following areas: Financial Reporting, Accounting for Parent/ Child Transactions of the United States Agency for International Development (USAID), Accounting for Commodity Certificate Exchange (CCE), Accounting for Budgetary Transactions and Fund Balance with Treasury (FBWT).

Overall Estimated Completion Date

FY 2017

FY 2016 Accomplishments:	FY 2017 Planned Actions:
<p>During FY 2016, CCC:</p> <ul style="list-style-type: none"> ▪ Designed and implemented Business Portfolio Manual to document business procedures including program accounting flow and key internal controls; ▪ Designed and implemented policies, procedures, and controls to accept, track, and monitor agreements entered into with other agencies (customers); ▪ Reconciled budgetary and proprietary balances with trading partners; ▪ Conducted training for the Financial Management Division staff and managers to provide an in-depth look at the U.S. Standard General Ledger and its practical uses in performing key activities that ultimately support data integrity and the agency's ability to compile complete, accurate and reliable financial statements; ▪ Implemented reconciliation processes to ensure FBWT transactions are timely and accurately recorded in the general ledger system; ▪ Implemented a reconciliation process to assess and review CCC-related transactions and balances reported in the USAID general ledger for FBWT, Accounts Receivable, and Accounts Payable; 	<p>During FY 2017, CCC will:</p> <ul style="list-style-type: none"> ▪ Update Standard Operating Procedures (SOPs), policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing and recording, and performing look-backs of accounting estimates; ▪ Develop effective information and communication processes to ensure that policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner; ▪ Implement processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions; ▪ Continue with the execution of the existing OMB A-123, Appendix A Corrective Action Plan, Maintaining, Controlling, and Monitoring the CORE General Ledger by further improving and enhancing CCC reconciliations and account analysis;

2. Financial Management – Commodity Credit Corporation

Material Weaknesses Existing

The Commodity Credit Corporation (CCC) needs to address material weaknesses identified in the following areas: Financial Reporting, Accounting for Parent/ Child Transactions of the United States Agency for International Development (USAID), Accounting for Commodity Certificate Exchange (CCE), Accounting for Budgetary Transactions and Fund Balance with Treasury (FBWT).

Overall Estimated Completion Date

FY 2017

FY 2016 Accomplishments:	FY 2017 Planned Actions:
<ul style="list-style-type: none"> ▪ Implemented a process to calculate accruals and advances for CCC funded USAID grants funded; and ▪ USAID and CCC revised and signed a Memorandum of Understanding. 	<ul style="list-style-type: none"> ▪ Expand tie-point analysis process to include additional training and workshops to provide expert assistance with reconciliations, trial balance analytics, clean-up projects, abnormal balances, and variances; ▪ Develop and implement software modifications to the Commodity Loan Processing System and Automated Cotton Reporting System to incorporate CCE functionality, including providing the correct accounting entries to CCC's General Ledger - CORE which will remediate the condition; ▪ Continually refine the accrual and advance calculation process for USAID grants funded by CCC; and ▪ Implement reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, undelivered orders, delivered orders, expended appropriations, and operating expenses.

Summary of Outstanding System Non-conformance

Funds Control Management non-conformance is also reported as a system non-compliance, and is included in the FFMIA Report on Financial Management Systems ([Exhibit 12](#)). The weakness involves component agency-specific deficiencies for CCC.

The following exhibit provides FY 2016 accomplishments and FY 2017 planned actions toward resolving the Department's outstanding system non-conformances.

Exhibit 12: Summary of Outstanding System Non-conformance

1. Funds Control Management	
System Non-conformance Existing	System improvements needed in recording obligations at the transactional level. (CCC) Non-compliance with Federal Financial Management Improvement Act of 1996. (CCC)
Overall Estimated Completion Date	2019
FY 2016 Accomplishments:	FY 2017 Planned Actions:
<p>During FY 2016, CCC:</p> <ul style="list-style-type: none"> ▪ Continued to modernize program and financial systems to eliminate the standing material weakness (MW) and become substantially compliant with the Funds Control/Obligation requirements related to obligations at the transactional level; ▪ Implemented standardized apportionment processes for program divisions; ▪ Evaluated and documented all CCC program's obligation life cycle; ▪ Implemented functionality to automatically de-obligate unliquidated obligations at time of payment; and 	<p>During FY 2017, CCC will:</p> <ul style="list-style-type: none"> ▪ Establish Funds Control Levels by Program; ▪ Develop policy, procedures and systems functionality to support the budget execution process for CCC programs; ▪ Work with Deputy Administrator Farm Programs and Information Technology Services Division towards completing software modifications to ensure all program applications are in full compliance with the Funds Control/Obligation Requirements (i.e., business events, establishments, liquidations, adjustments {downward and upward}, etc.) related to obligations at the transaction level; and

1. Funds Control Management	
System Non-conformance Existing	System improvements needed in recording obligations at the transactional level. (CCC) Non-compliance with Federal Financial Management Improvement Act of 1996. (CCC)
Overall Estimated Completion Date	2019
FY 2016 Accomplishments:	FY 2017 Planned Actions:
<ul style="list-style-type: none"> ▪ Completed the following deployments: <ul style="list-style-type: none"> ○ The new Agriculture Risk Coverage /Price Loss Coverage software was integrated with the Common Obligation Framework to obligate contracts at a transactional level and properly sequester funds; ○ The Commodity Loan Processing System to obligate loan Crop Year 2015 and future applications at the transactional level. ○ The Direct Loan System/Farm Storage Facility Loans Phase 2 that replaces the CORE Accounting System budget tables as a funds control mechanism. 	<ul style="list-style-type: none"> ▪ Complete the integration of two "material" CCC programs (the Non-Insured Crop Disaster Assistance Program and the Livestock Indemnity Program) with the electronic Funds Management System (eFMS)/County Office (COF) to achieve full funds control at a transaction level

Compliance with Laws and Regulations

In fiscal year (FY) 2015 the Forest Service identified an Antideficiency Act (ADA), 31 United States Code (U.S.C.) § 1341 (a) (1), and Government-wide General Provisions § 603 violation for FY 1990 through FY 2009. The violation related to the agency's employment in California of two citizens of Palau. The two Palauan employees did not, in 1990, fall within any of the categories that would have permitted payment of their salaries using Forest Service appropriations. In FY 2010, Congress added the following language to the general provision: "*Provided further*, That this section shall not apply to any person who is an officer or employee of the Government of the United States on the date of enactment of this Act." This proviso applies to the Palauan Forest Service employees. It has been included in all subsequent appropriations acts, including the current act for FY 2016. Therefore, payment of the employees with appropriated funds has not violated the general provision since FY 2010. In addition, since FY 2010, the general provision has allowed for the Federal employment of "a person who is lawfully admitted for permanent residence and is seeking citizenship as outlined in 8 U.S.C. § 1324b(a)(3)(B)." 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, the Office of Management and Budget (OMB) approved an apportionment request for \$1 million 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 completed corrective action to ensure future payments are obligated only within approved apportionment limits. This 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 million 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. Also, an erroneous transaction occurred with the StrikeForce Initiative; however, there was no violation of an ADA.

The Foreign Agricultural Service (FAS) identified a potential violation of the ADA that may have occurred in its FY 2009 appropriation. FAS has completed its analyses and identified the causes of this potential violation. The Office of the General Counsel has been requested for a determination on the status of this potential ADA violation.

USDA's Office of Inspector General investigated the Office of the Assistant Secretary for Civil Rights (OASCR) to determine whether (1) expenditures were properly supported by documentation, (2) unauthorized commitments were properly ratified by the Office of Procurement and Property Management, and (3) whether there was adherence to Federal legal authorities and Departmental regulations. The appropriate accounting adjustments have been completed, and no ADA violation occurred. The OASCR had sufficient FY 2012 funds to cover the improper payments.

In FY 2016, the Office of the Chief Financial Officer (OCFO) received a determination on four ADA violations. General Provision (GP) 706 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act, 2016, Pub. L. 114-113, Div. A (Dec. 18, 2015), prohibits USDA from making certain obligations for IT projects without the prior written approval of the Chief Information Officer (CIO). Specifically, GP 706 states "none of the funds available to the Department of Agriculture for information technology shall be obligated for projects, contracts, or other agreements over \$25,000 prior to receipt of written approval by the Chief Information Officer." OCFO obligated funds in excess of the \$25,000 on four occasions prior to an approved Acquisition Approval Request (AAR) from CIO. These violations are in the process of being reported to the Congress and President.

Lastly, in FY 2016, Commodity Credit Corporation (CCC) identified a potential ADA violation that may have occurred in CCC expenditures. Expenditures for CCC interest to Treasury appear to have exceeded amounts initially apportioned by OMB. CCC expended approximately \$37 million in interest to Treasury, more than the apparently apportioned amount of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury. FSA will seek further review of the legal authority of CCC with respect to the apportionment requirements with the Office of the General Counsel in conjunction with the Office of Management and Budget.

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

Exhibit 13: Outstanding Initiative to Achieve Compliance

Initiative	Section of Non-compliance	Agency/Program	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010	Publish improper payment estimates for all high-risk programs and activities	Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP)	12/31/2017
		FNS Child and Adult Care Food Program	12/31/2020
	Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments	Farm Service Agency (FSA) Loan Deficiency Program	11/15/2017
		FSA Livestock Indemnity Program	11/15/2017
		FSA Livestock Forage Disaster Program (LFP)	11/15/2017
		FSA Supplemental Revenue Assistance Payments	11/15/2017
		FNS National School Lunch Program	11/15/2017
		FNS School Breakfast Program	11/15/2017
		Special Supplemental Nutrition Program; Women, Infants, and Children (WIC)	11/15/2017
	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 (AFR)	FSA Livestock Indemnity Program	11/15/2017
		FSA Supplemental Revenue Assistance Payments	10/01/2016
		FNS National School Lunch Program	11/15/2017
		FNS School Breakfast Program	11/15/2017

Exhibit 14: Summary of Corrective Actions/Non-compliance with Laws and Regulations

Summary of Corrective Actions/Non-compliance with Laws and Regulations	
Improper Payments Elimination and Recovery Act of 2010 (IPERA)	IPERA non-compliance issues (Food and Nutrition Service [FNS] and Farm Service Agency [FSA]).
Overall Estimated Completion Date	FY 2021
FY 2016 Accomplishments	FY 2017 Planned Actions
<p>FNS has:</p> <ul style="list-style-type: none"> ▪ Published a proposed rule on March 29, 2016, which strengthened 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 ▪ In March 2016, FNS provided an overview of the Child Nutrition Integrity Proposed Rule to State agency personnel through Webinar training. 	<p>FNS will:</p> <ul style="list-style-type: none"> ▪ Publish SNAP improper payment rates for both FY 2016 and FY 2017 reporting. ▪ Issue Certification Guidance by December 31, 2016 that will provide clarification of policy related to income, identity and residency requirements in a single document. This will provide easy reference for State and local agency use.
<p>FSA has:</p> <ul style="list-style-type: none"> ▪ A notice was issued in September 2016 to field offices to reinforce and outline program policies and procedures for LFP. ▪ An LFP checklist form was developed for the District Director (DD) review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented 	<p>FSA will:</p> <p>N/A</p>

Federal Financial Management Improvement Act Report on Financial Management Systems

Background

The Federal Financial Management Improvement Act (FFMIA) is designed to improve financial and program managers' accountability, provide better information for decision-making, and improve the efficiency and effectiveness of Federal programs. FFMIA requires that financial management systems provide reliable, consistent disclosure of financial data in accordance with generally accepted accounting principles and standards. These systems must also comply 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 IT non-compliance is also reported as a material weakness and is included in the Federal Managers' Financial Integrity Act (FMFIA), Report on Management Control ([Exhibit 11](#)). This weakness is comprised of two major issues: 1) logical access controls/personnel security, and 2) 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 2: Information Technology Security Needs Continuing Improvement*](#).

The following exhibit contains the outstanding initiatives to achieve compliance.

Exhibit 15: Initiatives to Be Completed

Outstanding Initiatives to Achieve FFMIA Compliance

Initiative	Section of Non-compliance	Agency	Target Completion Date
Information Technology	Federal Financial Management System (FFMS) requirements, and information security policies, procedures, and/or practices.	Multiple	9/30/2017
Financial Management	Federal accounting standards, and U.S. Standard General Ledger (USSGL) at the transaction level.	NRCS	9/30/2017
	Federal accounting standards, and USSGL at the transaction level.	CCC	9/30/2017

Fiscal Year 2016 Results

During fiscal year (FY) 2016, the U.S. Department of Agriculture (USDA) evaluated its financial management systems to assess compliance with FFMIA. In assessing FFMIA compliance, USDA considered auditors' opinions on component agencies' financial statements, and progress made in addressing the material weaknesses identified in the FY 2015 Agency Financial Report. USDA is not compliant with Federal accounting standards and the USSGL at the transaction level due to Commodity Credit Corporation and Natural Resources Conservation Service. Additionally, as reported in the FFMIA section of this report, USDA continues to have weaknesses in IT controls and Federal Financial Management Systems requirements that result in non-compliance 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)

Noncompliance with Federal accounting standards was noted for weaknesses in the accounting for Pre-Credit and Credit Reform receivables, accrued liabilities, parent-child transactions, allowance for uncollectible accounts receivable, and environmental and disposal liabilities.

During FY 2016, CCC continued their efforts to modernize their systems to become compliant with the Funds Control/Obligation Requirements related to recording obligations at the transactional level.

CCC deployed the following software releases during FY 2016: 1) the Agriculture Risk Coverage (ARC)/Price Loss Coverage (PLC); 2) the Commodity Loan Processing System (CLPS) transitioning from the Automated Price Support System (APSS); 3) the Margin Dairy Protection Program (MPP); and 4) Phase II of the Direct Loan System (DLS) for the Farm Storage Facility Loans (FSFL), which replaced the CORE Budget Tables with the real-time obligations functionality and proper obligation liquidations for FSFL loan closings.

In addition, the Farm Service Agency (FSA)/CCC has successfully moved off the IBM AS400/S36 platform that hosts some of its County Office (CO) applications, addressing CCC's deficiencies of having antiquated hardware and expired system maintenance plans. The former platform lacked the ability to fix system issues due to the vendors no longer being able to support the operating systems.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

Deficiencies in applicable Federal accounting standards, including the USSGL at the transaction level, were noted for obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations as it relates to accrued expenses.

NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA.

Financial Management Systems Strategy

On May 2, 2014, the Office of Management and Budget (OMB) and the U.S. Department of the Treasury (Treasury) designated the U.S. Department of Agriculture (USDA) a Federal Financial Shared Service Provider (FSSP).

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

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

The designation allows USDA to provide financial management services to Federal agencies. In 2015, the USDA Office of the Chief Financial Officer (OCFO) joined financial operations with financial systems and added the General Services Administration's (GSA) financial operations and systems to provide an integrated solution and better customer service.

Financial Management Lines of Business

USDA has two separate lines of business to support existing and future customers. The Systems, Applications, and Products (SAP) offering is housed in the Financial Management Services (FMS) Division. This is the standard USDA solution that has been developed over the last 8 years and now covers almost all USDA accounting activity. Momentum is part of the Pegasys Financial Systems (PFS) Division, and provides financial operations and systems for GSA and 38 Boards and Commissions.

USDA has recently expanded its portfolio of services to include ezFedGrants (EFG), a SAP-based grants management tool that is fully integrated with the USDA core accounting system. It helps grants managers run their grants programs efficiently and improve the accuracy of their accounting.

Mission

USDA's mission as an FSSP 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. FMS' goal is to provide the necessary activities for executing the Financial Management Line of Business vision. The three key components of this

vision are communication, governance, and operations. By executing these components, USDA will deliver a successful shared service offering.

USDA'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;
- Property accounting; and
- Grants management.

By offering a solution that is 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 Enterprise Resource Planning (ERP) solution. USDA's primary objectives for this shared services effort are to provide the following:

- An enterprise financial management service that allows customers to reap the benefits in increased service quality, including faster, less expensive, and less risky as compared to starting with a new Enterprise Resource Planning or financial management implementation;

- Integration with the National Finance Center (NFC) payroll processing services;
- Budget Status Forecasting;
- An enterprise grants management service that allows customers to utilize a full life-cycle management tool for grants administration that provides visibility to both the government and the grant recipient;
- A complete audit-compliant financial solution with full documentation meeting financial requirements;
- Continuous process, operational, and organizational improvements 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.

Provider Status

As an FSSP, USDA continues to work with the Unified Shared Services Management (USSM) at GSA and the Office of Financial Innovation and Transformation (OFIT) at Treasury to ensure our FMS-based services adhere to the required guidelines with respect to services, pricing, governance and service level metrics. In September, 2016, OMB and Treasury certified USDA's CGI-Momentum product, making USDA is the only organization that offers Federal customers a choice of SAP or Momentum. These products have certain strengths that may make one a better match for a particular customer. USDA PFS currently services GSA and 38 boards and commissions using the Momentum product. Most of USDA uses the SAP product. Our experience with both sets us apart from any other shared service provider.

Successes

During fiscal year (FY) 2016, USDA succeeded in the following ways:

- Streamlined Automated Standard Application for Payments (ASAP) processing in anticipation of making it part of the enterprise solution, and, in due course, make it part of the enterprise solution. ASAP is a Treasury-developed tool that helps agencies manage payment processing at very low cost. Several USDA agencies use it for grants payments;

- Built a data extraction methodology and harmonized data model that allows future grants customers to develop reports using data from Estimated Construction Cost (ECC), Certified Reference Material (CRM), Pega, and agency repositories. This enhances the attractiveness of our grants management solution for USDA customers, as well as customers in other organizations;
- Completed high-level requirements gathering to enable the Forest Service to fully deploy EFG by 2018;
- Opened discussions with Rural Development about bringing loans into the USDA SAP corporate solution;
- Opened discussions with the U.S. Department of Homeland Security (DHS), the Federal Emergency Management Agency (FEMA), and Treasury to explore partnering to use EFG;
- Completed requirements and began testing an interface between EFG and Grants.gov for implementation in the first quarter of FY 2017. Grants.gov is a clearinghouse that allows federal agencies to get grant opportunities out to the public and receive applications from the public. The interface with EFG will streamline the process with a paperless flow;
- Conducted pre-discovery sessions with the U.S. Department of Veterans Affairs on both Momentum and SAP; and
- Began preparations to move USDA's SAP-based financial management system to the cloud in FY 2017. This will improve performance, reduce risks and costs, increase flexibility, and improve testing and training. By working in the cloud, we will be able to offer shared service customers a robust and reliable platform that allows them to focus on their core mission.

Future Roadmap: SAP

USDA goals for the future include as follows:

- Providing Financial Systems and Services to Federal agencies outside USDA, using both the SAP and Momentum products;
- Rolling the SAP Grants solution out to all USDA agencies and to agencies outside USDA; and
- Beginning the integration of loan programs into the SAP solution within USDA.

Projected FY 2016 and FY 2017 planned releases and upgrades include the following:

- SAP software release;
- General Financial Management Modernization Initiative enhancements;
- High-Performance Analytic Appliance (HANA) business warehouse; and
- Financial Statement Data Warehouse (FSDW) migration.

Future Roadmap: Momentum

Momentum 7.1.2 incorporates more than 160 new features and enhancements designed to meet current legislative and Government-mandated Federal financial management requirements and recommendations, including the Government-wide Treasury Account Symbol Adjusted Trial Balance System (GTAS), Do Not Pay (DNP), the System for Award Management (SAM), and Payment Application Modernization (PAM).

In FY 2017, we plan to upgrade to Momentum 7.5, which includes the latest features available in the Momentum product line.

Other Management Information, Initiatives, and Issues:

Digital Accountability and Transparency Act (DATA Act)

The Digital Accountability and Transparency Act (DATA Act) was enacted on May 9, 2014. This Act amends the Federal Financial Accountability and Transparency Act of 2006 (FFATA) and requires reporting of all Federal Funds, as well as Financial Assistance and Procurement transactions, to a public web site by May 2017. FFATA requires reporting of obligations and award-related information for all Federal financial assistance and procurement awards. The DATA Act expands upon FFATA by adding U.S. Department of the Treasury (Treasury) account-level reporting; this includes reporting all Treasury Account Symbols that fund each award and contract transaction, budget authority, program activity, outlays, and budget object classes, among other data elements. The DATA Act also requires the Federal Government to collectively standardize the data elements that will be reportable under the Act. The Office of Management and Budget (OMB) and the Treasury are conducting a pilot to reduce reporting burdens on recipients of awards and contracts.

OMB and Treasury developed phased guidance for implementation of the DATA Act. Guidance to date includes OMB Memorandum 15-12,¹⁶ and Management Procedures Memorandum (MPM) 2016-03.¹⁷ OMB plans to issue another MPM with additional guidance for DATA Act Implementation in September 2016. A Treasury version 1.0 of the Requirements Submission Specifications (RSS) and Interface Design Document (IDD) were provided on April 29, 2016. USDA is a government leader in the workgroups charged with the government-wide DATA Act implementation and in developing the guidance listed above.

The Office of the Chief Financial Officer (OCFO) leads the DATA Act implementation for USDA. OCFO Financial Management Services (FMS) is developing technical and functional requirements for the data elements that will need to be reported and is establishing the account-level reports needed to be compliant. OCFO FMS is developing a data repository for the Department to collect all DATA Act elements. The repository will connect to USAspending.gov and will report the data using Treasury's data broker.

¹⁶ <https://www.whitehouse.gov/sites/default/files/omb/memoranda/2015/m-15-12.pdf>

¹⁷ <https://www.whitehouse.gov/sites/default/files/omb/financial/memos/management-procedures-memorandum-no-2016-03-additional-guidance-for-data-act-implementation.pdf>

USDA's Senior Accountable Official, the Chief Financial Officer, established a USDA DATA Act implementation team, led by OCFO. This group inventoried DATA Act elements in the USDA agency source systems and is preparing for any needed system changes to become compliant. USDA has four main general ledgers and multiple awards systems where data resides. USDA expects to be DATA Act compliant by the May 2017 deadline.

By May 2017, at least four USDA agencies will be using the Department's grants system, which will improve reporting capabilities and will provide standardization for many grants programs. More agencies are exploring migration to the Department's grants solution, which may potentially yield even more efficiencies and standardization.

OCFO also works with the Office of Procurement and Property Management (OPPM) to ensure that procurement reporting will adhere to DATA Act requirements. Together, OCFO and OPPM are reviewing procurement reporting policies and procedures to ensure that data is reported and certified by the agencies to be both timely and accurate in the Department's Integrated Acquisition System (IAS), as well as other procurement systems used by the Forest Service and the Farm Service Agency.

Limitations of Financial Statement

The Consolidated Balance Sheet has been prepared to report the financial position of the entity, pursuant to the requirements of 31 U.S.C. 3515(b). While the balance sheet has been prepared from the books and records of the entity in accordance with generally accepted accounting principles for Federal entities and the formats prescribed by OMB, the statement is in addition to the financial reports used to monitor and control budgetary resources, which are prepared from the same books and records. The statement should be read with the realization that it is for a component of the U.S. Government, a sovereign entity.

Section II:

Financial Information

Message from Chief Financial Officer

The U.S. Department of Agriculture (USDA) is leading the charge in providing a safe, nutritious and efficient food supply with a concentrated investment in the economic growth of rural America. With over \$200 billion in assets, \$143 billion in annual spending, and over \$100 billion in loans to America's farmers and ranchers, responsible financial controls are a necessity that we embrace. Our mission includes feeding upwards of 46 million families a day and would not be possible without reliable controls. USDA's focus on responsible financial stewardship is a vital component in supporting program delivery of the very tangible work of the Department.

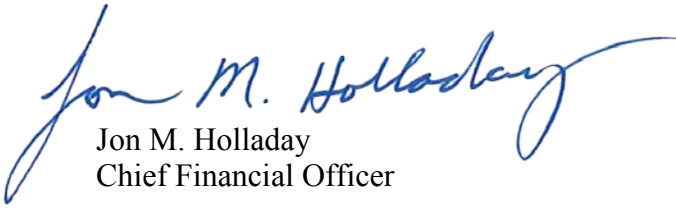
As Chief Financial Officer for the U.S. Department of Agriculture (USDA), I am pleased to present our Agency Financial Report (AFR) for fiscal year (FY) 2016. This report shows the progress made to provide fiscally sound, cost-effective program delivery. Because we are accountable to the American taxpayer, 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 record of excellence in financial management. Highlights of this progress include:

- NRCS made significant progress with improper payments making them compliant with the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) for the first time in four years;
- NRCS partnered with FSA to remediate the material weakness on the Grassland Reserve Program. Their combined records were reconciled, which allowed detailed samples to be pulled to support the outstanding balances of the program; and
- RMA/FCIC remediated their material weakness related to Estimated Losses on Insurance Claims

Though we are continually making progress in financial management, we cannot yet give unmodified 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 2017. At every level, we are committed to being a proactive, cost-effective organization that is transparent and accountable for the programs we deliver. Ultimately our efforts will result in setting the highest achievable standard of excellence in managing taxpayers' dollars.

A handwritten signature in blue ink that reads "Jon M. Holladay". The signature is fluid and cursive, with a long, sweeping underline that extends to the right.

Jon M. Holladay
Chief Financial Officer

December 5, 2016

Independent Auditors Report



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




DATE: December 6, 2016

AUDIT
NUMBER: 50401-0011-11

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

ATTN: Annie Walker
Director
Internal Control Division

FROM: Gil H. Harden 
Assistant Inspector General for Audit

SUBJECT: Department of Agriculture's Consolidated Balance Sheet for
Fiscal Year 2016

This report presents the results of our audit of the Department of Agriculture's consolidated balance sheet for the fiscal year ending September 30, 2016. The report contains an unmodified opinion on the financial statement, 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 D.

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 audit. This report contains publicly available information and will be posted in its entirety to our website <https://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 United States Department of Agriculture's (USDA) Office of Inspector General (OIG) has audited the consolidated balance sheet of the Department for fiscal year 2016. 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 effect on the determination of material financial statement amounts and disclosures related to the balance sheet.

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 fiscal year ended September 30, 2016. Exhibit A summarizes the current year status of prior years' open audit recommendations. Exhibit B shows the status of prior year internal control weaknesses. Exhibit C provides an update to previously reported instances of noncompliance with laws and regulations. USDA's response is presented in its entirety in Exhibit D.

Report on the Financial Statements

We have audited the accompanying consolidated balance sheet of USDA as of September 30, 2016, and the related notes (hereinafter referred to as "consolidated financial statement").

Management's Responsibility for the Consolidated Financial Statement

Management is responsible for the preparation and fair presentation of this consolidated financial statement 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 the consolidated financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on this consolidated financial statement based on conducting our audit in accordance with auditing standards generally accepted in the U.S.; the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the U.S.; and the Office of Management and Budget (OMB) Bulletin 15-02, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 15-02 require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statement is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statement. The procedures selected depend on the

auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statement, 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 consolidated financial statement 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 the accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statement.

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

Opinion on the Consolidated Financial Statement

In our opinion, the consolidated financial statement referred to above presents fairly, in all material respects, the financial position of USDA as of September 30, 2016, in accordance with U.S. generally accepted accounting principles.

Other Matters

Required Supplementary Information

U.S. generally accepted accounting principles require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information sections be presented to supplement the basic consolidated financial statement. Such information, although not part of the basic consolidated financial statement, is required by the Federal Accounting Standards Advisory Board, which considers it to be an essential part of financial reporting for placing the basic consolidated financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information 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 consolidated financial statement, and other knowledge we obtained during our audit of the basic consolidated financial statement. 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 audit was conducted for the purpose of forming an opinion on the basic consolidated financial statement 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 statement or the RSI. Additionally, the accompanying consolidated statement of net cost, consolidated statement of changes in net position, combined statement of budgetary

resources, and the related notes for the fiscal year ended September 30, 2016, are included. This information has not been subjected to the auditing procedures applied in our audit of the basic consolidated balance sheet, and, accordingly, we express no opinion and provide no assurance on it.

Other Reporting Required by Government Auditing Standards

Report on Internal Control Over Financial Reporting

In planning and performing our audit of the consolidated financial statement, 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 consolidated financial statement, but not for the purpose of expressing an opinion on the effectiveness of USDA's internal control or on management's assertion on 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 was for the limited purposes described in the preceding paragraph and was not designed to 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 consolidated financial statement 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 2016 engagement, we noted certain matters involving internal control that we consider to be significant deficiencies. Specifically, we identified weaknesses in USDA's:

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

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.

Also, as required by OMB Bulletin 15-02, we compared the material weaknesses identified in the audit with those material weaknesses included in USDA's *FMFIA Report on Management Control* that relate to financial reporting. We noted no exceptions.

Report on Compliance and Other Matters

As part of obtaining reasonable assurance about whether USDA's consolidated financial statement is free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements, and Governmentwide policy requirements, noncompliance with which could have a direct and material effect on the determination of consolidated financial statement amounts and disclosures. 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 certain provisions referred to in Section 803(a) of the Federal Financial Management Improvement Act of 1996 (FFMIA). Providing an opinion on FFMIA was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances, described in more detail in Finding 4 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 (USSGL) at the transaction level.

Also, as discussed in Finding 5 of the "Findings and Recommendations," Section 3, of this report, our tests disclosed instances of noncompliance with the Anti-Deficiency Act (ADA); some of these ADA violations are still in the process of being reported to Congress and the President.

Additionally, during fiscal year 2016, 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 improper payment requirements.¹

Management's Responsibility for Internal Control and Compliance

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

¹ IPERA amended the Improper Payments Information Act of 2002, Public Law 107-300. These two laws address improper payment requirements.

Auditor's Responsibilities

We are responsible for: (1) obtaining a sufficient understanding of internal control over financial reporting and compliance to plan the audit, (2) testing whether USDA's financial management systems substantially comply with 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 statement and applicable laws.

We did not evaluate all internal controls relevant to operating objectives as broadly established by FFMIA, such as those controls relevant to preparing statistical reports and ensuring efficient operations. We limited our internal control testing to controls over financial reporting and compliance. 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 effect on the determination of material financial statement amounts and disclosures that we deemed applicable to USDA's consolidated financial statement for the fiscal year ended September 30, 2016. 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.

Management's Response

Management's response to the report is presented in Exhibit D. 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 A, B, and C.

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. Accordingly, these reports are not suitable for any other purpose.



Gil H. Harden
Assistant Inspector General for Audit

Washington, D.C.
December 5, 2016

Findings and Recommendations

Section 1: Material Weaknesses in Internal Control Over Financial Reporting

Finding 1: Improvements are Needed in Overall Financial Management

The material weakness for financial management is due to improvements needed in accounting and internal controls related to the Commodity Credit Corporation (CCC) and the Natural Resources Conservation Service (NRCS). USDA also has one existing non-conformance related to Funds Control Management within CCC, which is expected to be resolved by the end of fiscal year 2019. In conducting our review, we noted the following areas where improvements are needed in overall financial management. Specifically:

- One component of USDA's financial reporting, CCC disclosed material weaknesses related to accounting estimates and maintenance of accounting records. The Department also continued to report improvements needed in recording obligations at the transaction level for CCC.
- One component of USDA's financial reporting, NRCS disclosed material weaknesses related to controls over obligations and undelivered orders; and accounting and controls over expenses.

In its *FMFIA Report on Management Control* for fiscal year 2016, the Department reported the above material weakness for overall financial management with the following corrective action plans:

- For CCC, in fiscal year 2017, the Department plans to implement corrective actions to address weaknesses identified in financial reporting, accounting for parent/child transactions of U.S. Agency for International Development, accounting for Commodity Certificate Exchange, accounting for budgetary transactions and fund balance with Treasury. Some of these actions include updating procedures, developing effective communication processes, and improve timeliness of financial statement preparation and the applicable support. In 2019, CCC plans to complete the improvements needed to record obligations at the transaction level.
- NRCS, in fiscal year 2017, plans to monitor adjustments and open obligations and enhance policy and control procedures for period end accruals.

Because USDA has actions planned and in progress, we are making no further recommendations herein.

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

As required by the Federal Information Security Modernization Act of 2014 (FISMA), OIG reviewed USDA's ongoing efforts to improve its IT security program and practices as of fiscal year 2016.²

USDA is working to improve its IT security posture, but many longstanding weaknesses remain. We continue to find that the Office of the Chief Information Officer (OCIO) has not implemented corrective actions that the Department has committed to in response to prior recommendations from OIG. In fiscal years 2009 through 2015, OIG made 61 recommendations for improving the overall security of USDA's systems, 39 have been closed (i.e., the agreed-upon corrective action has been implemented), 4 are current and have not yet reached the estimated completion date; however, 18 are overdue for completion. Our testing identified that security weaknesses still exist in 3 of the 39 closed recommendations.

Our testing also identified weaknesses in eight subject areas as defined for review by FISMA: risk management, contractor systems, configuration management, identity and access management, security and privacy training, Information Security Continuous Monitoring program maturity level, incident response program maturity level, and contingency planning.

We noted that OCIO continues to take positive steps towards improving the Department's security posture. OCIO released two critical policies this year that, once implemented, should improve IT security within USDA, and also began implementation of the Continuous Diagnostic and Mitigation project.

OCIO concurred with the findings in the report and generally agreed with the recommendations made in our FISMA audit; therefore, we are making no further recommendations in this report.

² Audit Report 50501-0012-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2016 Federal Information Security Modernization Act*, issued November 2016.

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.

- Last year, our report identified deficiencies with controls over inactive Unliquidated Obligations (ULO).³ This year, our review disclosed that additional improvements are needed for selected agencies.

We statistically selected 100 ULOs from 14 agencies and offices for which no activity had occurred for over 1 year, as of March 31, 2016. We found that eight ULOs from five agencies⁴ were invalid because no future expenditures were expected or because there were adjustments that lacked support. We also found one ULO which was valid, but should have been de-obligated in a prior fiscal year had it been properly monitored.

We nonstatistically selected three agencies and reviewed their obligation certifications submitted to the Department for the third quarter of fiscal year 2016. To assess the appropriateness of the ULO certifications, we then selected 10 obligation balances nonstatistically from each of the three certifications. We found that two agencies did not deobligate ULOs deemed invalid within the required time frame and inappropriately certified to the validity of the ULO balances.⁵

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2016-06, *2016 Yearend Closing*, dated July 31, 2016), requires an annual review of ULOs. Departmental Regulation 2230-1, *Reviews of Unliquidated Obligations*, dated October 15, 2014, 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.

³ 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.

⁴ Economic Research Service, National Appeals Division, Animal and Plant Health Inspection Service (APHIS), Foreign Agriculture Service (FAS) and Agricultural Research Service.

⁵ Eight ULOs from FAS and one ULO from the Farm Service Agency (FSA) should have been deobligated shortly after being deemed invalid.

- Our review again disclosed abnormal balances⁶ in USDA's fiscal yearend trial balance that were not fully researched and corrected. For fiscal year 2016, we noted 31 abnormal balances with an absolute value of approximately \$337 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 closed the recommendation in fiscal year 2016, however we continue to identify similar deficiencies in our review and have modified the repeat recommendation.
- Last year, our review of real property balances and transactions disclosed that depreciation expenses were not always properly recorded and real property costs were not always properly classified. This year we found that leases and Work-in-Progress (WIP) were not always classified properly or in the correct amount. Details follow:
 - We found that APHIS incorrectly classified 2 of the 10 leases sampled as cancellable leases causing an understatement of future operating lease payments by at least \$60 million. We also found a lease for APHIS that reported an annual rent of over \$100 million when the correct amount was only \$120,000.
 - In Forest Service (FS) we found that a change in a lease agreement was not timely recorded, causing an understatement of \$31 million in future operating lease payments.
 - We found real and personal property that was classified as WIP that should have been moved to general Property, Plant and Equipment (PP&E) and depreciated or amortized accordingly. Specifically, in FS 53 percent or \$70 million of the WIP balance reported to the Office of the Chief Financial Officer (OCFO) should have been moved to general PP&E. Additionally, FSA reported as WIP in fiscal year 2016, \$69 million in Internal Use Software in development projects for fiscal year 2011 that had been identified as completed.

Management generally agreed with our findings and is working to correct the errors.

Recommendation 1:

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

Recommendation 2:

Provide oversight to ensure that property is classified properly, including WIP and lease agreements.

⁶ A balance that deviates from the standard balance as defined by the Treasury's USSGL.

Section 3: Noncompliance with Laws and Regulations

Finding 4: 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) the USSGL 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 2016, USDA evaluated its financial management systems to assess compliance with FFMIA. The Department reported that it was not compliant with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements. As noted in its MD&A, USDA continues its work to meet 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. See Finding 2 for more details.

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

1. CCC was not compliant with applicable Federal accounting standards and USSGL at the transaction level. Noncompliance with Federal accounting standards was noted for weaknesses in the accounting for Pre-Credit and Credit Reform receivables, accrued liabilities, parent-child transactions, allowance for uncollectible accounts receivable, environmental and disposal liabilities. During fiscal year 2016, CCC continued their efforts to modernize their systems to become compliant with the Funds Control/Obligation Requirements related to recording obligations at the transaction level.
2. Deficiencies in NRCS' applicable Federal accounting standards, including the USSGL at the transaction level, were noted for obligations incurred, including accrued expenses and undelivered orders; recoveries of prior year unpaid obligations and unexpended appropriations as it relates to accrued expenses. NRCS continues working to mitigate auditor-identified deficiencies and substantially comply with FFMIA.

See Finding 1 for more details on NRCS and CCC issues.

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

Finding 5: Anti-deficiency Act Violations

In fiscal year 2016, the Department reported several actual and potential ADA violations in its Agency Financial Report. These violations are discussed in detail below.

In fiscal year 2015, FS identified an ADA violation for fiscal years 1990 through 2009, under 31 U.S. Code (U.S.C.) § 1341(a)(1). The violation related to the agency's employment in California of two citizens of Palau. This use of Federal appropriations violated a general provision of appropriations acts from fiscal years 1990 through 2009, which prohibited the use of appropriations to employ non-U.S. citizens. This ADA violation is in the process of being reported to Congress and the President.

FSA identified an ADA violation under 31 U.S.C. § 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 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 completed 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 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 million 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.

In fiscal year 2015, an erroneous transaction was identified associated with the StrikeForce Initiative funded through transfers from USDA agencies for fiscal years 2010 and 2011. No ADA violation occurred and all transactions have been corrected.

In fiscal year 2015, FAS identified a potential violation of the ADA that may have occurred in its fiscal year 2009 appropriation. FAS has completed its analyses and identified the causes of this potential violation. A corrective transaction was processed to clear the negative cash balances and the Treasury and OMB approved the transaction on June 30, 2016. Therefore, the fiscal year 2009 appropriation no longer has a negative cash balance. FAS has requested a final determination on the status of the potential ADA violation from the Office of the General Counsel.

USDA's OIG determined that improper bank reconciliations were completed for two ratifications totaling \$17,709 on behalf of the Office of the Assistant Secretary for Civil Rights (OASCR). As a result of the improper reconciliations, two USDA offices each paid for a procurement contract that should have been charged to OASCR. This ultimately resulted in OASCR's fiscal year 2012 appropriation potentially being augmented, which was considered a possible ADA violation. A review determined that the temporary augmentation of OASCR's

account, which was corrected with available (unobligated) fiscal year 2012 funds, did not result in an ADA violation. OASCR only needed to correct the improper charges using the fiscal year 2012 appropriation.

In fiscal year 2016, OCFO received a determination on four ADA violations. General Provision (GP) 706 of Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2016, Public Law 114-113, Div. A (Dec. 18, 2015), prohibits USDA from making certain obligations for IT projects without prior written approval of OCIO. Specifically, GP 706 states, “none of the funds available to USDA for IT shall be obligated for projects, contracts, or other agreements over \$25,000 prior to receipt of written approval by the Chief Information Officer (CIO).” OCFO obligated funds in excess of the \$25,000 on four occasions prior to an approved Acquisition Approval Request from the CIO. These violations are in the process of being reported to Congress and the President.

In fiscal year 2016, CCC identified a potential ADA violation that may have occurred in CCC expenditures. Expenditures for CCC interest to Treasury appear to have exceeded amounts initially apportioned by OMB. CCC expended approximately \$37 million in interest to Treasury, more than the apparently apportioned amount of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury. FSA will seek further review of the legal authority of CCC with respect to the apportionment requirements with the Office of the General Counsel in conjunction with OMB.

Abbreviations

ADA.....	Anti-Deficiency Act
APHIS	Animal and Plant Health Inspection Service
CCC.....	Commodity Credit Corporation
CFO.....	Chief Financial Officer
CIO.....	Chief Information Officer
FAS	Foreign Agriculture Service
FFMIA	Federal Financial Management Improvement Act of 1996
FFMSR.....	Federal Financial Management System Requirements
FISMA	Federal Information Security Modernization Act of 2014
FMFIA	Federal Managers' Financial Integrity Act of 1982
FMML.....	Financial Management Modernization Initiative
FS	Forest Service
FSA	Farm Service Agency
GP	General Provisions
IPERA	Improper Payments Elimination and Recovery Act of 2010
IT.....	information technology
LAA	logged access authority
MD&A	Management's Discussion and Analysis
NRCS	Natural Resources Conservation Service
OAO.....	Office of Advocacy and Outreach
OASCR	Office of the Assistant Secretary for Civil Rights
OCFO.....	Office of the Chief Financial Officer
OCIO.....	Office of the Chief Information Officer
OIG	Office of Inspector General
OMB	Office of Management and Budget
PP&E.....	Property, Plant and Equipment
RSI	Required Supplementary Information
USSGL.....	U.S. Standard General Ledger
Treasury	U.S. Department of the Treasury
U.S.	United States of America
U.S.C.....	United States Code
ULO	Unliquidated Obligations
USDA.....	United States Department of Agriculture
WIP	Work-in-Progress

Exhibit A: Summary of Open Recommendations from Prior Years

Report 50401-0009-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2015 and 2014*, dated February 12, 2016.

Finding 3: Controls Over Financial Reporting Can be Strengthened

Recommendation 1

Provide oversight to ensure that real property is accounted for appropriately, including its classification and depreciation expenses.

Departmental Status

OCFO stated that final action was complete on this recommendation and the recommendation is closed.

OIG Results

OIG continued to find similar deficiencies in our review of the fiscal year 2016 financial statement audit and has issued a repeat of Finding 3 and a modified recommendation.

Finding 4: IT Controls Can Be Strengthened in One Financial System

Recommendation 2

Revise logged access authority (LAA) procedures to address approvals for permanent LAA and to include timeframes and enforcement actions requiring the monitoring activities to be completed within a defined number of days.

Recommendation 3

Update system specific procedures to reflect current National Institute of Standards and Technology and USDA requirements for password settings.

Recommendation 4

Revise and/or develop mitigating controls that fully reflect applicability of the risks in the Financial Management Modernization Initiative (FMMI) environment, preventative mitigations associated with system and change management controls, and detective manual controls performed.

Exhibit A: Summary of Open Recommendations from Prior Years

Recommendation 5:

Revise the System Security Plans and Cyber Security Assessment and Management interconnections tables to accurately reflect current system interconnections and interfaces.

Departmental Status

OCFO stated that final action was complete on these recommendations and the recommendations are closed.

OIG Results

OIG did not identify similar deficiencies during our review of the fiscal year 2016 financial statements.

Exhibit A: Summary of Open Recommendations from Prior Years

Report 50401-0007-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2014 and 2013*, dated December 18, 2014.

Finding 3: Controls Over Financial Reporting Can be Strengthened

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.

Departmental Status

OCFO stated that final action was complete on this recommendation and the recommendation is closed.

OIG Results

OIG continued to find similar deficiencies in our review of the FAS ULOs and abnormal balances in the fiscal year 2016 financial statement audit and has issued a repeat of Finding 3 and a modified recommendation.

Exhibit A: Summary of Open Recommendations from Prior Years

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

OCFO stated that final action was complete on this recommendation and the recommendation is closed.

OIG Results

OIG continued to find similar deficiencies in our review of abnormal balances in the fiscal year 2016 financial statement audit and has issued a repeat of Finding 3 and a modified recommendation.

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

Control Deficiency	2015 Status	2016 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	Significant Deficiency	Closed ⁷

⁷ In fiscal year 2015, Audit Report 50401-0009-11, *Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2015 and 2014*, issued February 12, 2016, disclosed weaknesses in the FMMI system. OIG did not identify similar deficiencies in our fiscal year 2016 review of FMMI.

Exhibit C: Status of Prior Year Noncompliance Findings

Report 50401-0009-11, *U.S. Department of Agriculture's Consolidated Financial Statements for Fiscal Years 2015 and 2014*, dated February 12, 2016.

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 compliant with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements.

Status

In fiscal year 2016, the Department continued to report substantial noncompliance with FFMSR, applicable accounting standards, USSGL at the transaction level, and FISMA requirements, as discussed in Finding 4.

Finding 6: ADA Violation

Reported Noncompliance

In fiscal year 2015, the Department reported four actual and one potential ADA violation in its Agency Financial Report. Specifically, FS identified and resolved as of April 1, 2015, an ADA of \$6,781.90 in excess of \$72,000 carried over from fiscal year 2012. FS identified an ADA related to the agency's employment of non-U.S. citizens, FSA reported an ADA exceeding OMB approved apportionment request by \$302,823.57, and OAO identified an ADA exceeding the amount available for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" grants. These ADA's are in the process of being reported to Congress and the President. Also, FAS identified a potential ADA with its fiscal year 2009 appropriation, and is in the process of researching to make a determination.

Also in fiscal year 2015, the Department reported a potential ADA by OAO associated with the Strikeforce Initiative and a potential ADA by OASCR, however after further research; both agencies determined these were not ADA violations.

Status

As discussed in Finding 5, this weakness continues to exist.

Agency Response to Auditors Report

Exhibit D: Agency's 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 
Chief Financial Officer

DEC - 5 2016

SUBJECT: U.S. Department of Agriculture's Consolidated Balance Sheet for
Fiscal Year 2016

The Department is pleased to respond to your audit report on the Consolidated Balance Sheet for fiscal year 2016.

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.

AN EQUAL OPPORTUNITY EMPLOYER

Exhibit E: Agency's Financial Report

AGENCY'S FINANCIAL REPORT

**FISCAL YEARS 2016 AND 2015
FINANCIAL STATEMENTS**

PREPARED BY USDA

**ONLY CONSOLIDATED BALANCE SHEET AND
RELATED FOOTNOTES ARE AUDITED**

Consolidated Balance Sheet

As of September 30, 2016 (\$ In Millions)

	<u>2016</u>
Assets (Note 2):	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 124,725
Investments (Note 5)	201
Accounts Receivable, Net (Note 6)	82
Other (Note 11)	3
Total Intragovernmental	<u>125,011</u>
Cash and Other Monetary Assets (Note 4)	200
Investments (Note 5)	3
Accounts Receivable, Net (Note 6)	1,111
Direct Loan and Loan Guarantees, Net (Note 7)	98,813
Inventory and Related Property, Net (Note 8)	24
General Property, Plant, and Equipment, Net (Note 9)	2,605
Other (Note 11)	207
Total Assets	<u><u>227,974</u></u>
Stewardship PP&E (Note 10)	
Liabilities (Note 12):	
Intragovernmental:	
Accounts Payable	-
Debt (Note 13)	121,603
Other (Note 15)	18,383
Total Intragovernmental	<u>139,986</u>
Accounts Payable	1,851
Loan Guarantee Liability (Note 7)	1,529
Federal Employee and Veteran Benefits	905
Environmental and Disposal Liabilities (Note 14)	196
Benefits Due and Payable	4,541
Other (Notes 15 & 16)	25,042
Total Liabilities	<u>174,050</u>
Commitments and Contingencies (Note 17)	
Net Position:	
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	144
Unexpended Appropriations - All Other Funds	53,788
Cumulative Results of Operations - Funds From Dedicated Collections (Note 18)	2,715
Cumulative Results of Operations - All Other Funds	<u>(2,723)</u>
Total Net Position - Funds From Dedicated Collections	2,859
Total Net Position - All Other Funds	<u>51,065</u>
Total Net Position	<u>53,924</u>
Total Liabilities and Net Position	<u><u>227,974</u></u>

The accompanying notes are an integral part of these statements.

Notes to the Consolidated Balance Sheet

As of September 30, 2016 (\$ In Millions)

Note 1: Significant Accounting Policies

ORGANIZATION

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)

PRESENTATION

The Consolidated Balance Sheet for FY 2016 is presented for audit, in lieu of the basic statements on a comparative basis as required by OMB Circular A-136, to demonstrate incremental improvement from the prior year. The Consolidated Statement of Net Cost, Consolidated Statement of Changes in Net Position and the Combined Statement of Budgetary Resources and related notes are presented in the Other Information section as unaudited. The financial statements consolidate all of 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

Note 7 was reclassified to add Community Facility and Intermediary Relending programs.

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 Statement of Federal Financial Accounting Standards (SFFAS) 43, Funds from Dedicated Collections, USDA 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

USDA 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.

USDA allocates funds, as the parent, to a number of U.S. Government agencies, including: Department of the Interior, Department of Defense, Department of Housing and Urban Development, Agency for International Development and the Small Business Administration. USDA receives allocation transfers, as the child, from the Department of Labor, Department of Transportation, Department of the Interior, Agency for International Development, 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.

DEFERRED MAINTENANCE AND REPAIRS

Deferred maintenance and repairs are such that were not performed when they should have been or were scheduled to be and which are put off or delayed for 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, or 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. SFFAS 42, Deferred Maintenance and Repairs: Amending Statements of Federal Financial Accounting Standards 6, 14, 29 and 32, became effective October 1, 2014. Estimates for deferred maintenance and repairs are disclosed in required supplementary information.

Note 2: Non-Entity Assets

Non-entity assets include proceeds from the sale of timber payable to the U.S. 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.

	<u>FY 2016</u>
Intragovernmental:	
Fund balance with Treasury	\$ 221
Accounts Receivable	378
Subtotal Intragovernmental	<u>599</u>
With the Public:	
Cash and other monetary assets	44
Accounts receivable	136
Subtotal With the Public	<u>180</u>
Total non-entity assets	779
Total entity assets	227,195
Total Assets	<u>\$ 227,974</u>

Note 3: Fund Balance with Treasury

Other Fund Types include deposit and clearing accounts. Borrowing Authority not yet Converted to Fund Balance represents unobligated 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.

	<u>FY 2016</u>
Fund Balances:	
Trust Funds	\$ 585
Special Funds	23,209
Revolving Funds	28,674
General Funds	72,039
Other Fund Types	218
Total	<u>124,725</u>
Status of Fund Balance with Treasury:	
Unobligated Balance:	
Available	29,613
Unavailable	42,305
Obligated Balance not yet Disbursed	72,102
Borrowing Authority not yet Converted to Fund Balance	(41,349)
Non-Budgetary Fund Balance with Treasury	22,054
Total	<u>\$ 124,725</u>

Note 4: Cash and Other Monetary Assets

For FY 2016, cash mostly consists of Federal crop insurance escrow amounts of \$108 million and deposits in transit of \$49 million. In FY 2016, cash includes Single Family Housing borrowers escrow amounts of \$44 million.

	<u>FY 2016</u>
Cash	<u>\$ 200</u>

Note 5: Investments

FY 2016		Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:							
Non-marketable							
Par value			\$ -	\$ -	\$ -	\$ -	\$ -
Market-based	Straight Line		200	-	1	201	201
Total			<u>\$ 200</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 201</u>	<u>\$ 201</u>
With the Public:							
AARC			\$ 3	-	-	3	3
Total			<u>\$ 3</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 3</u>	<u>\$ 3</u>

Note 6: Accounts Receivable, Net

FY 2016	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 82	\$ -	\$ 82
With the Public	1,267	(156)	1,111
Total	<u>\$ 1,349</u>	<u>\$ (156)</u>	<u>\$ 1,193</u>

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.

Direct loan obligations or loan guarantee commitments made post-1991 and the Federal Credit Reform Act of 1990 as amended govern 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 2016 was \$98,813 million. Loans exempt from the Federal Credit Reform Act of 1990 represent \$564 million of the total. [Table 1](#) illustrates the overall composition of the Department's credit program balance sheet portfolio by mission area and credit program for FY 2016.

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 was \$4,824 million during FY 2016. [Table 2](#) shows the subsidy cost allowance balances for FY 2016.

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 2016 was negative \$71 million. [Table 3](#) illustrates the breakdown of total subsidy expense for FY 2016 by program.

Direct loan volume was \$9,499 million in FY 2016. 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 2016 were \$139,656 million in outstanding principal and \$124,871 million in outstanding principal guaranteed. [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 was \$1,529 million during FY 2016. [Table 7](#) shows the 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 2016 was negative \$4,215 million. [Table 8](#) illustrates the breakdown of total subsidy expense for FY 2016 by program.

Guaranteed loan volume was \$23,903 million in FY 2016. 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 2016 are shown in [Table 10](#).

SUBSIDY RATES

Subsidy rates are used to compute each year's subsidy expenses. The subsidy rates disclosed in [Table 11](#) and [Table 12](#) pertain only to the FY 2016 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.

FARM AND FOREIGN AGRICULTURAL SERVICES (FFAS) 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 rates, 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 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 Paris Club is an informal group of official creditors whose role is to facilitate debt treatments based on an internationally recognized set of rules and principles, facilitated by the senior officials of the French Treasury. Its sole purpose is to assess, on a case-by-case basis, liquidity problems faced by economically disadvantaged countries. The general premise of Paris Club is to provide disadvantaged nations short-term liquidity relief to enable them to reestablish their credit worthiness. The U.S. 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. FSFL program regulations were amended during FY 2016 to add eligibility for portable storage structures, portable equipment, and storage and handling trucks, and to reduce the down payment and documentation requirements for a new "microloan" category of FSFLs up to \$50,000.

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	

RURAL DEVELOPMENT (RD) 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 works with State, local and Indian Tribal governments, as well as private and not-for-profit organizations and user-owned cooperatives.

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

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

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

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

RURAL DEVELOPMENT LIST OF PROGRAMS

Rural Housing Program	Rural Business Program	Rural Utilities Program
Single Family Housing Direct Loans	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	Rural Energy for America Guaranteed Loans	Federal Financing Bank-Electric
Multi-Family Housing Guaranteed Loans	Rural Microenterprise Investment Direct Loans	Federal Financing Bank-Telephone
Multi-Family Housing-Credit Sales		Distance Learning and Telemedicine Direct
Multi-Family Housing Relending Program		Broadband
Multi-Family Housing Revitalization Program		Telecommunications Services
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 2016

reestimate process resulted in a \$37 million decrease in the post-1991 estimated cost of the direct loan portfolio and a \$4,264 million decrease in the post-1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs.

Direct Loans

The Community Facilities Program had an overall upward reestimate of \$176 million. The projected future interest from borrowers declined due to higher projected prepayments for the 2012 through 2016 cohorts, which was partially offset by a \$54 million downward reestimate in the 2011 cohort caused by a decrease in projected borrowing costs as a result of the cohort's interest rate reestimate.

The Direct Electric Programs had an overall upward reestimate of \$103 million comprised primarily of a \$137 million upward reestimate in the FFB Underwriting Program, a \$91 million downward reestimate in the Electric Municipal Program, and a \$43 million upward reestimate in the Electric Note Extension Program. The upward reestimate in the FFB Underwriting Program is attributed to more current interest rate projections being used in the economic assumptions. Lower projected future interest rates occurred as a result of the updated assumptions, and caused a decrease in total scheduled interest payments. The downward reestimate within the Electric Municipal Program is attributed to higher actual and higher projected loan prepayments. The upward reestimate in the Electric Note Extension Program is due to an update of actual interest received. The update decreased the amount of interest received for 2015 thus increasing the Agency's cost of administering the program.

The Housing Program had an overall downward reestimate of \$82 million comprised primarily of a \$76 million downward reestimate in the Section 502-Single Family Housing. The reestimate was mostly due to an increase in prepayments in cohort years 2015 and 2016. Since this program had payment assistance that brings the borrower interest rate to 1 percent, which is lower than the Single Effective Rate (SER), it would cause a downward reestimate.

The Water and Environmental Program had an overall downward reestimate of \$78 million as compared to a \$133 million downward reestimate in FY 2015. The impact to the overall downward reestimate was contributed to a decrease in the SER, or the rate at which the Agency pays/earns interest on Treasury borrowings from the previous year. The decrease in the SER created a larger variance between the SER and the borrower interest rate thus reducing the Agency's cost.

In FY 2016, the post-1991 Housing Program had a significant decrease in the defaulted guaranteed loans receivable and corresponding allowance. RD policy changed to suspend referral for Treasury debt offset. Previously, losses paid were referred to Treasury for collection. Losses referred to Treasury were recalled. As a result, RD wrote off approximately \$1,000 million.

Guaranteed Loans

In FY 2016, the Agency implemented a new econometric model to estimate the cost of the Guaranteed Single Family Housing Program. The industry standard model incorporates the use of key loan and borrower attributes and economic variables to better estimate the future program performance. The implementation of this new model, along with lower than previously projected losses for 2015, resulted in significantly lower projected defaults for cohort years 2011 through 2016, slightly offset by higher projected default costs for the 2004 through 2008 cohorts, resulting in a net downward reestimate of \$4,200 million.

Loan Modifications

A modification is any Government action different from the baseline assumptions that affect 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 2016. 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.

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, 2016, foreclosed property consisted of 1,239 rural single-family housing dwellings, with an average holding period of 16 months. As of September 30, 2016, FSA-Farm Loan Program properties consist primarily of 89 farms. The average holding period for these properties in inventory for FY 2016 was 61 months. Certain properties can be leased to eligible individuals.

Other Information

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

Approximately \$15,900 million of Rural Housing Service unpaid loan principal as of September 30, 2016 were receiving interest credit. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately \$777 million higher for FY 2016.

At the end of FY 2016, the RD portfolio contained approximately 60,734 restructured loans with an outstanding unpaid principal balance of \$2,900 million. At the end of FY 2016, the farm loan portfolio contained approximately 17,087 restructured loans with an outstanding unpaid principal balance of \$1,133 million. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2016 were \$1,382 million.

Change in Accounting Estimate

Beginning in FY 2016, the Guaranteed Single Family Housing (GSFH) program started using an econometric model to develop credit subsidy formulation estimates and reestimates. This was a change from previous fiscal years where a historical weighted average approach was used.

RD made the change to an econometric model after experiencing several years of large fluctuations in the Liability for Loan Guarantee year-end balances. The historical weighted average approach for projecting cash flows relied on averages of actual loan performance data, and could not adequately predict future cash flows for the GSFH program based on the volatile economy. For example, during the housing crisis the model was inadequate at capturing the projected losses that were likely to occur given the observed decline in housing prices and increased defaults.

Table 1: Direct Loan and Loan Guarantees, Net

FY 2016 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
Obligated Pre-1992					
Farm	\$ 318	\$ 19	\$ 5	\$ (21)	\$ 321
Export	-	-	-	-	-
Food Aid	1,815	480	-	(1,203)	1,092
Housing	6,994	111	14	(14)	7,105
Community Facility	23	-	-	-	23
Electric	2,488	4	-	(1,456)	1,036
Telecommunications	152	-	-	-	152
Water and Environmental	397	5	-	(1)	401
Intermediary Relending	11	-	-	-	11
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
Pre-1992 Total	12,198	619	19	(2,695)	10,141
Obligated Post-1991					
Farm	10,168	162	6	(387)	9,949
Export	-	-	-	-	-
Food Aid	846	48	-	(365)	529
Housing	18,057	113	58	(2,305)	15,923
Community Facility	6,290	44	-	(192)	6,142
Electric	44,854	25	-	(658)	44,221
Telecommunications	4,199	1	-	12	4,212
Water and Environmental	12,154	101	-	(225)	12,030
Intermediary Relending	383	2	-	(105)	280
Business and Industry	41	1	-	1	43
Economic Development	189	-	-	(13)	176
Post-1991 Total	97,181	497	64	(4,237)	93,505
Cushion of Credit	(5,914)	-	-	-	(5,914)
Total Direct Loan Program Receivables	103,465	1,116	83	(6,932)	97,732
Defaulted Guarantee Loans					
Pre-1992					
Farm	-	-	-	-	-
Export	10	-	-	-	10
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Community Facility	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
Pre-1992 Total	10	-	-	-	10
Post-1991					
Farm	150	-	-	(148)	2
Export	586	38	-	(368)	256
Food Aid	-	-	-	-	-
Housing	51	1	-	(17)	35
Community Facility	13	-	-	-	13
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	249	4	-	(52)	201
Economic Development	-	-	-	-	-
Post-1991 Total	1,049	43	-	(585)	507
Total Defaulted Guarantee Loans	1,059	43	-	(585)	517
Loans Exempt from Credit Reform Act:					
Commodity Loans	577	2	-	(15)	564
Other Foreign Receivables	-	-	-	-	-
Total Loans Exempt	577	2	-	(15)	564
Total Direct Loan and Loan Guarantees, Net					\$ 98,813

Table 2: Subsidy Cost Allowance Balances (Post-1991) Direct Loans

Ending balance of the subsidy cost allowance \$ 4,824

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

FY 2016

	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	\$ (41)	\$ 91	\$ -	\$ 3	\$ 53	\$ -	\$ (195)	\$ 152	\$ (43)	\$ 10
Export	-	-	-	-	-	-	-	4	4	4
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	48	44	-	11	103	4	(7)	(75)	(82)	25
Community Facility	(116)	29	-	(5)	(92)	-	(42)	218	176	84
Electric	(105)	7	(11)	(41)	(150)	-	101	2	103	(47)
Telecommunications	1	3	-	(10)	(6)	-	(49)	(74)	(123)	(129)
Water and Environmental	63	1	-	(20)	44	-	(80)	2	(78)	(34)
Intermediary Relending	5	-	-	-	5	-	-	-	-	5
Business and Industry	-	-	-	-	-	-	-	9	9	9
Economic Development	5	-	-	-	5	-	(2)	(1)	(3)	2
Total Direct Loan Subsidy Expense	<u>\$ (140)</u>	<u>\$ 175</u>	<u>\$ (11)</u>	<u>\$ (62)</u>	<u>\$ (38)</u>	<u>\$ 4</u>	<u>\$ (274)</u>	<u>\$ 237</u>	<u>\$ (37)</u>	<u>\$ (71)</u>

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

	FY 2016
Direct Loan Programs	
Farm	\$ 2,451
Export	-
Food Aid	-
Housing	1,109
Community Facility	1,230
Electric	3,433
Telecommunications	362
Water and Environmental	854
Intermediary Relending	17
Business and Industry	4
Economic Development	39
Total Direct Loans Disbursed	<u><u>\$ 9,499</u></u>

Table 5: Guaranteed Loans Outstanding

FY 2016	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	\$ 4	\$ 15,066	\$ 15,070	\$ 3	\$ 13,578	\$ 13,581
Export	-	2,127	2,127	-	2,084	2,084
Food Aid	-	-	-	-	-	-
Housing	1	114,846	114,847	1	103,326	103,327
Community Facility	-	1,217	1,217	-	1,075	1,075
Electric	7	172	179	7	172	179
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	119	119	-	105	105
Intermediary Relending	-	-	-	-	-	-
Business and Industry	4	6,093	6,097	4	4,516	4,520
Economic Development	-	-	-	-	-	-
Total Guarantees Disbursed	<u>\$ 16</u>	<u>\$ 139,640</u>	<u>\$ 139,656</u>	<u>\$ 15</u>	<u>\$ 124,856</u>	<u>\$ 124,871</u>

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

FY 2016	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	\$ -	\$ 197	\$ 197
Export	-	6	6
Food Aid	-	-	-
Housing	-	743	743
Community Facility	-	40	40
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	1	1
Intermediary Relending	-	-	-
Business and Industry	-	542	542
Economic Development	-	-	-
Total Liability for Loan Guarantees	<u>\$ -</u>	<u>\$ 1,529</u>	<u>\$ 1,529</u>

Table 7: Loan Guarantee Liability

Ending balance of the loan guarantee liability	<u><u>\$ 1,529</u></u>
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Table 8: Subsidy Expense for Loan Guarantees by Program and Component

FY 2016

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	\$ -	\$ 35	\$ (20)	\$ -	\$ 15	\$ -	\$ 1	\$ (26)	\$ (25)	\$ (10)
Export	-	-	11	(9)	2	-	-	(6)	(6)	(4)
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	-	1,058	(1,092)	-	(34)	-	36	(4,267)	(4,231)	(4,265)
Community Facility	-	5	(1)	-	4	-	1	7	8	12
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Intermediary Relending	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	105	(43)	-	62	-	(1)	(9)	(10)	52
Economic Development	-	-	-	-	-	-	-	-	-	-
Total Loan Guarantee Subsidy Expense	<u><u>\$ -</u></u>	<u><u>\$ 1,203</u></u>	<u><u>\$ (1,145)</u></u>	<u><u>\$ (9)</u></u>	<u><u>\$ 49</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 37</u></u>	<u><u>\$ (4,301)</u></u>	<u><u>\$ (4,264)</u></u>	<u><u>\$ (4,215)</u></u>

Table 9: Guaranteed Loans Disbursed

	FY 2016	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Loan Guarantee Programs		
Farm	\$ 3,863	\$ 3,481
Export	2,028	1,986
Food Aid	-	-
Housing	16,756	15,081
Community Facility	86	76
Electric	-	-
Telecommunications	-	-
Water and Environmental	13	11
Intermediary Relending	-	-
Business and Industry	1,157	896
Economic Development	-	-
Total Guaranteed Loans Disbursed	<u>\$ 23,903</u>	<u>\$ 21,531</u>

Table 10: Administrative Expenses

	FY 2016
Direct Loan Programs	\$ 508
Guaranteed Loan Programs	473
Total Administrative Expenses	<u>\$ 981</u>

Table 11: Subsidy Rates for Direct Loans (percentage)

FY 2016	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Ownership	(2.92)	0.92	-	(0.74)	(2.74)
Farm Operating	(2.86)	6.91	-	0.25	4.30
Emergency Disaster	(10.48)	13.05	-	1.07	3.64
Indian Tribe Land Acquisition	(24.44)	-	-	-	(24.44)
Boll Weevil Eradication	(0.63)	-	-	(0.18)	(0.81)
Indian Highly Fractionated Land	(5.79)	1.32	-	(0.11)	(4.58)
Farm Storage Facility Loan Program	(1.25)	0.01	(0.27)	(0.14)	(1.65)
Sugar Storage Facility Loan Program	(1.43)	0.02	-	(0.17)	(1.58)
Multi-Family Housing Relending Demo	31.27	-	-	(0.01)	31.26
Multi-Family Housing Revitalization Seconds	53.64	0.53	-	(0.05)	54.12
Multi-Family Housing Revitalization Zero	52.46	0.39	-	(0.17)	52.68
Community Facility Loans	(12.68)	3.67	-	0.96	(8.05)
Section 502 Single-Family Housing	1.54	4.90	-	0.31	6.75
Section 515 Multi-Family Housing	28.81	0.75	-	0.07	29.63
Section 504 Housing Repair	16.91	(0.04)	-	(3.84)	13.03
Section 514 Farm Labor Housing	28.77	0.37	-	(0.68)	28.46
Section 524 Site Development	(2.46)	-	-	0.93	(1.53)
Section 523 Self-Help Housing	(0.35)	-	-	0.05	(0.30)
Single-Family Housing Credit Sales	(9.83)	2.29	-	2.67	(4.87)
Rural Microenterprise Direct Loans	8.24	3.09	-	-	11.33
Intermediary Relending Program	27.90	1.34	-	(1.63)	27.61
Rural Economic Development Loans	13.42	-	-	(0.04)	13.38
Water and Waste Disposal Loans	4.80	0.14	-	(2.33)	2.61
FFB Electric Loans	(4.30)	0.06	-	(0.72)	(4.96)
Treasury Telecommunication Loans	0.16	0.68	-	(0.81)	0.03
FFB Telecommunications Loans	0.17	0.36	-	(3.27)	(2.74)
FFB Guaranteed Underwriting	0.01	5.21	(5.23)	-	(0.01)
Rural Energy Savings Program	12.83	1.42	-	(0.91)	13.34
Broadband Treasury Loans	0.17	25.02	-	(2.40)	22.79

Table 12: Subsidy Rates for Loan Guarantees (percentage)

FY 2016	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	1.17	(1.30)	-	(0.13)
Farm Operating—Unsubsidized	-	2.36	(1.33)	-	1.03
Conservation—Guaranteed	-	0.97	(1.30)	-	(0.33)
GSM 102	-	0.26	(0.72)	-	(0.46)
Export Guarantee Program—Facilities	-	0.39	(3.68)	-	(3.29)
Community Facility Loan Guarantees	-	3.24	(0.88)	-	2.36
Guaranteed 538 Multi-Family Housing	-	5.41	(8.38)	-	(2.97)
Guaranteed 502 Single-Family Housing	-	6.49	(6.64)	-	(0.15)
Business and Industry Loan Guarantees	-	7.93	(4.06)	-	3.87
Renewable Energy Loan Guarantees	-	7.91	(1.32)	-	6.59
Section 9003 Loan Guarantees	-	26.39	(5.58)	1.61	22.42
Water and Waste Disposal Loans	-	1.41	(0.86)	-	0.55

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.

Commodities:	Unit of Measure	FY 2016	
		Quantity	Value
Corn Meal	Pounds	6	\$ 1
Blended Foods	Pounds	27	9
Dry Edible Beans	Cwt.	-	3
Dry Whole Peas	Cwt.	-	5
Emergency Food Ration Bars	Pounds	-	-
Grain Sorghum	Bushels	-	-
Lentils Dry	Cwt.	-	-
Nonfat Dry Milk	Pounds	-	-
Rice Products	Cwt., Pounds	-	1
Meat	Pounds	-	-
Vegetable Oil	Pounds	10	6
Wheat Products	Bushels, Pounds	-	-
Other	Various	XXXX	-
Total Commodities		XXXX	\$ 25
Allowance for losses			(1)
Barter Delivery Obligations (BDO)			-
Total Inventory and Related Property, Net			<u>\$ 24</u>

Note 9: General Property, Plant, and Equipment (PP&E), Net

FY 2016 <u>Category</u>	<u>Useful Life (Years)</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Net Book Value</u>
Land and Land Rights		\$ 70	\$ -	\$ 70
Improvements to Land	10 - 50	756	(724)	32
Construction-in-Progress		100	-	100
Buildings, Improvements and Renovations	15 - 30	3,056	(1,783)	1,273
Other Structures and Facilities	15 - 50	1,839	(1,592)	247
Equipment	5 - 20	1,753	(1,291)	462
Assets Under Capital Lease	3 - 20	41	(32)	9
Leasehold Improvements	10	80	(74)	6
Internal-Use Software	5 - 8	1,113	(838)	275
Internal-Use Software in Development		131	-	131
Total		<u>\$ 8,939</u>	<u>\$ (6,334)</u>	<u>\$ 2,605</u>

Note 10: Stewardship PP&E

Stewardship PP&E consist of assets whose physical properties resemble those of general PP&E that are traditionally capitalized in the financial statements. Due to the nature of these assets, 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, such as 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 FS-managed sites, and non-FS-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

Agricultural Research Service (ARS) conducts research at centers nationwide to develop and transfer solutions to agricultural problems of high national priority. ARS provides information access and dissemination to ensure high-quality, safe food and other agricultural products; assess the nutritional needs of Americans; sustain a competitive agricultural economy; enhance the natural resource base and the environment; and provide economic opportunities for rural citizens, communities, and society as a whole.

NRCS owns one 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 (or eligible for inclusion on) the NRHP.

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 to provide for multiple use and sustained yield of 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 National Forest System (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.

	<u>FY 2016</u>
Heritage Assets	
National Forests	154
National Grasslands	20
Other Sites	175
Research Centers	34
Library Collections	<u>1</u>
Total	<u><u>384</u></u>
Stewardship Land	
National Forests	154
National Grasslands	20
Research and Experimental Areas	3
National Preserves and Other Areas	2
Conservation Easements	<u>17,672</u>
Total	<u><u>17,851</u></u>

Note 11: Other Assets

In FY 2016, other assets included investments in trust for loan asset sales of \$37 million.

	<u>FY 2016</u>
Intragovernmental:	
Advances to Others	<u>\$ 3</u>
Subtotal Intragovernmental	3
With the Public:	
Advances to Others	170
Other Assets	<u>37</u>
Total Other Assets	<u><u>\$ 210</u></u>

Note 12: Liabilities Not Covered By Budgetary Resources

In FY 2016, other intragovernmental liabilities not covered by budgetary resources included accruals for Federal Employee Compensation Act (FECA) of \$158 million, contract disputes claims payable to Treasury's Judgment Fund of \$26 million, unemployment compensation of \$15 million, and custodial of \$6 million.

In FY 2016, other liabilities with the public not covered by budgetary resources included future funded indemnity costs of \$5,098 million, estimated underwriting gain on crop insurance of \$1,998 million, unfunded leave of \$615 million, contingent liabilities of \$512 million, Payments to States of \$79 million, clearing accounts of \$19 million, credit programs of \$8 million, custodial of \$5 million, and cleanup cost of \$2 million.

	<u>FY 2016</u>
Intragovernmental:	
Other	<u>\$ 204</u>
Subtotal Intragovernmental	<u>204</u>
With the Public:	
Accounts Payable	-
Federal employee and veterans' benefits	905
Environmental and disposal liabilities	190
Other	<u>8,335</u>
Subtotal With the Public	<u>9,430</u>
Total liabilities not covered by budgetary resources	9,634
Total liabilities covered by budgetary resources	164,416
Total Liabilities	<u><u>\$ 174,050</u></u>

Note 13: Debt

FY 2016	Ending Balance
Intragovernmental	
Debt to the Treasury	\$ 78,239
Debt to the Federal Financing Bank	43,364
Total Intragovernmental	<u>121,603</u>
Agency Debt:	
Held by the Public	<u>-</u>
Total Debt	<u><u>\$ 121,603</u></u>

Note 14: Environmental and Disposal Liabilities

USDA 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 2016, FS estimates the liability for total cleanup costs for sites known to contain hazardous waste to be \$2 million, based on actual cleanup costs at similar sites. In FY 2016, CCC estimates the liability for total cleanup costs for sites known to contain hazardous waste to be \$21 million, based on actual cleanup costs at similar sites. CCC estimates the range of potential future losses due to remedial actions to be between \$21 million and \$160 million. These estimates will change as new sites are discovered, remedy standards change, and new technology is introduced.

In FY 2016, 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.

USDA is also subject to Asbestos National Emissions Standards for Hazardous Air Pollutants. In FY 2016, the Department estimated its liability for asbestos-related cleanup of real property to be \$153 million. The liability is calculated using total square footage of real property expected to contain asbestos times a cost factor based on historical actual cleanup costs, adjusted for inflation, including any other identifiable costs, e.g., survey cost. As additional information becomes available, key assumptions will be reevaluated, cost estimates will be revised, and necessary adjustments will be made to the liability recognition.

Note 15: Other Liabilities

In FY 2016, other liabilities with related budgetary obligations with the public include Agricultural Risk Coverage and Price Loss Coverage of \$7,917 million; Grants, Subsidies, and Contributions of \$3,044 million; Conservation Reserve Program of \$1,682 million; underwriting gains on crop insurance of \$1,809 million; indemnity payments not yet disbursed of \$108 million; and other accrued liabilities of \$709 million.

In FY 2016, other liabilities without related budgetary obligations with the public include estimated underwriting gains on crop insurance of \$1,998 million, Payments to States of \$79 million, loans paid in advance for multi-family housing of \$24 million, and other accrued liabilities of \$2 million.

FY 2016	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
Intragovernmental:			
Other Liabilities With Related Budgetary Obligations	-	17	17
Employer Contributions and Payroll Taxes	-	81	81
Unfunded FECA Liability	50	108	158
Other Unfunded Employment Related Liability	-	15	15
Liability for Advances and Prepayments	-	6	6
Liability for Clearing Accounts	-	(54)	(54)
Custodial Liability	-	89	89
Liability for Non-entity Assets Not Reported on the Statement of Custodial Activities	-	18,045	18,045
Other Liabilities Without Related Budgetary Obligations	<u>26</u>	<u>-</u>	<u>26</u>
Subtotal Intragovernmental	<u>76</u>	<u>18,307</u>	<u>18,383</u>
With the Public:			
Other Liabilities With Related Budgetary Obligations	-	15,269	15,269
Accrued Funded Payroll and Leave	-	314	314
Unfunded Leave	-	615	615
Liability for Advances and Prepayments	-	136	136
Other Deferred Credits	-	605	605
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	381	381
Liability for Clearing Accounts	-	(8)	(8)
Actuarial Liability for Federal Insurance and Guarantee Programs	-	5,098	5,098
Contingent Liabilities	-	512	512
Capital Lease Liability	7	2	9
Custodial Liability	-	8	8
Other Liabilities Without Related Budgetary Obligations	<u>2,022</u>	<u>81</u>	<u>2,103</u>
Subtotal With the Public	<u>2,029</u>	<u>23,013</u>	<u>25,042</u>
Total Other Liabilities	<u>\$ 2,105</u>	<u>\$ 41,320</u>	<u>\$ 43,425</u>

Note 16: Leases

USDA activities based in the Washington, D.C. area are located in General Services Administration (GSA) leased facilities and USDA owned buildings. The USDA Headquarters 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 \$64 million. This agreement is still in effect and as a result, USDA activities located in the Headquarters complex are not billed for rental costs.

FY 2016

Capital Leases:

Summary of Assets Under Capital Leases

Land and Building	\$	40
Machinery and Equipment		-
Accumulated Amortization		(32)

Future Payments Due:

	Land & Buildings
Fiscal Year	
2017	6
2018	5
2019	4
2020	4
2021	3
After 5 Years	5
Total Future Lease Payments	27
Less: Imputed Interest	13
Less: Executory Costs	5
Less: Lease Renewal Options	-
Net Capital Lease Liability	9

Lease liabilities covered by budgetary resources 9

Operating Leases:

Future Payments Due:

Fiscal Year	Land & Buildings	Machinery & Equipment	Other	Totals
2017	120	-	1	121
2018	96	-	1	97
2019	79	-	-	79
2020	67	-	-	67
2021	57	-	-	57
After 5 Years	183	-	-	183
Total Future Lease Payments	\$ 602	\$ -	\$ 2	\$ 604

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, \$512 million has been accrued in the financial statements as of September 30, 2016.

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 \$67 million to \$202 million as of September 30, 2016.

Through the Conservation Reserve Program (CRP), eligible participants sign 10- to 15-year contracts to remove land from production in exchange for an annual rental payment. The participants also receive cost-share assistance for establishing conservation practices on the reserve acreage and additional incentive payments for adopting high-priority conservation measures.

Commitments to extend loan guarantees are estimated to be \$4,876 million in FY 2016.

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 (AMS)

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 (APHIS)

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 its 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 (FS)

Cooperative Work

Cooperative contributions are deposited for disbursement in compliance with the terms and provisions of the agreement between the cooperator and the FS. 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. 4601-4-11), pertaining to the preservation of watersheds. The Land Acquisition program is authorized by the Interior and Related Agencies Appropriations Act of December 30, 1982 (96 Stat. 1983, Public Law 97-394).

Payments to States, National Forest Fund

The Act of May 23, 1908, as amended (16 U.S.C. 500), commonly known as Payments to States, requires with a few exceptions, that 25 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 Salvage Sale Fund, Treasury account 12X5204, was established to facilitate the timely removal of timber damaged by fire, wind, insects, diseases, 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 U.S.C. 472(a).

Expenses, Brush Disposal

Deposits from timber purchasers are recorded in Treasury account 12X5206 and 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 the 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), requires (with a few exceptions) that all receipts from national forest activities be aggregated each fiscal year in order to calculate the portion which is paid to the States in which the national forests are located. The payments must be used for public schools and roads in the county or counties in which the national forests are situated. Originally, the States' portion of receipts was 25 percent but past statutory amendments have changed the calculation factors from time to time. Receipts include revenues from the sale of timber and other forest products; fees for grazing, special-use permits, power and mineral leases; and recreation user fees.

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, 25 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.

Stewardship Contracting Product Sales

Stewardship End Result Contracting Projects (16 U.S.C. 6591c), amends the Healthy Forests Restoration Act of 2003, and states the Forest Service, via agreement or contract as appropriate, may enter into stewardship contracting projects with private persons or other public or private entities to perform services to achieve land management goals for the national forests and the public lands that meet local and rural community needs. The value of timber or other forest products removed may be applied as an offset against the cost of services received under the agreements or contracts. Monies earned from such agreements or contracts may be retained by the Forest Service and shall be available for expenditure without further appropriation at the project site from which the monies are collected or at another project site. In addition, if the offset value of the forest products exceeds the value of the resource improvement treatments, the Forest Service may collect any residual receipts under the Act of June 9, 1930 (commonly known as the Knutson-Vandenberg Act, 16 U.S.C. 576); and apply the excess to other authorized stewardship projects. Finally, the Forest Service is required to annually report to the Committee of Agriculture, Nutrition, and Forestry of the Senate and the Committee on Agriculture of the House of Representatives on the status and accomplishments of these agreements and contracts.

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

Gifts and Bequests

[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

Hardwood Technology Transfer and Applied Research Fund

Gifts, Donations and Bequests for Forest and Rangeland Research

Land Between the Lakes Trust Fund

Land and Water Conservation Fund

Tongass Timber Supply Fund

Midewin National Tallgrass Prairie Restoration Fund

Gifts and Bequests

[Natural Resources Conservation Service](#)

Damage Assessment and Restoration Revolving Fund

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

	AMS	AMS	APHIS	FS	FS	FS	FS	FS	FS
	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales	Expenses, Brush Disposal	State, Private, and International Forestry, Land and Water Conservation Fund
Balance Sheet As of September 30, 2016									
Fund Balance with Treasury	\$ 542	\$ 94	\$ 219	\$ 372	\$ 67	\$ 127	\$ 89	\$ 50	\$ 148
Investments	-	-	-	-	-	-	-	-	-
Other Assets	-	17	70	15	43	2	-	1	5
Total Assets	542	111	289	387	110	129	89	51	153
Other Liabilities	28	58	25	76	1	51	1	1	-
Total Liabilities	28	58	25	76	1	51	1	1	-
Unexpended Appropriations	-	-	-	-	-	-	-	-	-
Cumulative Results of Operations	514	53	264	311	109	78	88	50	153
Total Liabilities and Net Position	542	111	289	387	110	129	89	51	153

	FS	FS	FS	FS	FS	FS	NIFA		
	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	Stewardship Contracting Product Sales	Native American Institutions Endowment Fund	Other	Total
Balance Sheet As of September 30, 2016									
Fund Balance with Treasury	\$ 101	\$ 98	\$ 375	\$ 73	\$ 39	\$ 37	\$ 20	\$ 280	\$ 2,731
Investments	-	-	-	-	-	-	195	8	203
Other Assets	3	10	2	-	52	16	-	19	255
Total Assets	<u>104</u>	<u>108</u>	<u>377</u>	<u>73</u>	<u>91</u>	<u>53</u>	<u>215</u>	<u>307</u>	<u>3,189</u>
Other Liabilities	2	-	1	21	-	4	-	61	330
Total Liabilities	<u>2</u>	<u>-</u>	<u>1</u>	<u>21</u>	<u>-</u>	<u>4</u>	<u>-</u>	<u>61</u>	<u>330</u>
Unexpended Appropriations	-	-	-	-	-	-	143	1	144
Cumulative Results of Operations	<u>102</u>	<u>108</u>	<u>376</u>	<u>52</u>	<u>91</u>	<u>49</u>	<u>72</u>	<u>245</u>	<u>2,715</u>
Total Liabilities and Net Position	<u>104</u>	<u>108</u>	<u>377</u>	<u>73</u>	<u>91</u>	<u>53</u>	<u>215</u>	<u>307</u>	<u>3,189</u>

Required Supplementary Stewardship Information

Stewardship Investments (Unaudited)

	FY 2016 <u>Expense</u>
Non-Federal Physical Property:	
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	\$ 19
Special Supplemental Nutrition Program	6
National Institute of Foods and Agriculture	
Extension 1890 Facilities Program	<u>20</u>
Total Non-Federal Property	<u>\$ 45</u>
Human Capital:	
National Institute of Foods and Agriculture	
Higher Education and Extension Programs	\$ 558
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	104
Agricultural Research Service	
National Agricultural Library	23
Risk Management Agency	
Risk Management Education	<u>9</u>
Total Human Capital	<u>\$ 694</u>

	<u>FY 2016 Expense</u>
Research and Development:	
Basic Research:	
Agricultural Research Service	
Human Nutrition	\$ 43
Integration of Agricultural Systems	-
Collaborative Research Program	-
Product Quality/Value Added	51
Livestock Production	43
Crop Production	107
Food Safety	56
Livestock Protection	47
Crop Protection	97
Environmental Stewardship	101
National Institute of Foods and Agriculture	
Land-grant University System	290
Forest Service	64
Economic Research Service	
Economic and Social Science	-
National Agricultural Statistics Service	
Statistical	-
Total Basic Research	<u>\$ 899</u>
Applied Research:	
Agricultural Research Service	
Human Nutrition	\$ 34
Product Quality/Value Added	40
Livestock Production	35
Crop Production	87
Food Safety	45
Livestock Protection	37
Crop Protection	77
Environmental Stewardship	81
National Institute of Foods and Agriculture	
Land-grant University System	492
Forest Service	224
Economic Research Service	
Economic and Social Science	85
National Agricultural Statistics Service	
Statistical	5
Total Applied Research	<u>\$ 1,242</u>
Development:	
Agricultural Research Service	
Human Nutrition	\$ 9
Product Quality/Value Added	10
Livestock Production	9
Crop Production	22
Food Safety	11
Livestock Protection	9
Crop Protection	19
Environmental Stewardship	20
National Institute of Foods and Agriculture	
Land-grant University System	-
Forest Service	3
National Agricultural Statistics Service	
Statistical	4
Total Development	<u>\$ 116</u>
Total Research and Development	<u>\$ 2,257</u>

Non-Federal Physical Property

FOOD AND NUTRITION SERVICE

FNS' non-Federal physical property consists of computer systems and other equipment obtained by State and local governments for the purpose of administering the 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 (NIFA)

The higher education programs include graduate fellowship grants, competitive challenge grants, secondary/2-year postsecondary 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 a Native Hawaiian serving institutions program, 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)

FNS' human capital consists of employment and training (E&T) for 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 662,005 work registrants subject to the 3-month SNAP participant limit and 1,067,825 work registrants not subject to the limit in either job-search, job training, job-workfare, education, or work experience.

AGRICULTURAL RESEARCH SERVICE (ARS)

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 8 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 (RMA)

Federal Crop Insurance Corporation (FCIC) has formed partnerships with NIFA, the Commodity Futures Trading Commission, the USDA National Office of Outreach, the Economic Research Service (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 year 2016, 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 96,467 in fiscal year 2016. 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 in fiscal year 2016.

Research and Development

AGRICULTURAL RESEARCH SERVICE (ARS)

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 (NAL)

NAL, among the world's largest libraries serving agriculture, delivered about 54 million page views and almost 1 million searches in FY 2016.

Buildings and Facilities

ARS has approximately 95 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 an important component 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), the Food and Drug Administration (FDA), the Centers for Disease Control and Prevention (CDC), the 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 United States; 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. To better define the role of nutrition in pregnancy and growth of children, and for healthier aging, 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.

NATIONAL INSTITUTE OF FOOD AND AGRICULTURE (NIFA)

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 (FS)

Forest Service Research & Development (R&D) has an integrated portfolio that supports achievement of the agency's strategic goals. The FS 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 summarized here.

[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 wildfire 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 forest ecosystems vulnerable 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 2016 accomplishments include the following:

- 19 new interagency agreements and contracts
- 44 interagency agreements and contracts continued
- 2,022 articles published in journals
- 249 articles published in all other publications
- 5 patents granted
- 2 patent licenses executed

ECONOMIC RESEARCH SERVICE (ERS)

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 (NASS)

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. Model-based estimates are used to combine data from disparate sources, from sample surveys to remote sensing, resulting in improved estimates with valid measures of uncertainty. Going forward, users of NASS services and products will be increasingly dependent upon methodological and technological efficiencies.

Required Supplementary Information

Deferred Maintenance and Repairs (Unaudited)

The Forest Service is steward to nearly 193 million acres of national forests and grasslands within the NFS. On these NFS lands, the agency manages major assets that are categorized as general PP&E, including nearly 40,000 administrative, recreation, and research buildings and approximately 27,000 recreational sites, such as campgrounds, picnic areas, trailheads, and interpretive sites.

Across the NFS, the agency also manages over 371,000 miles of roads, of which 65,000 miles are for passenger vehicles; over 151,000 miles of trails for motorized and non-motorized use; nearly 13,000 road and trail bridges; and over 1,700 Forest Service-owned and Special Use Permitted dam structures.

ARS owns/manages approximately 15 million gross square feet of facility space in 3,000 buildings on 400,000 acres of land. APHIS operates approximately 28 facilities, which includes 378 buildings, in the United States and 14 facilities/buildings internationally. The NRCS portfolio of owned assets encompasses 29 sites, including 13 parcels of owned land, 260 buildings, and about 250 other structures.

Deferred Maintenance & Repairs (DM&R) estimates include capitalized PP&E, non-capitalized heritage assets, and non-capitalized or fully depreciated PP&E.

No DM&R is reported for stewardship land because land is considered to be in acceptable condition unless an environmental contamination or liability is identified and the land cannot be used for its intended purpose. Stewardship land easements are excluded from DM&R since ownership is retained by the landowner.

DEFINING AND IMPLEMENTING MAINTENANCE AND REPAIRS POLICIES IN PRACTICE

The Forest Service uses condition surveys to estimate DM&R on all major classes of its PP&E and heritage assets. 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. The agency's DM&R for NFS passenger-car roads is determined annually—from random sample surveys—providing an 80 percent level of confidence. DM&R is not reported for roads that are not part of the passenger-car system.

ARS, APHIS, and NRCS use similar condition surveys to estimate DM&R on all major classes of its PP&E and heritage assets.

RANKING AND PRIORITIZING MAINTENANCE AND REPAIRS ACTIVITIES

Maintenance and repair activities are prioritized based on condition surveys and ranked based on PP&E and heritage assets that pose serious threats to public health or safety, a natural resource, or the ability of the agency to implement its mission.

FACTORS CONSIDERED IN SETTING ACCEPTABLE CONDITION

The standards for acceptable operating condition for various classes of PP&E 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 in the NFS are 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 in the NFS 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.

Recreation facilities in the NFS 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. 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 in the NFS 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 in the NFS (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.

Trails and trail bridges in the NFS 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 NFS 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.

ARS, APHIS, and NRCS define acceptable condition in accordance with standards comparable to those used in private industry for buildings and other structures.

DEFERRED MAINTENANCE AND REPAIR COSTS

	FY 2016 Ending Balance	
Asset Category		
General PP&E	\$	5,828
Heritage Assets		132
Total	\$	<u>5,960</u>

Statement of Budgetary Resources (Unaudited)

FY 2016

	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS	GIPSA
	Non-Budgetary		Non-Budgetary								
	Budgetary	Financing Accounts	Budgetary	Financing Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
Budgetary Resources:											
Unobligated balance, brought forward, October 1:	\$ 401	\$ 2,145	\$ 598	\$ 179	\$ 516	\$ 573	\$ 34,288	\$ 144	\$ 153	\$ 674	\$ 33
Recoveries of prior year unpaid obligations	54	105	341	10	90	3	1,956	15	17	62	4
Other changes in unobligated balance (+ or -)	(59)	(2,031)	88	(74)	68	-	(3,542)	(10)	8	(10)	(2)
Unobligated balance from prior year budget authority, net	396	219	1,027	115	674	576	32,702	149	178	726	35
Appropriations (discretionary and mandatory)	2,089	-	1,823	-	400	4,938	110,014	1,028	1,172	1,206	43
Borrowing authority (discretionary and mandatory)	-	2,833	34,655	171	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	413	787	99	147	73	3,762	77	208	94	189	57
Total budgetary resources	2,898	3,839	37,604	433	1,147	9,276	142,793	1,385	1,444	2,121	135
Status of Budgetary Resources:											
New obligations and upward adjustments (total) (Note 23)	2,469	2,978	37,054	290	835	8,698	103,688	1,285	1,303	1,522	96
Unobligated balance, end of year:											
Apportioned, unexpired accounts	304	302	88	35	123	576	6,085	82	126	509	33
Exempt from apportionment, unexpired accounts	-	-	85	3	-	-	-	-	1	-	-
Unapportioned, unexpired accounts	51	559	376	105	8	-	6,168	-	-	3	2
Unexpired unobligated balance, end of year	355	861	549	143	131	576	12,253	82	127	512	35
Expired unobligated balance, end of year	74	-	1	-	181	2	26,852	18	14	87	4
Unobligated balance, end of year (total)	429	861	550	143	312	578	39,105	100	141	599	39
Total budgetary resources	2,898	3,839	37,604	433	1,147	9,276	142,793	1,385	1,444	2,121	135
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	419	472	5,288	133	411	2,724	8,980	130	645	687	14
New obligations and upward adjustments	2,469	2,978	37,054	290	835	8,698	103,688	1,285	1,303	1,522	96
Outlays (gross)(-)	(2,442)	(2,861)	(18,132)	(288)	(424)	(8,004)	(101,539)	(1,246)	(1,284)	(1,660)	(94)
Recoveries of prior year unpaid obligations (-)	(54)	(105)	(341)	(10)	(90)	(3)	(1,956)	(15)	(17)	(62)	(4)
Unpaid obligations, end of year	392	484	23,869	125	732	3,415	9,173	154	647	487	12
Uncollected payments:											
Uncollected payments, Federal sources, brought forward, October 1 (-)	(60)	(11)	-	-	(323)	-	(1)	(39)	(21)	(242)	(8)
Change in uncollected payments, Federal sources (+ or -)	5	1	(136)	(14)	44	-	(1)	(7)	6	10	1
Uncollected payments, Federal sources, end of year (-)	(55)	(10)	(136)	(14)	(279)	-	(2)	(46)	(15)	(232)	(7)
Memorandum (non-add) entries:											
Obligated balance, start of year (+ or -)	359	461	5,288	133	88	2,724	8,979	91	624	445	6
Obligated balance, end of year (+ or -)	337	474	23,733	111	453	3,415	9,171	108	632	255	5
Budget Authority and Outlays, Net											
Budget authority, gross (discretionary and mandatory)	2,502	3,620	36,577	318	473	8,700	110,091	1,236	1,266	1,395	100
Actual offsetting collections (-) (discretionary and mandatory)	(484)	(2,152)	(7,085)	(391)	(194)	(3,765)	(77)	(201)	(111)	(199)	(58)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	5	1	(136)	(14)	44	-	(1)	(7)	6	10	1
Recoveries of prior year paid obligations (discretionary and mandatory)	1	-	119	2	78	1	1	-	12	-	-
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	2,024	1,469	29,475	(85)	401	4,936	110,014	1,028	1,173	1,206	43
Outlays, gross (discretionary and mandatory)	2,442	2,861	18,132	288	424	8,004	101,539	1,246	1,284	1,660	94
Actual offsetting collections (discretionary and mandatory) (-)	(484)	(2,152)	(7,085)	(391)	(194)	(3,765)	(77)	(201)	(111)	(199)	(58)
Outlays, net (discretionary and mandatory)	1,958	709	11,047	(103)	230	4,239	101,462	1,045	1,173	1,461	36
Distributed offsetting receipts (-)	-	(193)	(4)	(58)	(3)	-	-	(13)	(164)	(12)	-
Agency outlays, net (discretionary and mandatory)	\$ 1,958	\$ 516	\$ 11,043	\$ (161)	\$ 227	\$ 4,239	\$ 101,462	\$ 1,032	\$ 1,009	\$ 1,449	\$ 36

FY 2016

	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:	\$ 1,230	\$ 4,150	\$ 135	\$ 416	\$ 3	\$ 1	\$ 6,144	\$ 11,472	\$ 217	\$ 49,676	\$ 13,796
Recoveries of prior year unpaid obligations	319	350	23	56	2	12	139	986	13	3,456	1,101
Other changes in unobligated balance (+ or -)	2	(12)	-	(8)	-	1	(150)	(5,844)	(2)	(3,628)	(7,949)
Unobligated balance from prior year budget authority, net	1,551	4,488	158	464	5	14	6,133	6,614	228	49,504	6,948
Appropriations (discretionary and mandatory)	7,236	4,288	1,381	1,483	85	168	7,495	-	389	145,238	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	10,173	-	34,655	13,177
Spending authority from offsetting collections (discretionary and mandatory)	416	58	144	25	4	34	2,608	12,503	1,047	9,308	13,437
Total budgetary resources	<u>9,203</u>	<u>8,834</u>	<u>1,683</u>	<u>1,972</u>	<u>94</u>	<u>216</u>	<u>16,236</u>	<u>29,290</u>	<u>1,664</u>	<u>238,705</u>	<u>33,562</u>
Status of Budgetary Resources:											
New obligations and upward adjustments (total) (Note 23)	7,255	4,223	1,341	1,452	92	215	9,328	14,875	1,426	182,282	18,143
Unobligated balance, end of year:											
Apportioned, unexpired accounts	1,443	1,738	300	580	-	1	5,886	11,137	176	18,050	11,474
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	86	3
Unapportioned, unexpired accounts	500	344	-	(82)	-	-	909	3,278	30	8,309	3,942
Unexpired unobligated balance, end of year	1,943	2,082	300	498	-	1	6,795	14,415	206	26,445	15,419
Expired unobligated balance, end of year	5	2,529	42	22	2	-	113	-	32	29,978	-
Unobligated balance, end of year (total)	1,948	4,611	342	520	2	1	6,908	14,415	238	56,423	15,419
Total budgetary resources	<u>9,203</u>	<u>8,834</u>	<u>1,683</u>	<u>1,972</u>	<u>94</u>	<u>216</u>	<u>16,236</u>	<u>29,290</u>	<u>1,664</u>	<u>238,705</u>	<u>33,562</u>
Change in Obligated Balances:											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	2,567	4,501	468	1,971	44	45	3,745	20,284	449	33,088	20,889
New obligations and upward adjustments	7,255	4,223	1,341	1,452	92	215	9,328	14,875	1,426	182,282	18,143
Outlays (gross)(-)	(6,964)	(3,774)	(1,318)	(1,368)	(98)	(202)	(9,007)	(13,060)	(1,424)	(158,980)	(16,209)
Recoveries of prior year unpaid obligations (-)	(319)	(350)	(23)	(56)	(2)	(12)	(139)	(986)	(13)	(3,456)	(1,101)
Unpaid obligations, end of year	2,539	4,600	468	1,999	36	46	3,927	21,113	438	52,934	21,722
Uncollected payments:											
Uncollected payments, Federal sources, brought forward, October 1 (-)	(600)	(206)	(165)	(69)	(12)	(15)	(10)	(562)	(307)	(2,078)	(573)
Change in uncollected payments, Federal sources (+ or -)	185	40	17	11	(1)	13	(17)	28	22	192	15
Uncollected payments, Federal sources, end of year (-)	(415)	(166)	(148)	(58)	(13)	(2)	(27)	(534)	(285)	(1,886)	(558)
Memorandum (non-add) entries:											
Obligated balance, start of year (+ or -)	1,967	4,295	303	1,902	32	30	3,735	19,722	142	31,010	20,316
Obligated balance, end of year (+ or -)	2,124	4,434	320	1,941	23	44	3,900	20,579	153	51,048	21,164
Budget Authority and Outlays, Net											
Budget authority, gross (discretionary and mandatory)	7,652	4,346	1,525	1,508	89	202	10,103	22,676	1,436	189,201	26,614
Actual offsetting collections (-) (discretionary and mandatory)	(601)	(103)	(168)	(40)	(3)	(47)	(3,863)	(15,054)	(1,072)	(18,071)	(17,597)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	185	40	17	11	(1)	13	(17)	28	22	192	15
Recoveries of prior year paid obligations (discretionary and mandatory)	-	4	7	4	-	-	2	-	5	234	2
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	<u>7,236</u>	<u>4,287</u>	<u>1,381</u>	<u>1,483</u>	<u>85</u>	<u>168</u>	<u>6,225</u>	<u>7,650</u>	<u>391</u>	<u>171,556</u>	<u>9,034</u>
Outlays, gross (discretionary and mandatory)											
Outlays, gross (discretionary and mandatory)	6,964	3,774	1,318	1,368	98	202	9,007	13,060	1,424	158,980	16,209
Actual offsetting collections (discretionary and mandatory) (-)	(601)	(103)	(168)	(40)	(3)	(47)	(3,863)	(15,054)	(1,072)	(18,071)	(17,597)
Outlays, net (discretionary and mandatory)	6,363	3,671	1,150	1,328	95	155	5,144	(1,994)	352	140,909	(1,388)
Distributed offsetting receipts (-)	(716)	-	(26)	(1)	-	-	(1)	(1,516)	(15)	(955)	(1,767)
Agency outlays, net (discretionary and mandatory)	<u>\$ 5,647</u>	<u>\$ 3,671</u>	<u>\$ 1,124</u>	<u>\$ 1,327</u>	<u>\$ 95</u>	<u>\$ 155</u>	<u>\$ 5,143</u>	<u>\$ (3,510)</u>	<u>\$ 337</u>	<u>\$ 139,954</u>	<u>\$ (3,155)</u>

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 \$8,343 million as of September 30, 2016.

Section III:

Other Information

Unaudited Financial Statements

Consolidated Statement of Net Cost

For the Year Ended September 30, 2016 (\$ In Millions)

	<u>2016</u>
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:	
Gross Costs	\$ 24,949
Less: Earned Revenue	7,444
Net Costs	<u>17,505</u>
Ensure Our National Forests and Private Working Lands Are Conserved, Restored, and Made More Resilient to Climate Change, While Enhancing Our Water Resources:	
Gross Costs	13,040
Less: Earned Revenue	1,046
Net Costs	<u>11,994</u>
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:	
Gross Costs	2,456
Less: Earned Revenue	175
Net Costs	<u>2,281</u>
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:	
Gross Costs	105,593
Less: Earned Revenue	1,075
Net Costs	<u>104,518</u>
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:	
Gross Costs	1,264
Less: Earned Revenues	217
Net Costs	<u>1,047</u>
Total Gross Costs	147,302
Less: Total Earned Revenue	<u>9,957</u>
Net Cost of Operations (Note 19)	<u><u>\$ 137,345</u></u>

The accompanying notes are an integral part of these statements.

Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2016 (\$ In Millions)

	Funds From Dedicated Collections (Note 18)	All Other Funds	Eliminations	Consolidated Total
Cumulative Results of Operations:				
Beginning Balances	\$ 1,920	\$ 6,305	\$ -	\$ 8,225
Budgetary Financing Sources:				
Other Adjustments (recissions, etc.)	-	(478)	-	(478)
Appropriations Used	(1)	127,032	-	127,031
Non-exchange Revenue	-	22	-	22
Donations and Forfeitures of Cash and Equivalents	1	-	-	1
Transfers In (Out) without Reimbursement	1,129	8,251	757	10,137
Other Financing Sources (Non-Exchange):				
Donations and Forfeitures of Property	-	1	-	1
Transfers In (Out) without Reimbursement	(111)	803	(757)	(65)
Imputed Financing	42	3,607	(2,660)	989
Other	27	(8,553)	-	(8,526)
Total Financing Sources	<u>1,087</u>	<u>130,685</u>	<u>(2,660)</u>	<u>129,112</u>
Net Cost of Operations	<u>(292)</u>	<u>(139,713)</u>	<u>2,660</u>	<u>(137,345)</u>
Net Change	<u>795</u>	<u>(9,028)</u>	<u>-</u>	<u>(8,233)</u>
Cumulative Results of Operations	<u>2,715</u>	<u>(2,723)</u>	<u>-</u>	<u>(8)</u>
Unexpended Appropriations:				
Beginning Balances	131	48,041	-	48,172
Budgetary Financing Sources:				
Appropriations Received	12	142,894	-	142,906
Appropriations Transferred In (Out)	-	(3)	-	(3)
Other Adjustments	-	(10,112)	-	(10,112)
Appropriations Used	1	(127,032)	-	(127,031)
Total Budgetary Financing Sources	<u>13</u>	<u>5,747</u>	<u>-</u>	<u>5,760</u>
Unexpended Appropriations	<u>144</u>	<u>53,788</u>	<u>-</u>	<u>53,932</u>
Net Position	<u>\$ 2,859</u>	<u>\$ 51,065</u>	<u>\$ -</u>	<u>\$ 53,924</u>

The accompanying notes are an integral part of these statements.

Combined Statement of Budgetary Resources

For the Year Ended September 30, 2016 (\$ In Millions)

	2016	
	<u>Budgetary</u>	<u>Non-Budgetary Credit Reform Financing Accounts</u>
Budgetary Resources:		
Unobligated balance, brought forward, October 1:	\$ 49,676	\$ 13,796
Recoveries of prior year unpaid obligations	3,456	1,101
Other changes in unobligated balance (+ or -)	<u>(3,628)</u>	<u>(7,949)</u>
Unobligated balance from prior year budget authority, net	49,504	6,948
Appropriations (discretionary and mandatory)	145,238	-
Borrowing authority (discretionary and mandatory)	34,655	13,177
Spending authority from offsetting collections (discretionary and mandatory)	9,308	13,437
Total budgetary resources	<u>238,705</u>	<u>33,562</u>
Status of Budgetary Resources:		
New obligations and upward adjustments (total) (Note 23)	182,282	18,143
Unobligated balance, end of year:		
Apportioned, unexpired accounts	18,050	11,474
Exempt from apportionment, unexpired accounts	86	3
Unapportioned, unexpired accounts	8,309	3,942
Unexpired unobligated balance, end of year	<u>26,445</u>	<u>15,419</u>
Expired unobligated balance, end of year	<u>29,978</u>	<u>-</u>
Unobligated balance, end of year (total)	<u>56,423</u>	<u>15,419</u>
Total budgetary resources	<u>238,705</u>	<u>33,562</u>
Change in Obligated Balance:		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	33,088	20,889
New obligations and upward adjustments	182,282	18,143
Outlays (gross) (-)	<u>(158,980)</u>	<u>(16,209)</u>
Recoveries of prior year unpaid obligations (-)	<u>(3,456)</u>	<u>(1,101)</u>
Unpaid obligations, end of year	52,934	21,722
Uncollected payments:		
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	<u>(2,078)</u>	<u>(573)</u>
Change in uncollected customer payments from Federal sources (+ or -)	192	15
Uncollected payments, Federal sources, end of year (-)	<u>(1,886)</u>	<u>(558)</u>
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	31,010	20,316
Obligated balance, end of year (+ or -)	<u>51,048</u>	<u>21,164</u>
Budget Authority and Outlays, Net:		
Budget authority, gross (discretionary and mandatory)	189,201	26,614
Actual offsetting collections (discretionary and mandatory) (-)	<u>(18,071)</u>	<u>(17,597)</u>
Change in uncollected customer payments from Federal sources (discretionary and mandatory)(+ or -)	192	15
Recoveries of prior year paid obligations (discretionary and mandatory)	234	2
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-
Budget authority, net (discretionary and mandatory)	<u>171,556</u>	<u>9,034</u>
Outlays, gross (discretionary and mandatory)	158,980	16,209
Actual offsetting collections (discretionary and mandatory) (-)	<u>(18,071)</u>	<u>(17,597)</u>
Outlays, net (discretionary and mandatory)	140,909	(1,388)
Distributed offsetting receipts (-)	<u>(955)</u>	<u>(1,767)</u>
Agency outlays, net (discretionary and mandatory)	<u>\$ 139,954</u>	<u>\$ (3,155)</u>

The accompanying notes are an integral part of these statements.

Unaudited Notes to Financial Statements

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

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

	<u>FY 2016</u>
Beginning balance of the subsidy cost allowance	\$ 6,425
Add: Subsidy expense for direct loans disbursed during the year by component	
Interest rate differential costs	(140)
Default costs (net of recoveries)	175
Fees and other collections	(11)
Other subsidy costs	<u>(62)</u>
Total subsidy expense prior to adjustments and reestimates	<u>(38)</u>
Adjustments	
Loan modifications	4
Fees received	71
Loans written off	(1,182)
Subsidy allowance amortization	(114)
Other	<u>(305)</u>
Total subsidy cost allowance before reestimates	<u>4,861</u>
Add or subtract subsidy reestimates by component	
Interest rate reestimate	(274)
Technical/default reestimate	<u>237</u>
Total reestimates	<u>(37)</u>
Ending balance of the subsidy cost allowance	<u>\$ 4,824</u>

Table 7: Schedule for Reconciling Loan Guarantee Liability

	<u>FY 2016</u>
Beginning balance of the loan guarantee liability	\$ 5,590
Add: Subsidy expense for guaranteed loans disbursed during the year by component	
Interest supplement costs	-
Default costs (net of recoveries)	1,203
Fees and other collections	(1,145)
Other subsidy costs	<u>(9)</u>
Total of the above subsidy expense components	<u>49</u>
Adjustments	
Loan guarantee modifications	-
Fees received	816
Interest supplements paid	(10)
Foreclosed property and loans acquired	(263)
Claim payments to lenders	(749)
Interest accumulation on the liability balance	185
Other	<u>175</u>
Ending balance of the subsidy cost allowance before reestimates	<u>5,793</u>
Add or subtract subsidy reestimates by component:	
Interest rate reestimate	37
Technical/default reestimate	<u>(4,301)</u>
Total of the above reestimate components	<u>(4,264)</u>
Ending balance of the loan guarantee liability	<u>\$ 1,529</u>

Note 10: Stewardship PP&E

FY 2016

	<u>Ending Balance</u>	<u>Additions</u>	<u>Withdrawals</u>	<u>Beginning Balance</u>
Heritage Assets				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Other Sites	175	1	(1)	175
Research Centers	34	-	-	34
Library Collections	1	-	-	1
Total	<u>384</u>	<u>1</u>	<u>(1)</u>	<u>384</u>
Stewardship Land				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Research and Experimental Areas	3	-	-	3
National Preserves and Other Areas	2	-	-	2
Conservation Easements	17,672	354	-	17,318
Total	<u>17,851</u>	<u>354</u>	<u>-</u>	<u>17,497</u>

Note 13: Debt

	<u>Beginning Balance</u>	<u>Net Borrowing</u>	<u>Ending Balance</u>
FY 2016			
Intragovernmental			
Debt to the Treasury	\$ 72,531	\$ 5,708	\$ 78,239
Debt to the Federal Financing Bank	41,701	1,663	43,364
Total Intragovernmental	114,232	7,371	121,603
Agency Debt:			
Held by the Public	-	-	-
Total Debt	<u>\$ 114,232</u>	<u>\$ 7,371</u>	<u>\$ 121,603</u>

Note 18: Funds from Dedicated Collections

	AMS	AMS	APHIS	FS	FS	FS	FS	FS	FS
	Funds for Strengthening Markets, Income, and Supply	Expenses and Refunds, Inspection and Grading of Farm Products	Agricultural Quarantine Inspection User Fee Account	Cooperative Work	Land Acquisition	Payments to States, National Forests Fund	Timber Salvage Sales	Expenses, Brush Disposal	State, Private, and International Forestry, Land and Water Conservation Fund
Statement of Net Cost For the Period Ended September 30, 2016									
Gross program costs	795	202	216	101	41	(104)	26	10	69
Less Earned Revenue	5	140	609	106	-	182	36	8	-
Net Cost of Operations	<u>790</u>	<u>62</u>	<u>(393)</u>	<u>(5)</u>	<u>41</u>	<u>(286)</u>	<u>(10)</u>	<u>2</u>	<u>69</u>
Statement of Changes in Net Position For the period Ended September 30, 2016									
Net Position Beginning of Period	558	70	256	108	74	(210)	15	14	144
Other Financing Sources	747	45	(384)	198	76	1	63	38	78
Net Cost of Operations	(791)	(62)	392	5	(41)	287	10	(2)	(69)
Change in Net Position	<u>(44)</u>	<u>(17)</u>	<u>8</u>	<u>203</u>	<u>35</u>	<u>288</u>	<u>73</u>	<u>36</u>	<u>9</u>
Net Position End of Period	<u>\$ 514</u>	<u>\$ 53</u>	<u>\$ 264</u>	<u>\$ 311</u>	<u>\$ 109</u>	<u>\$ 78</u>	<u>\$ 88</u>	<u>\$ 50</u>	<u>\$ 153</u>

	FS	FS	FS	FS	FS	FS	NIFA		Total
	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	Stewardship Contracting Product Sales	Native American Institutions Endowment Fund	Other	Total
Statement of Net Cost For the Period Ended September 30, 2016									
Gross program costs	72	-	39	22	5	25	6	183	1,708
Less Earned Revenue	86	(27)	10	29	17	35	5	175	1,416
Net Cost of Operations	<u>(14)</u>	<u>27</u>	<u>29</u>	<u>(7)</u>	<u>(12)</u>	<u>(10)</u>	<u>1</u>	<u>8</u>	<u>292</u>
Statement of Changes in Net Position For the period Ended September 30, 2016									
Net Position Beginning of Period	60	161	241	102	65	31	205	157	2,051
Other Financing Sources	28	(26)	164	(57)	14	7	11	97	1,100
Net Cost of Operations	14	(27)	(29)	7	12	11	(1)	(8)	(292)
Change in Net Position	<u>42</u>	<u>(53)</u>	<u>135</u>	<u>(50)</u>	<u>26</u>	<u>18</u>	<u>10</u>	<u>89</u>	<u>808</u>
Net Position End of Period	<u>\$ 102</u>	<u>\$ 108</u>	<u>\$ 376</u>	<u>\$ 52</u>	<u>\$ 91</u>	<u>\$ 49</u>	<u>\$ 215</u>	<u>\$ 246</u>	<u>\$ 2,859</u>

Note 19: Sub-Organization Program Costs/Program Costs by Segment

FY 2016

	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	\$ 899	\$ 1,062	\$ 1,268	\$ 11,623	\$ 102	\$ 252
Less: Earned Revenue	153	202	8	1,380	91	-
Net Costs	<u>746</u>	<u>860</u>	<u>1,260</u>	<u>10,243</u>	<u>11</u>	<u>252</u>
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	203	240	433	2,009	-	-
Less: Earned Revenue	35	46	16	1	-	-
Net Costs	<u>168</u>	<u>194</u>	<u>417</u>	<u>2,008</u>	<u>-</u>	<u>-</u>
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	79	1,962	28	68
Less: Earned Revenue	-	-	21	99	24	-
Net Costs	<u>-</u>	<u>-</u>	<u>58</u>	<u>1,863</u>	<u>4</u>	<u>68</u>
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total Gross Costs	1,102	1,302	1,780	15,594	130	320
Less: Total Earned Revenue	188	248	45	1,480	115	-
Net Cost of Operations	<u>\$ 914</u>	<u>\$ 1,054</u>	<u>\$ 1,735</u>	<u>\$ 14,114</u>	<u>\$ 15</u>	<u>\$ 320</u>

FY 2016

	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	\$ 81	\$ 6,210	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	1,287	-	-	-	-
Net Costs	81	4,923	-	-	-	-
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	-	-	987	101,384	414	950
Less: Earned Revenue	-	-	1	75	3	219
Net Costs	-	-	986	101,309	411	731
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	81	6,210	987	101,384	414	950
Less: Total Earned Revenue	-	1,287	1	75	3	219
Net Cost of Operations	<u>\$ 81</u>	<u>\$ 4,923</u>	<u>\$ 986</u>	<u>\$ 101,309</u>	<u>\$ 411</u>	<u>\$ 731</u>

FY 2016

	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	\$ 69	\$ 493	\$ 48	\$ 164	\$ 37	\$ 66
Less: Earned Revenue	4	88	6	95	1	56
Net Costs	65	405	42	69	36	10
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	-	-	19	65	-	-
Less: Earned Revenue	-	-	3	38	-	-
Net Costs	-	-	16	27	-	-
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	18	62	-	-
Less: Earned Revenue	-	-	3	36	-	-
Net Costs	-	-	15	26	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	80	573	296	1,016	-	-
Less: Earned Revenue	4	102	41	590	-	-
Net Costs	76	471	255	426	-	-
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	1,066	381	1,307	37	66
Less: Total Earned Revenue	8	190	53	759	1	56
Net Cost of Operations	<u>\$ 141</u>	<u>\$ 876</u>	<u>\$ 328</u>	<u>\$ 548</u>	<u>\$ 36</u>	<u>\$ 10</u>

FY 2016

	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	\$ -	\$ -	\$ -	\$ -	\$ 83	\$ 269
Less: Earned Revenue	-	-	-	-	32	23
Net Costs	-	-	-	-	51	246
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	1,475	5,231	646	3,234	53	173
Less: Earned Revenue	166	687	65	19	20	15
Net Costs	1,309	4,544	581	3,215	33	158
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	40	129
Less: Earned Revenue	-	-	-	-	15	11
Net Costs	-	-	-	-	25	118
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	128	414
Less: Earned Revenue	-	-	-	-	49	35
Net Costs	-	-	-	-	79	379
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	1,475	5,231	646	3,234	304	985
Less: Total Earned Revenue	166	687	65	19	116	84
Net Cost of Operations	\$ 1,309	\$ 4,544	\$ 581	\$ 3,215	\$ 188	\$ 901

FY 2016

	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	\$ 664	\$ 14	\$ 20	\$ 58	\$ 145
Less: Earned Revenue	23	1	1	-	30	2
Net Costs	9	663	13	20	28	143
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	175	6	8	-	1
Less: Earned Revenue	6	-	-	-	-	-
Net Costs	2	175	6	8	-	1
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	5	95	10	14	-	-
Less: Earned Revenue	3	-	1	-	-	-
Net Costs	2	95	9	14	-	-
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	18	374	9	14	3	7
Less: Earned Revenue	13	1	1	-	1	-
Net Costs	5	373	8	14	2	7
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Total Gross Costs	63	1,308	39	56	61	153
Less: Total Earned Revenue	45	2	3	-	31	2
Net Cost of Operations	\$ 18	\$ 1,306	\$ 36	\$ 56	\$ 30	\$ 151

FY 2016

	RD		Departmental Offices		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	\$ 4,071	\$ (1,193)	\$ 11	\$ 25	\$ 6,773	\$ 19,800
Less: Earned Revenue	734	3,411	4	-	1,087	6,545
Net Costs	3,337	(4,604)	7	25	5,686	13,255
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	-	-	5	9	2,848	11,145
Less: Earned Revenue	-	-	5	-	316	806
Net Costs	-	-	-	9	2,532	10,339
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:						
Gross Costs	-	-	-	-	180	2,330
Less: Earned Revenue	-	-	-	-	67	146
Net Costs	-	-	-	-	113	2,184
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:						
Gross Costs	-	-	-	-	1,935	104,732
Less: Earned Revenue	-	-	-	-	113	1,022
Net Costs	-	-	-	-	1,822	103,710
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:						
Gross Costs	-	-	395	937	395	937
Less: Earned Revenue	-	-	957	11	957	11
Net Costs	-	-	(562)	926	(562)	926
Total Gross Costs	4,071	(1,193)	411	971	12,131	138,944
Less: Total Earned Revenue	734	3,411	966	11	2,540	8,530
Net Cost of Operations	\$ 3,337	\$ (4,604)	\$ (555)	\$ 960	\$ 9,591	\$ 130,414

FY 2016	<u>Intradepartmental Eliminations</u>	<u>Grand Total</u>
Assist Rural Communities to Create Prosperity so They Are Self-Sustaining, Repopulating, and Economically Thriving:		
Gross Costs	\$ (1,624)	\$ 24,949
Less: Earned Revenue	(188)	7,444
Net Costs	<u>(1,436)</u>	<u>17,505</u>
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	(953)	13,040
Less: Earned Revenue	(76)	1,046
Net Costs	<u>(877)</u>	<u>11,994</u>
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Gross Costs	(54)	2,456
Less: Earned Revenue	(38)	175
Net Costs	<u>(16)</u>	<u>2,281</u>
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Gross Costs	(1,074)	105,593
Less: Earned Revenue	(60)	1,075
Net Costs	<u>(1,014)</u>	<u>104,518</u>
Create a USDA for the 21st Century That is High Performing, Efficient, and Adaptable:		
Gross Costs	(68)	1,264
Less: Earned Revenue	(751)	217
Net Costs	<u>683</u>	<u>1,047</u>
Total Gross Costs	(3,773)	147,302
Less: Total Earned Revenue	(1,113)	9,957
Net Cost of Operations	\$ (2,660)	\$ 137,345

Note 20: Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2016 was \$216 million.

Note 21: Terms of Borrowing Authority Used

The Secretary of Agriculture has the authority to make and issue notes to the Secretary of the 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 (CBOs) or loans executed directly between the borrower and FFB with an unconditional USDA repayment guarantee. CBOs outstanding with FFB are generally secured by unpaid loan principal balances. CBOs outstanding are related to pre-credit reform loans and no longer used for program financing.

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

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

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

Note 22: Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2016 was \$41,349 million.

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

FY 2016

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 41,900	\$ 2,434	\$ 44,334
Apportionment for Special Activities	119,098	28,907	148,005
Exempt from Apportionment	817	7,269	8,086
Total Obligations Incurred	<u>\$ 161,815</u>	<u>\$ 38,610</u>	<u>\$ 200,425</u>

Note 24: Undelivered Orders at the End of the Period

Budgetary resources obligated for undelivered orders as of September 30, 2016 were \$52,604 million.

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 U.S. Government

A comparison between the FY 2016 SBR and the FY 2016 actual numbers presented in the FY 2018 Budget cannot be performed as the FY 2018 Budget is not yet available. The FY 2018 Budget is expected to be published in February 2017 and will be available from the U.S. Government Publishing 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.

	<u>FY 2016</u>
Revenue Activity:	
Sources of Collections:	
Miscellaneous	<u>\$ 149</u>
Total Cash Collections	149
Accrual Adjustments	<u>2</u>
Total Custodial Revenue	151
Disposition of Collections:	
Transferred to Others:	
Treasury	(154)
States and Counties	-
(Increase)/Decrease in Amounts Yet to be Transferred	<u>3</u>
Net Custodial Activity	<u><u>\$ -</u></u>

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, and payments to insurance agencies and taxing authorities.

Schedule of Fiduciary Activity For the Year Ended September 30, 2016

	Rural Housing Insurance Fund 2016
Fiduciary net assets, beginning of year	\$ 107
Fiduciary revenues	-
Contributions	427
Investment earnings	-
Gain (Loss) on disposition of investments, net	-
Administrative and other expenses	-
Disbursements to and on behalf of beneficiaries	(420)
Increases/(Decrease) in fiduciary net assets	7
Fiduciary net assets, end of year	<u>\$ 114</u>

Fiduciary Net Assets As of September 30, 2016

	Rural Housing Insurance Fund 2016
Fiduciary Assets	
Cash and cash equivalents	\$ 7
Investments	107
Other assets	-
Fiduciary Liabilities	-
Less: Liabilities	-
Total Fiduciary Net Assets	<u>\$ 114</u>

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

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

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

	<u>2016</u>
Resources Used to Finance Activities:	
Budgetary Resources Obligated -	
Obligations Incurred	\$ 200,425
Less: Spending authority from offsetting collections and recoveries	40,018
Obligations net of offsetting collections and recoveries	160,407
Less: Distributed Offsetting receipts	2,722
Net Obligations	<u>157,685</u>
Other Resources -	
Donations and forfeitures of property	1
Transfers in(out) without reimbursement	(65)
Imputed financing from costs absorbed by others	989
Other	(8,526)
Net other resources used to finance activities	<u>(7,601)</u>
Total resources used to finance activities	150,084
Resources Used to Finance Items not Part of the Net Cost of Operations:	
Change in undelivered orders	(11,917)
Resources that fund expenses recognized in prior periods	(17,609)
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	20,673
Change in Unfilled Customer Orders	(333)
Decrease in exchange revenue receivable from public	5,201
Other	2,810
Resources that finance the acquisition of assets	(23,258)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	5,306
	<u>(19,127)</u>
Total resources used to finance items not part of the net cost of operations	(19,127)
Total resources used to finance the net cost of operations	130,957
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	4
Increase in environmental and disposal liability	(10)
Upward/Downward reestimates of credit subsidy expense	3,671
Increase in exchange revenue receivable from the public	(1,200)
Other	132
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>2,597</u>
Components not Requiring or Generating Resources -	
Depreciation and amortization	391
Revaluation of assets or liabilities	(11)
Other Components not Requiring or Generating Resources:	
Bad Debt Expense	66
Cost of Goods Sold	1,586
Other	1,759
Total components of Net Cost of Operations that will not require or generate resources	<u>3,791</u>
Total components of Net Cost of Operations that will not require or generate resources in the current period	<u>6,388</u>
Net Cost of Operations	<u>\$ 137,345</u>

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 SOS should reconcile to the “Obligations Incurred” line in the SBR. These amounts may not reconcile to USASpending.gov because the SOS and the website have different reporting requirements.

For the Year Ended September 30, 2016 (\$ In Millions)

	2016	
	Budgetary	Non-budgetary Credit Reform Financing Accounts
What Money is Available to Spend?		
Total Resources	\$ 238,705	\$ 33,562
Less Amount Available but Not Agreed to be Spent	18,136	11,477
Less Amount Not Available to be Spent	38,287	3,942
Total Amounts Agreed to be Spent	182,282	18,143
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	2,157	-
Travel and transportation	80	-
Rent, communications, and utilities	176	-
Other contractual services	5,717	2,291
Supplies and materials	401	-
Equipment, land, and structures	42	-
Investments and loans	8,565	11,142
Grants, subsidies, and contributions	32,747	6
Insurance claims and indemnities	5,287	-
Interest, dividends, and refunds	119	4,050
Other	54	-
Total	55,345	17,489
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	4,454	-
Travel and transportation	246	-
Rent, communications, and utilities	347	-
Other contractual services	3,340	6
Supplies and materials	280	-
Equipment, land, and structures	425	-
Investments and loans	-	446
Grants, subsidies, and contributions	5,363	-
Insurance claims and indemnities	6	-
Interest, dividends, and refunds	(8)	97
Other	265	-
Total	14,718	549

Schedule of Spending (continued)

For the Year Ended September 30, 2016 (\$ In Millions)

	Budgetary	Non-budgetary Credit Reform Financing Accounts
Help America Promote Agricultural Production and Biotechnology Exports as America Works to Increase Food Security:		
Personnel Compensation and Benefits	178	-
Travel and transportation	8	-
Rent, communications, and utilities	15	-
Other contractual services	202	-
Supplies and materials	66	105
Equipment, land, and structures	11	-
Investments and loans	-	-
Grants, subsidies, and contributions	2,461	-
Insurance claims and indemnities	1	-
Interest, dividends, and refunds	-	-
Other	21	-
Total	2,963	105
Ensure that All of America's Children Have Access to Safe, Nutritious, and Balanced Meals:		
Personnel Compensation and Benefits	2,249	-
Travel and transportation	125	-
Rent, communications, and utilities	148	-
Other contractual services	887	-
Supplies and materials	2,308	-
Equipment, land, and structures	75	-
Investments and loans	-	-
Grants, subsidies, and contributions	101,777	-
Insurance claims and indemnities	22	-
Interest, dividends, and refunds	1	-
Other	274	-
Total	107,866	-
Create a USDA for the 21st Century that is High Performing, Efficient, and Adaptable:		
Personnel Compensation and Benefits	554	-
Travel and transportation	13	-
Rent, communications, and utilities	151	-
Other contractual services	591	-
Supplies and materials	9	-
Equipment, land, and structures	64	-
Investments and loans	-	-
Grants, subsidies, and contributions	9	-
Insurance claims and indemnities	-	-
Interest, dividends, and refunds	-	-
Other	(1)	-
Total	1,390	-
USDA Total		
Personnel Compensation and Benefits	9,592	-
Travel and transportation	472	-
Rent, communications, and utilities	837	-
Other contractual services	10,737	2,297
Supplies and materials	3,064	105
Equipment, land, and structures	617	-
Investments and loans	8,565	11,588
Grants, subsidies, and contributions	142,357	6
Insurance claims and indemnities	5,316	-
Interest, dividends, and refunds	112	4,147
Other	613	-
Total	182,282	18,143
Total Amounts Agreed to be Spent	182,282	18,143
Who did the Money go to?		
Federal	11,951	5,909
Non-Federal	170,331	12,234
Total Amounts Agreed to be Spent	\$ 182,282	\$ 18,143

Response to Management Challenges

The Reports Consolidation Act of 2000 requires the U.S. Department of Agriculture's (USDA) Office of Inspector General (OIG) to report annually on the most serious management challenges USDA and its agencies face. To identify these Departmental challenges, OIG examined previously issued audit reports where corrective actions have yet to be taken. OIG 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.

Annually, OIG assesses the previous year's challenges to determine if those are still critical challenges; examines recently issued audit reports to identify critical issues that remain topical and where corrective action has not been satisfactorily implemented; identifies repeated inquiries or hotline trends in risk areas; assesses ongoing audit and investigative work to identify new issues; and analyzes new programs and activities that pose significant challenges due to size and complexity.

OIG reviewed the challenges cited in 2015, and concluded that they continue to be critical challenges for the Department. Therefore, OIG has not removed or added any challenges to this year's report. However, in this year's report, OIG added an analysis that measures the Department's progress on implementing corrective actions to resolve each challenge. OIG identified the recommendations associated with each management challenge and quantified whether they accepted the corrective action or whether the agreed-to corrective action had been implemented, as of May 31, 2016.

The following narratives summarize:

- OIG-recognized management challenges;
- USDA's fiscal year (FY) 2016 agency accomplishments; and
- FY 2017 planned actions to address these management challenges.

Challenge 1: USDA Needs to Improve Oversight and Accountability for its Programs

In Challenge 1, USDA, much like other agencies and departments throughout the Government, faces challenges in overseeing its many programs. USDA employs nearly 100,000 employees in 17 agencies and 18 staff offices; in total, these employees operate more than 300 programs that are responsible for \$144 billion in spending per year. Overseeing these programs so every

dollar spent accomplishes the results intended poses significant challenges to USDA program managers.

USDA managers are responsible for the following: 1) establishing an effective internal control system, 2) ensuring that a culture of compliance with those controls exists, and 3) holding employees accountable for implementing those controls. Internal controls are the tools managers use to ensure 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—managers must continuously assess and improve their internal control systems. If management does not emphasize those controls, Federal programs will not function as intended.

OIG DETERMINED THE FOLLOWING:

- The Animal and Plant Health Inspection Service (APHIS), Agricultural Research Service (ARS), and the Food Safety and Inspection Service (FSIS) need to more effectively and efficiently manage limited resources for addressing antibiotic resistance issues relating to funding and staffing needs. The Department itself does not have a well-developed central communication platform for distributing a unified, scientifically based, antibiotic resistance message;
- The Natural Resources Conservation Service (NRCS) did not have sufficient controls in place to evaluate official determinations or verify data, which led to payments of over \$43 million for conservation easements on land whose values were not sufficiently supported by documented, transparent decisions;
- NRCS' control environment did not include a system of management accountability to ensure land values for NRCS' conservation easement programs were properly supported and accurately reported before payments were made;
- NRCS did not maintain data for easement payments in a format that would allow the agency to monitor program performance. NRCS should reassess its oversight and evaluation process to cover key program requirements and ensure fair and compliant land valuations;
- The Risk Management Agency's (RMA) national office did not fully use the compliance review system's capabilities to identify key performance indicators and generate reports to monitor and oversee compliance activities; and
- APHIS can do more to strengthen controls intended to prevent the environmental release of genetically engineered (GE) organisms.

CORRECTIVE ACTIONS:

The USDA's Office of the Chief Scientist and the USDA One Health Joint Working Group Co-chairs (APHIS, ARS, and FSIS) hosted a departmental strategic planning meeting for USDA agencies addressing Combating Antibiotic Resistant Bacteria (CARB) National Action Plan (NAP) goals. A departmental antimicrobial resistance (AMR) strategic planning meeting will occur annually so that antibiotic resistance priorities for achieving NAP goals are coordinated before agencies submit their budgets.

The USDA One Health Joint Working Group Co-chairs, senior executives, and Budget Officers from USDA agencies developed a plan to meet annually with the Office of Budget and Program Analysis (OBPA) to develop budget language to show intradepartmental agency dependencies addressing CARB NAP goals. All AMR budget requests will be harmonized and further developed with USDA AMR leadership and OBPA for a strategic budget request that represents the entire Department.

The USDA One Health Joint Working Group established a communications AMR sub-group, and by March 31, 2017, the new communication working group will develop, for the USDA Office of Communications, a comprehensive strategic communications plan for providing antibiotic resistance information to stakeholders and to the general public. The plan will promote the development of a more robust antibiotic resistance web site that will explore the use of other social media outlets, address the needed resources, convey a unified and scientifically based message to the public and to all interested parties, and include matters regarding antibiotic resistance and the gathering of stakeholders' data.

Natural Resources Conservation Service

NRCS updated its Agriculture Conservation Easement Program (ACEP) manual and issued National instructions on guidance for state implementation of easement acquisition and enhanced internal controls prior to obligation, payment, and closing to adequately address improper payments of the \$43 million on land whose values were previously not sufficiently supported by documented, transparent decisions. NRCS is currently conducting compliance reviews and anticipates completing reviews by October 30, 2016.

NRCS will continue to work with OIG to determine the corrective actions needed to establish the value of the two questioned easements in Kentucky, either by (1) using the cooperating entity's original appraisals, or (2) by obtaining new appraisals for those conservation easements and working with the State Conservationist and cooperating entity to recover improper payments, if necessary.

Risk Management Agency

RMA completed the business process review, development, documentation, and implementation of a formal strategy for fully utilizing its databases to improve RMA's internal oversight and to increase consistency throughout its compliance case management process. This includes the identification of key performance indicators and generation of reports to monitor and oversee compliance activities.

RMA performs quarterly peer reviews of its data to enhance oversight of the case management process. During its quarterly peer reviews, RMA crosschecks several databases and verifies that cases are valid, adequately documented, and closed appropriately. RMA provided the Office of the Chief Financial Officer (OCFO) operating procedures for performing quarterly peer reviews and documentation supporting the development of key performance indicators that RMA will use to provide effective case management oversight. RMA also revised the Compliance Manual, including the method for enforcing its use.

In addition, RMA will provide documentation of consultation with Approved Insurance Providers for establishing and documenting reasonable expectations of receiving water. RMA will develop policy and/or procedures used to supplement the current guidance.

Animal and Plant Health Inspection Service

In order to prevent the unauthorized dissemination or persistence in the environment of a regulated Genetically Engineered (GE) organism after APHIS has issued an authorization for an activity involving the regulated GE organism, APHIS will aim to accomplish the following in fiscal year (FY) 2017:

- Develop and implement policies which that require APHIS officials to analyze reports to (1) ensure that all release sites are included, (2) identify discrepancies, and (3) require immediate resolution;
- Develop and implement a process, within the new information systems, to document report due dates, as well as track, search, and monitor the status of progress reports. In addition, include a process to refer report discrepancies, as well as missing and late reports, to the APHIS compliance branch;
- Until a new information system is fully operational, enter into e-Permits the data for all progress reports received via mail, email, etc.; this method will allow APHIS officials to track and search all received reports;
- Develop and implement a detailed selection policy for permits for inspection that discuss which risk factors will be evaluated and how risk factors will be evaluated. The policy should also require staff to document the monthly process for permit selections;

- Update the compliance database to allow for more than one category to be selected in order to identify the compliance incident;
- Incorporate compliance reporting and tracking of all incidents in the information system being developed;
- Share the compliance database with the biotechnologists responsible for the review and approval of applications, so that compliance history can be reviewed during the approval process;
- Develop and implement procedures for the approval process for notification and permits which include reviewing the compliance issues against the organization and the responsible party;
- Develop and implement specific policies and procedures for the retention and maintenance of all petition documents for each step of the petition process;
- Develop and implement a Petition Tracking System that identifies each step in the petition process in order to allow effective monitoring of the process; and
- Comply with the regulatory timeframes or revise the regulation to remove the 180-day petition decision timeframe in order to reflect the current timeframes required for the new review process.

Challenge 2: Information Technology Security Needs Continuing Improvement

In Challenge 2, USDA must efficiently manage vast amounts of data to accomplish its mission of providing benefits and services to the American public, including critical information such as agricultural statistics that drive domestic and global markets and data from inspection systems that help ensure food safety. Not only must USDA employees be able to access, use, and communicate this information, but members of the public apply for and access many USDA program benefits and other services online, which can require the transfer of personally identifiable information through these online portals. USDA therefore faces the critical responsibility of protecting the security, confidentiality, and integrity of its IT infrastructure.

Since the passage of the Federal Information Security Management Act of 2002 (FISMA), OIG has annually reviewed the Department's cybersecurity initiatives, including those that shield IT equipment and systems from theft, attack, and intrusion. OIG reviews have consistently found that the Department faces great challenges in complying with FISMA. Our most recent review found that the Office of the Chief Information Officer (OCIO) is taking positive steps to

improve its security posture. For example, OCIO has improved its Incident Response and Risk Management Framework.

OIG DETERMINED THE FOLLOWING:

The Department has not:

- Implemented all of the requirements for security training, remote access management, and contingency planning;
- Performed an assessment of the skills, knowledge, and resources needed to effectively implement an Information Security Continuous Monitoring (ISCM) Strategic Plan;
- Defined or formally documented within the ISCM Strategic Plan the organization's process for collecting and considering lessons learned to improve ISCM processes;
- Developed policies and procedures for remote access and teleworking that comply with National Institute of Standards and Technology (NIST) guidance; and
- Examined another aspect of the Department's IT security through a contracted assessment of the implementation of the Continuous Diagnostics and Mitigation (CDM) program, which Congress established to provide adequate, risk-based, cost-effective cybersecurity, and more efficiently allocate cybersecurity resources. The contractor's report documented concerns and recommendations for actions necessary to increase the probability of success for USDA's CDM program.

USDA must not only be responsive to IT security needs, but must be vigilant to the potential for misuse of the Department's IT systems.

CORRECTIVE ACTIONS:

Office of the Chief Information Officer

During FY 2016, OCIO began providing a bi-weekly FISMA Cyber Security Scorecard to the agency Chief Information Officers (CIO). The data point and status included the following: personal identity verification (PIV) implementation for Logical Access Control, open/late plans of action and milestones (POA&Ms), authority to operate (ATO) status, and vulnerability remediation and patching status. OCIO has fully implemented Continuous Assessment and Authorization within USDA enterprise in accordance with NIST Special Publication (SP) 800-37. OCIO implemented a Continuous Monitoring and Life Cycle Management process for IT Security-related Departmental Regulations (DR). Currently, there are 28 policies identified for creation, revision, or update. OCIO published DR 3571-001 "*Information System Contingency*

Planning and Disaster Recovery Planning” and DR 3300-015 “Secure Communication Systems.”

As part of OCIO’s ongoing program oversight activities during FY 2017, OCIO will address the issues of agency compliance with security training, remote access management, and contingency planning by:

- Addressing these program areas as specific agenda items for the CIO council and the Information Security System Council (ISSC) meetings;
- Require and identify specialized role-based training in these program areas for the information systems security program managers (ISSPMs); and
- Improve monitoring and configuration of systems, authorized remote access.

OCIO plans to update the Information Security Continuous Monitoring (ISCM) Strategic Plan to address gaps by performing an assessment of the skills, knowledge, and resources needed to effectively implement the ISCM Strategic Plan. OCIO will conduct a gap analysis between current program operation resources and optimum ISCM program resource requirements; document a gap analysis between current and optimum workforce resources, skills, and knowledge levels; and coordinate with the AgLearn Program Office to evaluate current courses available in IT and IT security to identify potential course additions that will support and enhance ISCM’s skills and talent base.

OCIO reviewed and began updating the ISCM Strategic Plan in FY 2016 to reflect changes in implementation resulting from the U.S. Department of Homeland Security’s (DHS) Continuous Diagnostics and Mitigation (CDM) Program. At this time, DHS has not fully defined their technology suite or processes for the CDM Program. In the interim, USDA will establish an ISCM Tiger Team to work collaboratively with the Agriculture Security Operations Center (ASOC) Security Operations Division to define the strategic roadmap for enterprise-wide implementation of ISCM. In addition, OCIO will hold quarterly ISCM Tiger Team meetings to analyze, discuss, and document the current status of ISCM implementation; review the strategic ISCM roadmap; and assess milestone status to ensure continuing alignment to the Strategic Plan. OCIO will implement a web site to document ISCM goals, milestones, and communications.

OCIO will develop policies and procedures for remote access and teleworking that comply with NIST guidance. As part of the process, OCIO will conduct a gap analysis between existing USDA DRs, NIST, and the Office of Management and Budget (OMB) guidance on secure remote access and teleworking, and, based on the analysis, determine if a formal DR is needed.

OCIO continues to aggressively coordinate with DHS and contractors to ensure the success of USDA’s implementation of the Continuous Diagnostics and Monitoring Program. Detailed

analyses of the contractor's progress reports by OCIO personnel have identified several inaccuracies. OCIO is taking actions to ensure accurate documentation of USDA's baseline; ensure accurate reporting by contractors of critical path elements, risks and accomplishments, and status of milestones; and ensure System Development Life Cycle (SDLC) and Risk Management Framework (RMF) milestones are achieved on time to achieve successful implementation of CDM and provide ATO prior to operations of CDM equipment at USDA.

Challenge 3: USDA Needs to Strengthen Program Performance and Performance Measures

In Challenge 3, USDA manages over 300 programs that provide a variety of services to the American public, such as grants and loans for rural communities, food assistance for schools and private citizens, and research and technical assistance for environmental projects. This diverse portfolio of programs means that, for the Department to be a diligent steward of Federal funds, USDA must have well-designed programs. However, designing, developing, and implementing programs that reliably achieve their intended results has been a recurring challenge for the Department. Most recently, OIG has found that agencies provide payments to recipients without adequate reviews or controls to ensure that funds provided are used to accomplish the program's goals.

The Government Performance and Modernization Act of 2010 set new requirements for agency reports, including nature and frequency of submission. In keeping with the law, an agency should have procedures in place that allow it to regularly review a program's performance, and then compile reports that allow it to measure that performance. These reports enable policymakers to fairly evaluate programs and thus make well-informed funding decisions.

OIG DETERMINED THE FOLLOWING:

- OIG's audit of NRCS' and the Farm Service Agency's (FSA) processes for the identification and proper disposition of compliance violations related to the Highly Erodible Land (HEL) and Wetlands Conservation (WC) provisions of the Food Security Act of 1985 found problems with the data universe the agencies rely on for conducting these compliance reviews;
- NRCS cannot effectively verify that the results of its random sample reviews accurately reflect producer compliance with HEL and WC provisions;
- NRCS compliance reviewers relied on inconsistent or vague guidance when evaluating producers' compliance with HEL and WC provisions, which increases the potential for insufficient compliance determinations;

- NRCS is ill-prepared to evaluate the performance and success of programs subject to the HEL and WC provisions of the Food Security Act;
- Rural Business-Cooperative Service (RBS) exhibited problems with performance measures when OIG conducted an audit of the agency's Rural Energy for America Program (REAP);
- The RBS program's award and project performance data were unreliable because of incomplete or inaccurate data and unsubmitted performance reports;
- RBS did not monitor the program to ensure grant award integrity; and
- RBS needs to improve oversight and internal controls so that it can accurately measure the REAP performance and provide a successful energy program for rural communities.

CORRECTIVE ACTIONS:

Natural Resources Conservation Service

A Memorandum of Understanding was developed and approved by the three partner agencies, NRCS, FSA, and RMA, to timely and accurately generate a universe of tracts subject to HEL and WC provisions. NRCS, FSA, and RMA established an interagency working group to define the universe, and developed and implemented an effective methodology for the 2016 compliance reviews.

In FY 2017 NRCS will aim to:

- Update the section of the National Food Security Act Manual (NFSAM) with the revisions that detail what constitutes acceptable levels of treatment required to stabilize all types of gullies, which include both ephemeral and classical;
- Clarify national guidance to ensure that to the greatest extent possible, representative areas most susceptible to gully erosion are reviewed and documented, facilitate subsequent year reviews of any compliance issues noted, and provide clarification on the required review of tracts for employees;
- Clarify national guidance to ensure quality control reviews are performed in a consistent and effective manner and can facilitate a validation of compliance determinations;
- Revise national guidance regarding the roles and responsibilities of the compliance reviewers while performing the wetland compliance reviews; and
- Establish additional quality control checks to ensure the sampled tracts are sufficient to assess compliance on a national level. Quality control checks will include a review of the

process used to select future FSA data to ensure the process sufficiently includes all counties with agricultural tracts subject to compliance with the Food Security Act of 1985. The sampling process will ensure that only those tracts reviewed once in the past 2 years and found to be compliant will be excluded from the sample and that all tracts associated with the subject producer will not be excluded.

Rural Business-Cooperative Service

The RBS Energy Division will consult with the Office of the General Counsel to determine and develop guidance on what “other available remedies” may be used to ensure recipient compliance with reporting requirements.

The RBS Energy Division will develop standard operating procedures (SOP) for REAP and update the Guaranteed Loan System (GLS) manual to use GLS to track receipt of annual performance reports from recipients. Once the SOPs and the GLS manuals are completed, training will be conducted for State Office and field staff on the proper use of Routine Servicing Actions in GLS that can be used to establish and track annual performance reports. Creating SOPs for REAP and updating the GLS manual will be completed by December 31, 2016. If funding allows, RBS proposes to conduct the in-person trainings early in FY 2017, which will be completed by March 31, 2017. The Webinars will be conducted and concluded by the end of FY 2017.

The RBS Energy Division will also develop and implement performance report templates for the most common types of energy efficiency improvements projects, where a template is commensurate to project scope and complexity. This template will be made available to recipients by March 31, 2017.

Challenge 4: USDA Needs to Strengthen Controls over Improper Payments and Financial Management

In Challenge 4, the Department’s annual financial reports provide the public, Congress, and the President with information about the nearly \$144 billion spent on public services every year. These reports account for USDA’s costs and revenues, assets and liabilities, and other information, such as improper payments. It is imperative that these reports are accurate and timely so that USDA’s financial management is transparent. However, USDA continues to fall short of full compliance with Federal requirements for improper payments and needs to address control issues in some component agencies in order to resolve ongoing problems with financial management.

OIG DETERMINED THE FOLLOWING:

- USDA did not comply with the Improper Payments Elimination and Recovery Act (IPERA);
- There were instances of inaccuracy or untimely submissions of reporting high-dollar overpayments, and the Department itself continued to submit its signed quarterly reports after the required date. Although OIG generally found these errors to be minor, OIG recommended continued vigilance to prevent and eliminate reporting errors, deficiencies, and delays;
- For FY 2015 the Commodity Credit Corporation (CCC) and NRCS received a disclaimer of opinion on their financial statements; and
- USDA's consolidated financial statement audit has reported the same two material weaknesses related to internal controls over financial reporting: improvements are needed in overall financial management, and improvements are needed in the overall information technology security program.

CORRECTIVE ACTIONS:

Department-wide

OCFO worked with RMA to send its 2017 Improper Payment Information Act Measurement Plan to OMB and OIG for review. The Plan brings RMA's sampling methodology into a valid statistical sample in accordance with OMB Circular A-123. Improved internal controls guidance and the template were sent out to agencies in the first quarter in FY 2016. FY 2016 Accountability, Infrastructure, Barriers, and Other Comment Reporting; Corrective Action Plan guidance; and a Risk Assessment Review Checklist were issued. Risk assessments were mostly completed in the third quarter. The improper payment section of the Agency Financial Report was completed in the fourth quarter. Plans to bring programs non-compliant with IPERA for one year were sent to Congress in the fourth quarter. Half of USDA's High Dollar reporting was completed on time. Almost all USDA programs implemented recovery audit programs or received an OMB approved waiver in the second half of FY 2016. Recoveries of improper payments continued to increase in FY 2016.

The Department will continue to cooperate with OIG on their improper payment audits and will strive to assist USDA agencies in becoming compliant with IPERA. OCFO will issue guidance for the implementation of "Do Not Pay" in the first quarter of FY 2017. USDA will strengthen the risk assessment process by utilizing the OMB Circular A-123 testing method and analyzing the results to determine susceptibility of a program to significant improper payments. Guidance will be issued in the first quarter with implementation in the third quarter. USDA will improve

the speed and frequency of the recovery audit distribution process in FY 2017. Finally, USDA will issue plans to bring programs non-compliant with IPERA for one year and will send these plans to Congress in the fourth quarter.

Commodity Credit Corporation

During FY 2016, CCC:

- Completed the Agriculture Risk Coverage (ARC)/Price Loss Coverage (PLC) software and released obligating Program Year 2014 and future contracts at a transactional level and properly sequestered funds;
- Completed the Commodity Loan Processing System (CLPS) and released obligating loan Crop Year 2015 and future applications at the transactional level;
- Completed the Margin Dairy Protection Program software and released obligating Program Year 2016 and future contracts at the transactional level;
- Closed out all activity on the IBM AS400/S36 platform hosting county office application;
- Completed the Phase II Direct Loan System (DLS) for Farm Storage Facility Loans (FSFL) software that was released and replaced the Core Accounting System (CORE) Budget Tables with the real-time obligations functionality and the proper obligation liquidations FSFL loan closing (June 2016), regardless of the cohort year;
- Completed the Cotton Ginning Cost Share Program software and released obligating Program Year 2016 contracts at the transactional level; and
- Designed and implemented processes, procedures, and effective controls related to significant accounting estimates. This includes a Business Portfolio Manual (BPM) process for each major CCC program to supplement the existing CCC Program Financial Manual (PFM) process.

In FY 2017, CCC will continue to modernize FSA's systems and become substantially compliant with the Financial Reporting and Funds Control/Obligation Requirements related to obligations at the transactional level. The following programs are planned to be in development phase for obligations at the transactional level:

- Non-Insured Crop Disaster Assistance Program (NAP)
- Livestock Indemnity Program (LIP)
- Livestock Forage Disaster Assistance Program (LFP)

CCC will also:

- Design and implement processes, procedures, and effective controls related to significant accounting estimates to ensure personnel preparing and/or utilizing budgetary and/or proprietary estimates are qualified, CCC will conduct workshop for staff and managers to ensure competency in identifying the need for preparing, supporting, validating, reviewing, and recording accounting estimates;
- Implement processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions leveraging existing OMB Circular A-123, Appendix A;
- Implement a corrective action plan, “Maintaining, Controlling and Monitoring the CORE General Ledger (reconciliations)”; and expand the tie-point analysis process to include additional training and workshops to provide expert assistance with reconciliations, trial balance analytics, clean-up projects, abnormal balances, and variances; and
- Develop effective information and communication processes to ensure that policies and procedures related to programs or events that may give rise to the recognition of accounting transactions are consistently communicated and applied throughout the agency and that technical accounting issues are identified, analyzed, and resolved in a timely manner. SOPs are being developed for BPM’s to include identification of applicable programs, annual review of existing BPMs, assessment of new applicable programs, BPM template updates, and preparation.

Natural Resources Conservation Service

During FY 2016, NRCS completed its annual Improper Payment testing and reporting for FY 2015. NRCS sampled payments that evaluated actions taken to ensure that they were adequate to address the requirements of IPERA.

In FY 2017, NRCS will:

- Monitor activity in accordance with the U.S. Standard General Ledger (USSGL) 4871 and 4881 accounts to ensure that invalid upward and downward adjustments are identified and corrected in a timely manner and that balances are appropriate;
- Monitor open obligations (USSGL accounts 4801 and 4802) to ensure that they are recorded in the appropriate period and liquidated in a timely manner;
- Provide adequate training to personnel related to the documentation requirements for support;

- Assist personnel producing data extracts to determine the completeness and accuracy of such extracts;
- Ensure data extracts are reviewed by process owners regularly for errors;
- Establish a closing schedule for period 13 transactions in order to avoid any delays in producing such extracts;
- Establish policies/guidelines that assist accounting personnel in properly determining the type of sufficient supporting documentation;
- Continue to develop and implement internal controls and policies and procedures to correct or mitigate the risks and potential misstatements within the agency;
- Enhance policy and control procedures for the accuracy and consistent application of period end accruals;
- Provide adequate training to personnel relating to the new accrual policy;
- Provide guidance and/or training to employees on policies and procedures to ensure purchase transactions have adequate supporting documentation (e.g., purchase requisitions, purchase orders, invoices, etc.) to determine if they are accurate and exist;
- Enhance monitoring controls over payment approvals to determine whether appropriate documentation is provided to support the disbursement;
- Enhance procedures to determine if accrued expenses are complete, accurate, and exist at quarter end and are properly supported;
- Implement management's plan to develop a new process for administering the remaining funds for the Grasslands Reserve Program (GRP) in FY 2016;
- Request and obtain supporting documentation for prior services rendered by FSA to NRCS;
- Review and reconcile the supporting documentation to determine and mutually agree upon the amount of services that have been rendered by FSA to NRCS;
- Make and record any necessary corresponding adjustments to fund balance with the U.S. Department of the Treasury (Treasury), accounts receivable, accounts payable, and cumulative results of operations balances;
- Obtain sufficient supporting documentation for the remaining GRP obligations recorded in the general ledger at the end of FY 2015; and

- Review existing policies and procedures to ensure that they are adequate to address the requirements of the Improper Payments Elimination and Recovery Improvement Act (IPERIA) and provide guidance and/or training to employees and outside entities regarding the SAM.gov registration requirements.

Challenge 5: USDA Needs to Improve Outreach Efforts

In Challenge 5, USDA has emphasized its efforts to improve outreach to new and beginning farmers and ranchers, local and regional food producers, minorities, women, and veterans. As part of those efforts, the Secretary of Agriculture has reiterated the importance of civil rights, stressing that significant progress is to be made in working with communities in addressing past civil rights issues. Due to a history of public attention concerning how USDA has treated members of socially disadvantaged groups, the Department faces challenges in earning those groups' trust.

The Food, Conservation, and Energy Act of 2008 directed that all pending claims and class actions (for example, *Pigford v. Glickman*, *Garcia v. Vilsack*, and *Love v. Vilsack*) brought against USDA by socially disadvantaged farmers or ranchers, including Hispanics and women, based on racial, ethnic, or gender discrimination in farm program participation, be resolved in an expeditious and just manner. OIG continues to evaluate the Department's progress toward fulfilling the Congressional mandate.

OIG DETERMINED THE FOLLOWING:

- FSA could not demonstrate that it successfully reached out to some targeted audiences, such as specific underserved groups and veterans. The low percentage of participation by some targeted groups suggests FSA needs to increase its outreach to those underserved groups; and
- FSA needs to develop and implement controls and guidance to achieve consistent administration of Microloans, periodically evaluate outreach activities to ensure effective marketing to target groups, and develop an accurate measurement of success for its outreach program.

CORRECTIVE ACTIONS:

Farm Service Agency

The system coding for the Microloan enhancement has been completed through the development phase in the Direct Loan System. The enhancement is currently in the testing phase. Once deployed, this initiative will help achieve consistent application and

documentation of Microloan program security requirements. Implementation was completed by September 30, 2016.

FSA has increased the National Outreach Staff. Each staffer has jurisdiction over outreach areas to support field training, provide educational materials, and track outreach activities. FSA initiated a software enhancement to the Outreach Tracking and Information System (OTIS) to improve specific program and targeted underserved tracking. FSA will review State reports monthly in OTIS and provide quarterly progress reviews to the Administrator and State Executive Directors.

In FY 2016, in an effort to improve outreach efforts to current and prospected targeted underserved farmers and ranchers, FSA entered into over 50 cooperative agreements with local, state, and national partners in over 28 states to conduct outreach, technical, and financial assistance to underserved communities. These outreach partnerships will result in measurable outreach activities to communities that FSA traditionally has not been able to reach. FSA is currently reviewing additional cooperative agreement proposals submitted by organizations in Round II to be funded for underserved outreach assistance later this fall.

FSA State offices have conducted informational sessions with nonprofits and organizations who have received funding from USDA and USDA agencies in order to conduct outreach with underserved communities. These sessions have introduced trusted organizations to FSA program and staff information and have resulted in collaborative outreach meetings in underserved communities.

FSA continues to evaluate an effective means of data collection that may greater enable the agency to track customer traffic with respect to outreach activities. Specifically, FSA plans to collect basic customer information, such as how they learned of an FSA program, by incorporating a multi-pick question into the Receipt for Service log as an efficient way to log the customer's reason for seeking assistance. Discussions continue between FSA and OMB regarding the approval requirements associated with the Paperwork Reduction Act.

Challenge 6: Food Safety Inspections Need Improved Controls

In Challenge 6, As the Nation's gatekeeper for safe and wholesome food products, the Food Safety and Inspection Service (FSIS) performs a variety of functions. The agency conducts inspections of commercial meat, poultry, and egg products. Along with these inspections, FSIS coordinates with the Food and Drug Administration to monitor levels of antibiotic-resistant bacteria present in slaughtered swine, cattle, and poultry. FSIS also supports the interagency National Residue Program to identify, rank, and test for chemical contaminants, including antibiotics, in meat, poultry, and egg products.

Given concerns about increasing levels of antibiotic-resistant bacteria in food animals, the President issued an executive order to address the issue of antibiotic microbial resistance. This executive order resulted in the development of a multi-agency *National Action Plan for Combating Antibiotic Resistance Bacteria*. FSIS, together with ARS and APHIS, is responsible for facilitating USDA's response to certain areas in four goals outlined in the National Action Plan: surveillance, stewardship, research, and international coordination. Of particular relevance to food safety inspection, the National Action Plan calls for targeted surveillance for levels of antibiotic-resistant bacteria in food throughout the production chain. Further discussion about this challenge can be found in Challenge 1.

OIG DETERMINED THE FOLLOWING:

- FSIS needs to make antibiotic microbial resistance activities a priority in order to effectively address the issue and meet executive expectations and actions outlined in the National Action Plan.

CORRECTIVE ACTIONS:

Food Safety and Inspection Service

FSIS' 2017–2021 Strategic Plan, issued the week of October 17, 2016, addresses antimicrobial resistance (AMR). Specifically, its Goal 2: Modernize Inspection Systems, Policies, and the Use of Scientific Approaches includes an Objective (2.1.1) entitled Modernize Scientific Techniques and Inspection Procedures. This Objective includes a focus on the use of whole genome sequencing (WGS), and references, among other approaches, because its use will facilitate an in-depth understanding of harmful traits, such as bacterial virulence and AMR. FSIS also indicates in this Objective that the agency will share what it learns about the harmful traits of pathogens with collaborating partners in order to track and potentially prevent these pathogens from adulterating food throughout the farm to fork continuum, as well as develop a more in-depth understanding of AMR in bacteria and further help FSIS, APHIS, the Center for Disease and Control, and ARS efforts to protect the effectiveness of antibiotics for the U.S. population and animal agriculture, including collaborating through the National Antimicrobial Resistance Monitoring System for Enteric Bacteria (NARMS). Specific steps FSIS indicates it will take in this Plan include continuing to provide data from pathogen sampling it conducts to Federal partners; participating in pilot studies, including through partner collaborations; and initially identifying the appropriate technologies or tools to better understand the movement of AMR along the farm to fork continuum.

FSIS' performance measurement framework includes increasing the percentage of all isolates that whole genome sequencing sampling generates being subject to FSIS to 100 percent by the end of FY 2019.

Challenge 7: FNS Needs to Strengthen SNAP Management Controls

OIG highlights a major USDA program in Challenge 7. As the largest program within USDA and one of the largest programs in the Federal Government, the Supplemental Nutrition Assistance Program (SNAP) presents a unique challenge for program managers. Administered by the Food and Nutrition Service (FNS), SNAP provided monthly food assistance for nearly 46 million low-income individuals in FY 2015 and disbursed almost \$70 billion in benefits that year. From 2007 to 2015, program participation grew by 73.9 percent (although participation has trended down in recent years). Given SNAP's size and significance, fraud, waste, and abuse are critical concerns. The potential exists for billions of dollars of taxpayer-funded assistance not to be delivered or used as intended. OIG works to combat these problems through investigations into fraudulent activities by retailers and program participants. OIG also conducts audits designed to identify waste and abuse by program administrators and improve FNS' controls over the program.

OIG DETERMINED THE FOLLOWING:

- States weakened the quality control (QC) process by using third-party consultants and error-review committees to mitigate individual QC-identified errors rather than improving eligibility determinations;
- State QC staff treated error cases non-uniformly;
- FNS' two-tier QC process is vulnerable to State abuse due to conflicting interests between (1) accurately reporting true error rates and incurring penalties, or (2) mitigating errors and receiving a bonus for exceeding standards;
- States' QC reviews did not meet SNAP regulatory requirements, and Federal oversight of the States' QC, was inadequate;
- As one of the five States OIG reviewed, New Hampshire did not enter Social Security numbers (SSN) for every household member applying for SNAP benefits, as required; and
- New Hampshire did not consistently notify households of the date SNAP benefits expire, which could have resulted in households not recertifying and thus having their benefits interrupted.

CORRECTIVE ACTIONS:

Food and Nutrition Service

FNS conducted monitoring reviews of State QC processes to focus on the integrity of statistical reporting. In December 2014, FNS established new internal procedures to review State QC processes to determine if any State reported error results were based on biased practices. Using State reported data, FNS selected seven States for focused QC integrity reviews: Connecticut, Florida, Missouri, New Jersey, Texas, Vermont, and Washington. On-site field work was completed between April 2015 and December 2015 for all seven States and included an analysis of the States' use of third-party consultants. FNS found biased procedures, including mitigation of errors before reporting results to FNS. FNS also found a lack of documentation in State QC case files, as required by 7 Code of Federal Regulations (CFR) 273.2(f)(6) of the SNAP regulations, that failed to substantiate the conclusions reached by the State QC reviewer. Due to these concerns, FNS selected a second cohort of 25 States for reviews between January and May 2016. Similar results were found in the second cohort. As a result of these findings, FNS decided to conduct intensive reviews of State QC operations of the remaining 20 State agencies that administer SNAP between July and September 2016. All 53 reviews were completed as of September 30, 2016. The information gathered in these reviews will inform the calculation of the FY2015 error rate, which will be announced by the end of December 2016.

These FNS reviews are specifically designed to identify whether any States are operating biased QC practices, either intentionally or not intentionally, that may influence the validity of statistical reporting. Following each review, FNS issues a report to each State outlining any findings or operations that are contrary to regulatory or policy requirements. FNS requires States to develop a corrective action plan and submit their plan to FNS within 45 calendar days of receipt of the report. FNS then uses an internal quality assurance process to ensure corrective actions are implemented in order to prevent future occurrences. Additionally, FNS is evaluating administrative options available to address States that fail to come into compliance.

Even prior to issuance of the OIG report, FNS took steps to improve integrity by strengthening policies and limiting the use of third-party consultants. On September 23, 2015, FNS issued a letter to all States, reminding them of expectations regarding actions that may introduce bias and that States are responsible for taking action to prevent the introduction of bias into State QC case review processes. FNS requested that each State Commissioner initiate an internal review of State procedures to ensure compliance with Federal regulations. Additionally, on January 20, 2016, FNS issued policy guidance that provides States with further direction regarding biased practices to avoid and restrict the use of error review committees to future corrective action planning only; remind States of the requirements to provide Federal reviewers with full access to certification files; and remind States of the requirements to refer all cases

found in error to the State for restitution if an under-issuance occurred or for the establishment of a claim if an over-issuance occurred.

As of the January 20, 2016, policy statement, States are required to notify FNS at least 30 days in advance of signing a contract with a third-party consultant to ensure the activities proposed adhere to Federal regulatory and policy requirements. Furthermore, States are required to provide all deliverables and training materials created by a third-party consultant to FNS. These procedures are necessary to ensure that States follow Federal regulations and policies for documenting and reporting errors to FNS while working with third-party consultants.

Furthermore, on September 30, 2016, FNS released a revised QC policy handbook, as well as a new training curriculum for all Federal and State QC reviewers.

The revised policy handbook is in alignment with recommendations from OIG and the results of our own reviews. The handbook:

- Provides a definition of bias. Explains that the same policy must be applied to all cases regardless of whether or not it results in an error finding.
- Clarifies verification requirements and what can be used as acceptable verification of household circumstances.
- Revises existing policy to clarify the requirements for State and Federal reviewers to independently verify information;
- Includes greater emphasis on the importance of and need for verification and documentation requirements in the files.
- Notes that review is required for certain prohibitions that would prevent an individual or the entire household from being considered categorically eligible for SNAP.
- Clarifies how to calculate income for simplified reporting households to better align with simplified reporting regulations and address a concern from the OIG audit.

FNS will continue to take action during FY 2017 to strengthen the SNAP error rate process.

FNS' planned actions include:

- Conduct a cost/benefit analysis and pilot of a one-tier QC process;
- Enhance the QC management evaluation review modules based on information learned in the reviews described in the corrective actions taken by FNS in FY 2016;
- Use the new training curriculum to train all Federal and State reviewers in proper policy and procedures in order to strengthen the quality and consistency of QC case reviews;

- Revise existing policy to address OIG’s concerns regarding the implementation of the Comparison I and II calculations and issuing a timeline detailing these policy revisions. Specific to Comparison II, FNS will ensure it is clear that the QC reviewer must examine whether regulatory time frames for reporting and acting on changes were met instead of applying a broad exclusionary time frame in instances where there is a variance caused by a reportable change; and
- Issue a detailed policy memo providing clarifying guidance on FNS’ Broad-Based Categorical Eligibility (BBCE) policies to ensure that States are applying the requirements as FNS intended.

FNS is working closely with the State to implement the above corrective actions in FY 2017.

The OIG *USDA Management Challenges Report* issued August 26, 2016, may be viewed in its entirety at the following web site: <https://www.usda.gov/oig/webdocs/MgmtChallenges2016.pdf>.

Summary of Financial Statement Audit and Management Assurances

Summary of Existing Material Weaknesses

The U.S. Department of Agriculture's (USDA) 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 16](#) and [Exhibit 17](#).

Exhibit 16: Summary of Financial Statement Audit

Audit Opinion: Unmodified 2016 Consolidated Balance Sheet

Restatement: No

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Improvement Needed in Financial Management	1					1
Improvement Needed in Information Technology Security and Controls	1					1
TOTAL MATERIAL WEAKNESSES	2					2

Exhibit 17: Summary of Management Assurances

Effectiveness of Internal Control Over Financial Reporting (FMFIA § 2)**Statement of Assurance:**

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Information Technology	1					1
Financial Management	1					1
TOTAL MATERIAL WEAKNESSES	2					2

Effectiveness of Internal Control Over Operations (FMFIA § 2)**Statement of Assurance:**

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)

Item	Agency	Auditor
1. System Requirements	Lack of compliance noted	Lack of compliance noted
2. Accounting Standards	Lack of compliance noted	Lack of compliance noted
3. U.S. Standard General Ledger at Transaction Level	Lack of compliance noted	Lack of compliance noted

Improper Payments

The Improper Payments Information Act of 2002 (IPIA), as amended by the Improper Payments Elimination and Recovery Act of 2010 (IPERA), and the Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA), require that executive agencies 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 (or a high-risk program) has both a 1.5-percent improper payment rate and at least \$10 million in improper payments, or exceeds \$100 million dollars in improper payments.

Fiscal Year 2016 Results

The U.S. Department of Agriculture's (USDA) improper payment rate is 8.86 percent for fiscal year (FY) 2016, an increase from 5.70 percent for FY 2015. USDA's FY 2016 improper payment results are as follows:

- Nine USDA high-risk programs appear to be fully compliant with the Improper Payments Elimination and Recovery Act of 2010 in FY 2016;
- The Natural Resources Conservation Service (NRCS) reduced its improper payment rate from 22.04 percent to 2.38 percent for the NRCS Farm Security and Rural Investment Act Programs (FSRIP);
- After 3 consecutive years of non-compliance, the NRCS is compliant for FSRIP;
- USDA enrolled over 1,600 new users into the U.S. Department of the Treasury's Do Not Pay Portal;
- USDA recovered approximately \$0.43 million from its Supplier Credit Audit contractor, \$9.42 million from USDA programs' internal payment recapture audits, and \$1.042 million outside of payment recapture audits;
- USDA implemented multiple internal recovery audit programs; and
- USDA distributed \$9.81 million in recovered funds in accordance with IPERA.

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.

The risk assessment process for USDA's largest programs consists of the following evaluation criteria:

1. Amount of improper payments needed to meet the reporting standards;
2. Description of the program, including purpose and basic eligibility requirements;
3. Definition of improper payments specific to the program;
4. Program vulnerabilities linked to improper payments;
5. Internal controls designed to offset the program vulnerabilities;
6. Test of transactions for selected programs;
7. Listing of significant reviews and audits;
8. Final determination of risk level;
9. Planned future enhancements; and
10. Description of how improper payments are recovered.

USDA has 147 programs of which 18 are considered to be at significant risk of improper payments, and 129 of the 147 are considered to be low risk. Risk assessments for low-risk programs are completed on a 3-year rotating cycle. During FY 2016, the following 42 programs completed risk assessments and were determined to be low risk:

1. Animal and Plant Health Inspection Service Salaries and Expenses
2. Commodity Credit Corporation (CCC) Agriculture Risk Coverage and Price Loss Coverage
3. CCC Agricultural Wool Apparel Manufacturers Trust Fund
4. CCC Biomass Crop Assistance Program
5. CCC Cotton Transition Assistance Program
6. CCC Dairy Indemnity
7. CCC Emergency Forestry Conservation Reserve
8. CCC Export 416 Ocean Transportation
9. CCC Farm Storage Facility Loan

10. CCC Food for Progress Program
11. CCC Hazardous Waste Activities
12. CCC Marginal Protection Program for Dairy Producers
13. CCC Pima Agriculture Cotton Trust Fund
14. Farm and Foreign Agricultural Services (FFAS) Salaries and Expenses
15. Farm Service Agency (FSA) Public Law 480
16. FSA State Mediation Grants
17. Food and Nutrition Service (FNS) American Samoa
18. FNS Commonwealth of the Northern Marianas Islands
19. FNS Senior Farmers Market Nutrition Program
20. FNS Special Milk Program
21. Forest Service (FS) Capital Improvement and Maintenance
22. FS Management of National Forest Lands for Subsistence Uses
23. FS National Forest System
24. FS Range Betterment Fund
25. FS Trust Funds
26. FS Wildland Fire Management
27. FS Wildland Fire Management – Suppression
28. National Institute of Food and Agriculture Community Foods Project
29. Natural Resources Conservation Service (NRCS) Conservation Technical Assistance
30. NRCS Salaries and Expenses
31. NRCS Snow Survey and Water Supply Forecasting
32. Office of the Chief Information Officer Salaries and Expenses
33. Research, Education and Economics Salaries and Expenses
34. Rural Development (RD) Rural Business Service (RBS) Payment Programs
35. RD RBS Grant Program and RBS Cooperative Agreement Program

36. RD Rural Housing Service (RHS) Community Development Initiative Grants
37. RD Rural Utilities Service (RUS) Electric Loan Programs – Federal Financing Bank (FFB) Guaranteed
38. RD RUS Rural Utilities Electric Program – Direct 5 percent
39. RD RUS Water and Waste Disposal Systems for Rural Communities – Loans
40. RD RUS Rural Telecommunications Hardship Loans – Direct Telecom Loans
41. RD RUS Rural Telecommunications Loans – FFB Telecom Loans
42. RD RUS Water and Waste Disposal Loans and Grants Section 306C

USDA identified 18 programs shown in [Exhibit 18](#) as susceptible to significant improper payments.

Exhibit 18: Programs Susceptible to Improper Payments

Selection Methodology	USDA Agency	Program
Former Section 57 of Office of Management and Budget (OMB), Circular No. A-11 <i>Preparation, Submission, and Execution of the Budget</i> (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)	Loan Deficiency Payments (LDP)
		Livestock Forage Disaster Program (LFP)
		Livestock Indemnity Program (LIP)
		Supplemental Revenue Assistance Payments Program (SURE)
		Noninsured Crop Disaster Assistance Program (NAP)
	FNS	Child and Adult Care Food Program (CACFP)
	Rural Development (RD)	Rental Assistance Program (RAP)
Risk Management Agency (RMA)	Federal Crop Insurance Corporation Program Fund (FCIC)	

Selection Methodology	USDA Agency	Program
	Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Programs (FSRIP)
Disaster Relief Appropriation Act of 2013 (Sandy Disaster)	FSA	Hurricane Sandy—Emergency Conservation Program (ECP)
	FSA	Hurricane Sandy—Emergency Forest Restoration Program (EFRP)
	FSA	Hurricane Sandy—EFRP
	FS	Hurricane Sandy—Capital Improvement and Maintenance (CIM)
	NRCS	Hurricane Sandy—Emergency Watershed Protection Program (EWPP)

Sampling and Estimation

USDA's programs, which are susceptible to significant improper payments, are required to conduct an annual sample that complies with the Office of Management and Budget (OMB) Circular A-123, Appendix C. This can be accomplished by conducting a standard statistically valid sample or an OMB-approved alternative methodology.

The following is a list of programs with brief descriptions of the sampling process that utilized a standard statistically valid sampling methodology:

1. FSA/CCC's Livestock Forage Disaster Program (LFP), Livestock Indemnity Program (LIP), Noninsured Crop Disaster Assistance Program (NAP), Hurricane Sandy – Emergency Conservation Program (ECP), and the Supplemental Revenue Assistance Payments Program (SURE)
 - a. Determined a sample from the payments made in the prior fiscal year using a 90-percent confidence interval of plus or minus 2.5 percentage points.
 - b. Change in sampling process: None.
2. Hurricane Sandy – Emergency Forest Restoration Program (EFRP)
 - a. One hundred percent of the payments made in FY 2014 were tested for improper payments.
 - b. Change in sampling process: None.

3. FSA/CCC's Hurricane Sandy – ECP
 - a. One hundred percent of the payments made in FY 2014 were tested for improper payments.
 - b. Change in sampling process: Tested 100 percent of payments.
4. NRCS' FSRIP and Hurricane Sandy – Emergency Watershed Protection Program (EWPP)
 - a. Determined a sample from the payments made in the prior fiscal year using a 90-percent confidence interval of plus or minus 2.5 percentage points.
 - b. Change in sampling process: None.
5. RHS' Rental Assistance Program (RAP)
 - a. Determined a sample from the payments made in the prior fiscal year using a 99 percent confidence interval of plus or minus 0.05 percent points.
 - b. Change in sampling process: None.
6. FSA's Hurricane Sandy – EFRP
 - a. One hundred percent of the payments made in FY 2015 were tested for improper payments.
 - b. Change in sampling process: None.
7. FS' Hurricane Sandy – Capital Improvement and Maintenance (CIM)
 - a. One hundred percent of the payments made in FY 2015 were tested for improper payments.
 - b. Change in sampling process: None.

The following is a list of programs, brief descriptions of the sampling process, and their justifications for utilizing an OMB-approved alternative sampling methodology:

1. FNS, NSLP, SBP, WIC, and CACFP
 - a. The National School Lunch Program (NSLP) / School Breakfast Program (SBP) Access, Participation, Eligibility, and Certification Study-II (APEC-II) established estimates of erroneous payments due to certification error and non-certification error for school year 2012–2013. FNS generates an annual update for the improper payment measurements of both components using statistical techniques based on the findings of this study. The sample universe represents payments made in school year 2014–2015.

- b. Estimates of improper payments in the Special Supplemental Nutrition Program for Women, Infants, and Children (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 estimates for each reporting year. The National Survey of WIC Participants-II Study, published in April 2012, established estimates of erroneous 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. The sampling universe represents payments made in October 2014 through September 2015.
- c. Child and Adult Care Food Program (CACFP) - 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. A three-stage sample design was used: the first stage was developing a sample of States, from which a sample of sponsors was selected at the second stage, and a sample of FDCHs was selected in the final stage. FNS measured the level of erroneous payments due to sponsor error for the two types of program reimbursement (Tier 1 and Tier 2). The sampling universe represents payments made in October 2014 through September 2015. 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.
- d. Change in sampling process: None.
- e. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

2. RMA FCIC

- a. Uses a statistically valid estimate of the improper payment rate and of the dollar amount of improper payments for the Federal Crop Insurance Corporation Program Fund (FCIC). The improper payment reviews include all payment categories (premium subsidies, administrative and operating expense (A&O) subsidies, and indemnity payments) and considers how an improper payment can occur. A simple random sample is used to select the policies for review, and the previous methodology of using inappropriate weighting factors is no longer an issue.

- b. Change in sampling process: None.
- c. Justification: For FY 2015 and FY 2016, the Risk Management Agency (RMA) used an OMB-approved alternative sampling methodology while it was developing a more comprehensive approach that would use a larger sample stratified by approved insurance providers (AIP). For FY 2017 and beyond, RMA intends to sample from all crops and develop an estimated improper payment rate applicable to the entire program. These steps will bring RMA's measurement methodology into full compliance with IPERA.

The following program did not sample this year:

1. FNS Supplemental Nutrition Assistance Program (SNAP)
 - a. Prior to release of the OIG audit report, FNS initiated an in-depth, systematic review of all 53 State agency quality control systems. After all reviews had been completed, it was determined that USDA would not release a national SNAP error rate for FY 2015. For 42 of the 53 State agencies, USDA was unable to validate the data provided by the State. There are no statistical procedures that can accurately adjust for this unreliability and allow calculation of a national error rate.

Improper Payment Reporting

Table 13 shows USDA's high-risk programs sampling and estimation results. See the annotated notes for additional program explanations as appropriate.

Table 13: Improper Payment Reduction Outlook (\$ In Millions)

Program>>	FNS Supplemental Nutrition Assistance Program (SNAP) [Note #1]	FNS National School Lunch Program (NSLP) Total Program [Note #2]	FNS School Breakfast Program (SBP) Total Program [Note #2]	FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Total Program
Previous Year (PY) Outlays \$	70,022.00	11,319.00	3,812.00	4,542.00
PY Improper Payment (IP) %	3.66%	15.66%	22.95%	4.62%
PY IP \$	2,562.81	1,773.00	875	210
Current Year (CY) Outlays \$	N/A	11,994.80	3,959.60	4,335.00
CY IP %	N/A	15.17%	22.48%	4.79%
CY IP \$	N/A	1,819.74	890.17	207.65
CY Overpayment \$	N/A	1,368.92	722.81	129.62
CY Underpayment \$	N/A	450.82	167.36	78.03
CY +1 Est. Outlays \$	N/A	12,153.78	4,338.57	4,310.00
CY + 1 Est. IP %	N/A	14.43%	21.46%	3.98%
CY + 1 Est. IP \$	N/A	1,753.79	931.06	171.54
CY +2 Est. Outlays \$	N/A	12,340.00	4,470.00	4,244.00
CY +2 Est. IP %	N/A	14.08%	20.75%	3.88%
CY + 2 Est. IP \$	N/A	1,737.47	927.53	164.67
CY + 3 Est. Outlays \$	N/A	13,508.00	4,677.00	4,333.00
CY + 3 Est. IP %	N/A	14.00%	20.07%	3.78%
CY + 3 Est. IP \$	N/A	1,891.12	938.46	163.79

Program>>	FSA Loan Deficiency Payments (LDP) [Note #3]	FSA Livestock Forage Disaster Program (LFP)	FSA Livestock Indemnity Program (LIP)	FSA Supplemental Revenue Assistance Payments Program (SURE) [Note #4]
Previous Year (PY) Outlays \$	0	3,357.00	63	34
PY Improper Payment (IP) %	N/A	3.10%	6.36%	9.90%
PY IP \$	N/A	104.2	4	3.366
Current Year (CY) Outlays \$	124.01	2,581.12	54.27	4.55
CY IP %	3.21%	4.74%	12.87%	11.53%
CY IP \$	3.98	122.35	6.98	0.52
CY Overpayment \$	3.84	117.7	6.64	0.52
CY Underpayment \$	0.14	4.65	0.34	0
CY +1 Est. Outlays \$	121	563	36	0
CY + 1 Est. IP %	3.00%	4.00%	9.00%	2.73%
CY + 1 Est. IP \$	3.63	22.52	3.24	0
CY +2 Est. Outlays \$	169	422	35	0
CY +2 Est. IP %	2.80%	3.25%	6.00%	2.72%
CY + 2 Est. IP \$	4.73	13.72	2.1	0
CY + 3 Est. Outlays \$	169	422	35	0
CY + 3 Est. IP %	2.50%	2.75%	3.00%	2.71%
CY + 3 Est. IP \$	4.23	11.61	1.05	0

Program>>	FSA Noninsured Crop Disaster Assistance Program (NAP)	FNS Child and Adult Care Food Program (CACFP) Total Program [Note #5]	RHS Rental Assistance Program (RAP)	RMA Federal Crop Insurance Corporation (FCIC) Program Fund
Previous Year (PY) Outlays \$	174	N/A	1,147.00	13,734.00
PY Improper Payment (IP) %	7.36%	N/A	1.41%	2.20%
PY IP \$	12.8	N/A	16.2	302.15
Current Year (CY) Outlays \$	128.85	N/A	1,141.39	11,503.29
CY IP %	5.47%	N/A	1.10%	2.02%
CY IP \$	7.05	N/A	12.56	232.37
CY Overpayment \$	6.62	N/A	12.56	218.4
CY Underpayment \$	0.43	N/A	0	13.97
CY +1 Est. Outlays \$	147	N/A	1,198.45	7,267.00
CY + 1 Est. IP %	5.20%	N/A	1.09%	2.01%
CY + 1 Est. IP \$	7.64	N/A	13.06	146.07
CY +2 Est. Outlays \$	154	N/A	1,258.37	7,903.00
CY +2 Est. IP %	4.90%	N/A	1.08%	2.00%
CY + 2 Est. IP \$	7.55	N/A	13.59	158.06
CY + 3 Est. Outlays \$	154	N/A	1,321.30	7,910.00
CY + 3 Est. IP %	4.65%	N/A	1.07	1.99%
CY + 3 Est. IP \$	7.16	N/A	14.14	157.41

Program>>	NRCS Farm Security and Rural Investment Act Programs (FSRIP)	FSA Hurricane Sandy — Emergency Conservation Program (ECP)	FSA Hurricane Sandy — Emergency Forest Restoration Program (EFRP)	FS Hurricane Sandy — EFRP [Note #4]
Previous Year (PY) Outlays \$	2,122.00	0.4	0.3	0.07
PY Improper Payment (IP) %	22.04%	0.50%	1.67%	0.00%
PY IP \$	467.79	0.002	0.005	0
Current Year (CY) Outlays \$	1,994.14	0.04	0.79	0.06
CY IP %	2.38%	0.18%	1.43%	0
CY IP \$	47.41	0.0001	0.01	0
CY Overpayment \$	47.41	0.0001	0.01	0
CY Underpayment \$	0	0	0	0
CY +1 Est. Outlays \$	2,361.50	0	6	0
CY + 1 Est. IP %	2.37%	0.17%	0.50%	0.00%
CY + 1 Est. IP \$	55.97	0	0.03	0
CY +2 Est. Outlays \$	2,637.77	0	6	0
CY +2 Est. IP %	2.36%	0.16%	0.25%	0.00%
CY + 2 Est. IP \$	62.25	0	0.02	0
CY + 3 Est. Outlays \$	2,993.31	0	6	0
CY + 3 Est. IP %	2.35%	0.15%	0.10%	0.00%
CY + 3 Est. IP \$	70.34	0	0.01	0

Program>>	FS Hurricane Sandy — Capital Improvement and Maintenance (CIM) [Note #4]	NRCS Hurricane Sandy — Emergency Watershed Protection Program (EWPP)	USDA Total [Note #6]
Previous Year (PY) Outlays \$	1.18	4.83	110,332.78
PY Improper Payment (IP) %	0.06%	0.00%	5.74%
PY IP \$	0	0	6,331.32
Current Year (CY) Outlays \$	0.58	5.08	37,827.57
CY IP %	0	0	8.86%
CY IP \$	0	0	3,350.79
CY Overpayment \$	0	0	2,635.05
CY Underpayment \$	0	0	715.74
CY +1 Est. Outlays \$	0	15.97	32,518.27
CY + 1 Est. IP %	0.00%	0.00%	9.56%
CY + 1 Est. IP \$	0	0	3,108.55
CY +2 Est. Outlays \$	0	21.22	33,660.36
CY +2 Est. IP %	0.00%	0.00%	9.18%
CY + 2 Est. IP \$	0	0	3,091.69
CY + 3 Est. Outlays \$	0	21.7	35,547.31
CY + 3 Est. IP %	0.00%	0.00%	9.17%
CY + 3 Est. IP \$	0	0	3,259.41

Note #1: Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015. USDA is unable to calculate an FY 2015 national error rate due to the unreliability of some State reported data.

Note #2: Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error.

Note #3: The Loan Deficiency Payments program had no FY 2014 outlays and therefore did not conduct a sample in FY 2015.

Note #4: SURE, FSA EFRP, and FS CIM estimate zero outlays in the current year plus one. USDA anticipates that this will be the last year these programs report an error rate.

Note #5: 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, and will begin reporting an error rate for this component when a reliable methodology is determined.

Note #6: The Current Year results reflect the sampling results completed in FY 2016 for all programs except RMA. USDA sampling typically tests the prior year's outlays or an OMB approved alternative sampling plan. For RMA's FCIC program, current year reflects the 2014 reinsurance year which ran from July 1, 2013 through June 30, 2014. Section II above discusses this in more detail.

Note#7: USDA's fiscal year 2017 error rate is estimated to be higher than the fiscal year 2016 error rate because of changing outlays. Programs with higher error rates like NSLP and SBP are estimated to have increasing outlays while programs with lower error rates like FCIC and LFP are estimated to have decreasing outlays. These outlay changes cause USDA's weighted average error rate to increase.

Table 14 provides supplemental information providing a breakdown of specific USDA programs to the component reporting level.

Table 14: Program Component Reporting

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY IP %	CY IP \$	CY Overpayment \$	CY Underpayment \$
FNS NSLP Total Program	11,319.00	15.66%	1,773.00	11,994.80	15.17%	1,819.74	1,368.92	450.82
FNS NSLP Certification Error	N/A	9.70%	1,098.00	11,994.80	9.21%	1,105.19	768.51	318.69
FNS NSLP Counting/Claiming Error	N/A	5.96%	675.00	11,994.80	5.96%	714.54	582.41	132.13
FNS SBP Total Program	3,812.00	22.95%	875.00	3,959.60	22.48%	890.17	722.81	167.36
FNS SBP Certification Error	N/A	10.86%	414.00	3,959.60	10.39%	411.22	288.20	122.42
FNS SBP Counting/Claiming Error	N/A	12.10%	461.00	3,959.60	12.10%	478.95	434.01	44.94
FNS WIC Total Program	4,542.00	4.62%	210.00	4,335.00	4.79%	207.65	129.62	78.03
FNS WIC Certification Error	N/A	2.71%	123.00	N/A	2.71%	123.00	N/A	N/A
FNS WIC Vendor Error	N/A	1.91%	87.00	N/A	1.91%	87.00	N/A	N/A

Discussion of Supplemental Measures

USDA currently has the following four programs designated as high-priority programs:

1. FNS SNAP

- a. State agencies and FNS report the Quality Control (QC) Payment Error Rates to PaymentAccuracy.gov every June.
- b. Each month, SNAP cases from every State are sampled for QC review, which looks at benefits a household receives and verifies whether the benefit determination was correct. This activity identifies where improper payments occur. The baseline is the amount of monthly program benefits issued to households the QC review identified and whether the benefit payment or any portion of it was an improper payment.
- c. Data collected during the QC process is analyzed to identify areas of program administration that need improvement.
- d. Each year, SNAP issues QC Payment Error Rates. States with rates above 6 percent for two consecutive years are subject to a liability, which requires that the State invest funds into its program certification activities to reduce the amount of improper payments.

2. FNS NSLP

USDA reports 2 supplemental measures for the NSLP on PaymentAccuracy.gov.

They are:

- a. The first is the percent of students directly certified for free school meals as a percent of all students certified for free meals. The figure is updated annually based on information reported to FNS by that State each October. This figure summarizes State and school district success in moving families from traditional applications, which are associated with relatively high error, to direct certification, which APEC finds is associated with much lower error.
- b. The second is the number of State agencies that receive State Technology Grants from USDA. This figure is an indirect measure of State agency investment in the kinds of technology improvements and automation that reduces the risk of human error, particularly in recordkeeping and counting and claiming meals for Federal reimbursement. This figure is also reported on an annual cycle that coincides with the award of State agency grants by USDA.

3. FNS SBP

USDA reports two supplemental measures for the SBP on PaymentAccuracy.gov.

- a. The first is the percent of students directly certified for free school meals as a percent of all students certified for free meals. The figure is updated annually based on information reported to FNS by that State each October. This figure summarizes State and school district success in moving families from traditional applications, which are associated with relatively high error, to direct certification, which APEC finds is associated with much lower error.
- b. The second is the number of State agencies that receive State Technology Grants from USDA. This figure is an indirect measure of State agency investment in the kinds of technology improvements and automation that reduce the risk of human error, particularly in recordkeeping and counting and claiming meals for Federal reimbursement. This figure is also reported on an annual cycle that coincides with the award of State agency grants by USDA.

4. RMA FCIC

RMA initiated supplemental measures in FY 2015. RMA will measure the reduction in acreage reporting discrepancies greater than 100 acres using data mining techniques.

- a. Description – Producers report farmed acreage to their Approved Insurance Provider (AIPs) and to FSA. The AIPs then report the producer's insured acres to RMA. The reported acres for a producer are compared between RMA and FSA.
- b. Measurement Baseline – As of reinsurance year (RY) 2014, there were 25,904 Eligible Crop Insurance Contracts (ECIC) having an acreage reporting discrepancy of 100 or more acres. This means that 2.64 percent of approximately 990,000 ECICs nationwide had an acreage reporting discrepancy of over 100 acres. An ECIC represents all insured acres for a producer in a county by crop.
- c. Frequency – Annually.
- d. Results – For FY 2015, RMA set a target of 2.6 percent. RMA met this target by achieving a rate of 1.68 percent.
- e. Planned Target – Reduce the percentage of ECICs with very large acreage discrepancies over 100 acres to 1.63 percent. This could equate to a reduction of approximately 500 ECICs with very large acreage discrepancies.

- f. Benefit – RMA will produce a spot-check list of producers with significant discrepancies (over 100 acres) between acreage reported to RMA and FSA. This list will be provided to the Approved Insurance Providers for further review and reconciliation, as necessary. Corrections to the acreage reports could potentially prevent improper payments of insurance premium subsidies and indemnities.

Improper Payment Root Cause Categories

Table 15: Type of Improper Payment (\$ In Millions)

Reason for Improper Payment		SNAP [Note #1]		NSLP		SBP		WIC	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue									
Inability to Authenticate Eligibility									
Failure to Verify	Death Data								
	Financial Data								
	Excluded Party Data								
	Prisoner Data								
	Other Eligibility								
Administrative or Process Error Made by	Federal Agency								
	State or Local Agency								
	Other Party			\$1,368.92	\$450.82	\$722.81	\$167.36	\$129.62	\$78.03
Medical Necessity									
Insufficient Documentation									
Other Reason									
TOTAL				\$1,368.92	\$450.82	\$722.81	\$167.36	\$129.62	\$78.03

Reason for Improper Payment	LDP		LFP		LIP		SURE	
	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue								
Inability to Authenticate Eligibility			\$19.90					
Failure to Verify	Death Data							
	Financial Data							
	Excluded Party Data							
	Prisoner Data							
	Other Eligibility							
Administrative or Process Error Made by	Federal Agency	\$3.47	\$0.14	\$85.30	\$4.65	\$5.45	\$0.34	\$0.48
	State or Local Agency							
	Other Party							
Medical Necessity								
Insufficient Documentation	\$0.37		\$12.50		\$1.19		\$0.04	
Other Reason								
TOTAL	\$3.84	\$0.14	\$117.70	\$4.65	\$6.64	\$0.34	\$0.52	

Reason for Improper Payment		NAP		CACFP [Note #2]		RAP		FCIC	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue									
Inability to Authenticate Eligibility		\$0.22						\$191.34	\$13.62
Failure to Verify	Death Data								
	Financial Data	\$0.15							
	Excluded Party Data								
	Prisoner Data								
	Other Eligibility	\$0.06							
Administrative or Process Error Made by	Federal Agency	\$5.47	\$0.43						
	State or Local Agency								
	Other Party					\$3.24		\$27.06	\$0.35
Medical Necessity									
Insufficient Documentation		\$0.72				\$9.32			
Other Reason									
TOTAL		\$6.62	\$0.43	N/A		\$12.56		\$218.40	\$13.97

Reason for Improper Payment		FSRIP		ECP		FSA EFRP		FS EFRP [Note #3]	
		Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue									
Inability to Authenticate Eligibility		\$10.19				\$0.01			
Failure to Verify	Death Data								
	Financial Data								
	Excluded Party Data								
	Prisoner Data								
	Other Eligibility								
Administrative or Process Error Made by	Federal Agency	\$37.22		\$0.0001					
	State or Local Agency								
	Other Party								
Medical Necessity									
Insufficient Documentation									
Other Reason									
TOTAL		\$47.41		\$0.0001		\$0.01		N/A	

Reason for Improper Payment		CIM [Note #3]		EWPP [Note #3]	
		Over-payments	Under-payments	Over-payments	Under-payments
Program Design or Structural Issue					
Inability to Authenticate Eligibility					
Failure to Verify	Death Data				
	Financial Data				
	Excluded Party Data				
	Prisoner Data				
	Other Eligibility				
Administrative or Process Error Made by	Federal Agency				
	State or Local Agency				
	Other Party				
Medical Necessity					
Insufficient Documentation					
Other Reason					
TOTAL		N/A		N/A	

Note #1: Based on an in-depth, systematic review of all State quality control systems, USDA determined it could not release a national SNAP error rate for FY 2015. USDA is unable to calculate an FY 2015 national error rate due to the unreliability of some State reported data.

Note #2: CACFP did not calculate an error rate. As a result, a root cause breakdown cannot be provided.

Note #3: The FS EFRP, CIM, and EWPP programs did not identify any improper payments. As a result, a root cause breakdown cannot be provided.

Improper Payment Corrective Actions

Each program is required to develop a Corrective Action Plan. [Exhibit 19](#) describes actions taken and planned. High-priority programs (SNAP, NSLP, SBP, and FCIC) include a discussion of actions taken to recover and prevent future improper payments.

Exhibit 19: Program Corrective Action Plans

Agency	Program	Corrective Actions
Food and Nutrition Service (FNS)	Supplemental Nutrition Assistance Program (SNAP)	<p>Program regulations require State agencies to analyze data to develop corrective action plans (CAP) to reduce or eliminate program deficiencies. A State with a high error rate must conduct an analysis of its State QC data to identify the root causes of errors in the State and develop a QC CAP to address those specific root causes. 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 that address the root causes for its errors. Each State's CAP or plan to invest in Program improvements is unique and based on the root causes for the errors that occurred in that State. The State will also face further fiscal penalties if it fails to lower its error rate in a future fiscal year.</p> <p>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 will provide technical assistance to States throughout FY 2016.</p> <p>Actions taken to reduce improper payments</p> <ul style="list-style-type: none"> ▪ 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 partnerships, information exchange, and collaborative efforts that address mutual concerns and support development of effective corrective action. These activities were conducted throughout FY 2016.

Agency	Program	Corrective Actions
		<p>Actions planned to reduce improper payments</p> <ul style="list-style-type: none"> ▪ QC Payment Error Rates are announced at the end of June in the year following the end of the review period. State agencies with error rates of 6 percent or higher are required to submit CAPs to FNS addressing these errors. These CAPs are open-ended and remain in effect until all deficiencies in program operations have been reduced substantially or eliminated. State agencies will provide updates to their CAPs through regular, semiannual updates received by FNS by May 1, 2016 and November 1, 2016 respectively.
FNS	National School Lunch Program (NSLP)	<p>Root Cause #1: Certification error in the National School Lunch Program (NSLP).</p> <p>Certification errors occur when a child is placed in the wrong meal reimbursement category, such as when a child who should receive reduced-price meals is certified for free meals. Certification errors can be attributed to a number of factors, including but not limited to an inability to verify income due to statutory limits on verification, failure to verify income when selected for verification, and administrative errors.</p> <p>Actions Taken to Reduce Improper Payments (Actions Taken):</p> <p>FNS has completed a number of actions that will serve to reduce improper payments due to certification error, including:</p> <ul style="list-style-type: none"> ▪ FNS is working with a broad group of innovators to take the next step in application redesign. The agency held a public competition in late 2015 and early 2016 to begin development of the agency's first model Web-based application. The agency is finalizing that model with the help of software and design experts with the Presidential Innovation Fellows. ▪ In school year 2016-2017, the Administrative Review updates and final regulations pertaining to the Administrative Review will be released. All State agencies are expected to implement the updated process, which will provide nationwide consistency to the monitoring of program requirements. FNS will

Agency	Program	Corrective Actions
		<p>assess technical assistance needs for State agencies and provide any needed additional guidance and training that is identified.</p> <ul style="list-style-type: none"> ▪ FNS issued an updated Eligibility Manual by the end of June 2016. This manual provides information and guidance for determining students' eligibility for free and reduced-price meals in the NSLP and the SBP. ▪ FNS is working with its State and local agency partners to increase the adoption of the Community Eligibility Provision: <ul style="list-style-type: none"> ○ The agency's education, technical assistance, and direct engagement plan helped increase local election of the Community Eligibility Provision (CEP) to nearly 60 percent of eligible schools in the fall of 2016, up from 50 percent one year ago. ○ In 2016, FNS conducted 7 webinars designed to provide technical assistance to districts currently implementing or considering CEP. Topics included the following: Improving Direct Certification Systems, Publication and Notification Requirements, CEP Messaging and Outreach, Making "Cents" of CEP at a 40-50 percent Identified Student Percentage (ISP), CEP and Alternative Breakfast Models, and CEP Best Practices and Lessons Learned. ○ In January 2016, FNS released Community Eligibility Provision: Planning and Implementation Guidance, which consolidated existing CEP guidance and best practices into one, easy-to-use manual. The manual will be updated regularly to reflect any future guidance and to address any requested clarifications. ○ FNS released policy memoranda to develop administrative review guidance for CEP schools (November 2015) and clarify State agency requirements for ensuring identified student percentages are correct when school districts elect CEP (November 2015). ○ In 2016, FNS created a recommended CEP reporting template in order to facilitate and streamline the reporting process. For the data publication cycle of May 2016, 40 states used the

Agency	Program	Corrective Actions
		<p>recommended FNS template, and 34 states met the data publication deadline. FNS published the CEP data in July 2016.</p> <ul style="list-style-type: none"> ▪ In January 2016, FNS announced an opportunity for States to apply to participate in new demonstrations to evaluate direct certification for both free and reduced price meals using Medicaid data. Seven States applied and have been approved to begin demonstrations in school year 2016-2017. FNS expects to receive a similar number of applications for school year 2017-2018 from additional States and will select the additional States by approximately November 2016, with the goal to expand demonstrations to up to 20 States through school year 2018-2019. FNS will conduct an evaluation study to determine the effectiveness of the demonstrations in improving program access and reducing certification errors by conducting direct certification for both free and reduced price meals. ▪ In FY 2016, FNS provided technical assistance and conducted a Tribal Consultation call associated with the furthering of direct certification of children through the use of Food Distribution Program on Indian Reservations (FDPIR) participant data. Technical assistance included the issuance of a guidance document, a template Agreement to Share and Exchange Data, and a presentation during the National Association annual conference. <p><i>Unpaid Meal Charges:</i></p> <ul style="list-style-type: none"> ▪ The Healthy, Hunger-Free Kids Act (HHFKA) of 2010 required USDA to take a closer look at unpaid meal charges, to examine the current charge and alternate meal policies and practices of State agencies and local education agencies (LEAs), and to report on the feasibility of establishing national standards for such policies. USDA submitted final recommendations in a Report to Congress in June 2016. In developing this report, FNS included responses to questions raised during the periodic Special Nutrition Program Operation Study and responses to a Request for Information (RFI) entitled

Agency	Program	Corrective Actions
		<p>Unpaid Meal Charges. During the open comment period, FNS received 462 comments, 95 percent of which came from local officials with firsthand experience addressing the unpaid meal challenge, such as school principals and school food service professionals. Incorporating feedback from local officials allowed FNS to ensure the final recommendations would be feasible and accurately reflect the needs of communities nationwide.</p> <ul style="list-style-type: none"> ▪ In February 2016, FNS hosted two webinars to share the strategies and best practices related to charge and alternate meal policies uncovered through the RFI. ▪ In March 2016, FNS invited representatives from professional associations and advocacy groups to participate in a roundtable discussion to give a broad, national perspective on the challenge of unpaid meal charges. FNS invited a range of experts from organizations that work on child education and hunger issues to share the impact of unpaid meal charges on their key constituencies. <p>Actions Planned to Reduce Improper Payments (Actions Planned):</p> <p>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 is taking to strengthen Program integrity:</p> <ul style="list-style-type: none"> ▪ FNS and its research partners at the Office of Science and Technology Policy’s Social and Behavioral Sciences Team (SBST) will finalize analysis of their school year 2015-2016 pilot to reduce household non-response in the school meal verification process. FNS and the SBST will continue the pilot with a different set of school districts in school year 2016-2017. ▪ The following initiatives started in previous years will extend into FY 2017: <ul style="list-style-type: none"> ○ Further improve the model requirements for State and local district automated information systems used to manage school meal programs, including functionality to capture eligibility certification,

Agency	Program	Corrective Actions
		<p>meal claiming and reporting, program monitoring, administrative review, and other components of State and local program operations;</p> <ul style="list-style-type: none"> ○ Under a contract with expert consultants, develop an intensive data study survey for State and local NSLP agencies to establish best practices in the collection, reporting, and monitoring of program data at State and local levels aimed at improving management data. We expect to complete the survey development and OMB approval for distribution by early FY 2017; and ○ FNS is completing or has already completed a number of proposed rules resulting from the 2010 Child Nutrition (CN) Reauthorization Act that will serve to reduce improper payments due to certification error by applying: <ul style="list-style-type: none"> ■ As a method for enforcing program compliance, the Child Nutrition Program Integrity Proposed Rule will call for fines for egregious or persistent problems, as well as those that remain unsolved after initial reviews. The State agency will be able to fine local program operators, and FNS will be able to fine both State agencies and local program operators for gross mismanagement. The proposed rule was published March 29, 2016; and ■ FNS' examination of unpaid meal charges revealed where clarification was needed and what policy changes would best support local program operators and at-risk students participating in the school meal programs nationwide. New policies, to be released in 2016, will: 1) clarify how Federal cost principals on allowable and unallowable costs apply when the nonprofit school food service account is not repaid for meal charges incurred by students, 2) provide guidance on developing effective meal charge policies, 3) explain how overt identification applies to students unpaid meal charges, and 4) address other topics needing clarification. ■ FNS will also issue a handbook in 2016 summarizing the best practices collected throughout the examination of unpaid meal charges. The handbook will share strategies local program operators can use

Agency	Program	Corrective Actions
		<p>in their efforts to connect more eligible children with free meals, make payment more convenient for families, and get buy-in for a local charge policy, among other topics.</p> <ul style="list-style-type: none"> ▪ In June 2016, FNS issued a policy memorandum that encourages LEAs to accept eligibility determinations from a transferring student's former LEA to minimize disruptions in meal benefits for low-income students and avoid student debt resulting from unpaid meal charges. Children who are eligible but not certified for free or reduced price meals may be unable to afford meals at the "paid" rate. This can result in unpaid meal charges and an unnecessary loss of funds for the school food service account. <p><i>Community Eligibility Provision</i></p> <ul style="list-style-type: none"> ▪ In the summer of 2016, FNS published the Community Eligibility Provision (CEP) final rule, which formalized details of the provision, now in its second year of nationwide implementation. ▪ In the summer of 2016, FNS issued an updated policy memo providing guidance and updated Questions and Answers (Q&As) on the Community Eligibility Provision. This memo provided guidance on all aspects of CEP implementation, including eligibility for CEP election, meal counting and claiming, integrity and recordkeeping, and other administrative procedures. <p>Root Cause #2: Meal counting and claiming error. These include: 1) meal claiming (cashier) errors, which occur when meals are incorrectly categorized as reimbursable or non-reimbursable at the point of sale (e.g., number of free, reduced-price, and paid meals), and 2) aggregation errors, which occur when a school, SFA, or State agency tallies the number of reimbursable meals incorrectly and thus makes an error in the number of meals claimed for reimbursement.</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ In FY 2016, FNS expanded the "Team Up for School Nutrition Success Initiative," to State-level trainings

Agency	Program	Corrective Actions
		<p>through the Institute of Child Nutrition (ICN). This Initiative provides training, technical assistance, and peer-to-peer mentorship opportunities to school food service professionals. The Team Up For School Nutrition Success training is tailored to schools and covers topics including menu planning, financial management, procurement and meal presentation and appeal, as well as youth engagement tactics and strategies to reduce plate waste. Through the Team Up initiative, schools have the opportunity to learn from each other in order to make positive strides toward providing healthy school environments with financial stability and strong student participation.</p> <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ FNS will again convene a national workgroup of State as well as 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 started in FY 2016 and extending into FY 2017 include: <ul style="list-style-type: none"> ○ Planning for national technology training to take place in September 2017 for State agencies to showcase best practices in automation for program operations, including Federal reporting, project management, data analytics, direct certification, administrative review, and other topics, with the goal of assisting States in better use of automation and data analytics to improve program operations and integrity. ○ FNS has an ongoing contract with expert consultants that continued in FY 2016. The consultants are required 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 also to assist states with meeting statutory benchmarks for direct certification. In FYs 2013 to date, FNS has completed close to 70 site visits to provide State agencies with technical assistance on improving

Agency	Program	Corrective Actions
		<p>automation programs and direct certification, training, and monitoring of program operations with special emphasis on error-prone LEAs.</p> <p>On March 29, 2016, FNS published the Child Nutrition Program Integrity Proposed Rule. The proposed Rule identifies criteria for assessments against State agencies, School Food Authorities, or Schools whose program operators fail to correct severe mismanagement of any Child Nutrition program, fail to correct repeat violations of program requirements, or disregard a requirement of which they have been informed. The Rule is expected to serve as a deterrent against program violators and contribute to safeguarding the integrity of all Child Nutrition Programs.</p> <p>High-Priority Program Discussion:</p> <p>Much of the activity summarized above is guided by the findings of FNS research. The 2015 APEC-II study, in particular, provides the agency with actionable information on program error at four critical points: 1) when households complete applications for school meal benefits, 2) when school districts certify those applications, 3) when cafeteria staff determine whether the meals served are reimbursable, and 4) when meal counts are aggregated and submitted for reimbursement.</p> <p>In addition to estimating the dollar value of program error at each of these steps, APEC II offers insight into the nature and causes of that error. With information from APEC and other FNS studies, as well as from information gathered over many years from State agency administrative reviews of school districts and FNS reviews of State agencies, FNS has tailored its corrective actions to target the processes at greatest risk for error. A few examples include:</p> <ul style="list-style-type: none"> ▪ The agency's considerable efforts to improve direct certification performance and the adoption of CEP. APEC-II finds that both of these are associated with far less certification error than the traditional application process. ▪ FNS redesign of the Administrative Review (AR) process and AR reporting resulted in the following:

Agency	Program	Corrective Actions
		<p>The redesign of the AR was guided by careful review and analysis of past review findings, and places increased emphasis on the processes and sites that pose the greatest risk for error. As mentioned above, the redesigned AR reporting form, FNS-640, seeks to capture information at a low level of aggregation to support more meaningful analysis of the data. Better analysis will guide more effective monitoring and technical assistance to school districts by State agencies and FNS.</p> <ul style="list-style-type: none"> ▪ Training modules developed recently for the Professional Standards requirements include those that target administrative tasks and business processes identified as high risk by the AR and APEC. ▪ Development of the agency's redesigned paper application prototype was guided by human centered design research that seeks to improve clarity to reduce household reporting mistakes. The agency's upcoming web-based application prototype includes elements that respond directly to APEC findings on household and administrative certification error. ▪ The agency's work on the development of model requirements for State agency and school district information systems has been guided from the start by a careful examination and analysis of existing system capabilities. It is also guided by USDA research that demonstrates a link between certain processes and a reduction in program error, particularly the automation of student certification and meal counting and claiming.
FNS	School Breakfast Program (SBP)	<p>Root Cause #1: Certification error in the National School Lunch Program (NSLP)</p> <p>Certification errors occur when a child is placed in the wrong meal reimbursement category, such as when a child who should receive reduced-price meals is certified for free meals. Certification errors can be attributed to a number of factors, including but not limited to an inability to verify income due to statutory limits on verification, failure to verify income when selected for verification, and administrative errors.</p>

Agency	Program	Corrective Actions
		<p>Actions Taken to Reduce Improper Payments (Actions Taken):</p> <p>FNS has completed a number of actions that will serve to reduce improper payments due to certification error, including:</p> <ul style="list-style-type: none"> ▪ FNS is working with a broad group of innovators to take the next step in application redesign. The agency held a public competition in late 2015 and early 2016 to begin development of the agency's first model Web-based application. The agency is finalizing that model with the help of software and design experts from the Presidential Innovation Fellows. ▪ In school year 2016-2017, the Administrative Review updates and final regulations pertaining to the Administrative Review will be released. All State agencies are expected to implement the updated process, which will provide nationwide consistency to the monitoring of program requirements. FNS will assess technical assistance needs for State agencies and provide any needed additional guidance and training that is identified. ▪ FNS issued an updated Eligibility Manual by the end of June 2016. This manual provides information and guidance for determining students' eligibility for free and reduced-price meals in the NSLP and the SBP; ▪ FNS is working with its State and local agency partners to increase the adoption of the Community Eligibility Provision: <ul style="list-style-type: none"> ○ The agency's education, technical assistance, and direct engagement plan helped increase local election of the Community Eligibility Provision (CEP) to nearly 60 percent of eligible schools in the fall of 2016, up from 50 percent one year ago. ○ In 2016, FNS conducted seven webinars designed to provide technical assistance to districts currently implementing or considering CEP. Topics included: Improving Direct Certification Systems, Publication and Notification Requirements, CEP Messaging and Outreach, Making "Cents" of CEP at a 40-50 percent ISP, CEP and Alternative Breakfast Models, and CEP Best Practices and

Agency	Program	Corrective Actions
		<p>Lessons Learned.</p> <ul style="list-style-type: none"> ○ In January 2016, FNS released Community Eligibility Provision: Planning and Implementation Guidance, which consolidated existing CEP guidance and best practices into one, easy-to-use manual. The manual will be updated regularly to reflect any future guidance and to address any requested clarifications. ○ FNS released policy memoranda to develop administrative review guidance for CEP schools (November 2015) and to clarify State agency requirements for ensuring identified student percentages are correct when school districts elect CEP (November 2015). ○ In 2016, FNS created a recommended CEP reporting template in order to facilitate and streamline the reporting process. For the data publication cycle of May 2016, 40 states used the recommended FNS template, and 34 states met the data publication deadline. FNS published the CEP data in July 2016. <p>In January 2016, FNS announced an opportunity for States to apply to participate in new demonstrations to evaluate direct certification for both free and reduced price meals using Medicaid data. Seven States applied and have been approved to begin demonstrations in school year 2016-2017. FNS expects to receive a similar number of applications for school year 2017-2018 from additional States and will select the additional States by approximately November 2016, with the goal to expand demonstrations to up to 20 States through school year 2018-2019. FNS will conduct an evaluation study to determine the effectiveness of the demonstrations in improving program access and reducing certification errors by conducting direct certification for both free and reduced price meals.</p> <ul style="list-style-type: none"> ■ In FY 2016, FNS provided technical assistance and conducted a Tribal Consultation call associated with the furthering of direct certification of children through the use of Food Distribution Program on Indian Reservations (FDPIR) participant data.

Agency	Program	Corrective Actions
		<p>Technical assistance included the issuance of a guidance document, template Agreement to Share and Exchange Data, and presentation during the National Association annual conference.</p> <p>Unpaid Meal Charges:</p> <ul style="list-style-type: none"> ▪ The Healthy, Hunger-Free Kids Act of 2010 required USDA to do the following: 1) take a closer look at unpaid meal charges, 2) examine the current charge and alternate meal policies and practices of State agencies and LEAs, and 3) report on the feasibility of establishing national standards for such policies. USDA submitted final recommendations in a Report to Congress in June 2016. In developing this report, FNS included responses to questions raised during the periodic Special Nutrition Program Operation Study and evaluation responses to a Request for Information (RFI) entitled Unpaid Meal Charges. During the open comment period, FNS received 462 comments, 95 percent of which came from local officials with firsthand experience addressing the unpaid meal challenge, such as school principals and school food service professionals. Incorporating feedback from local officials allowed FNS to ensure the final recommendations would be feasible and accurately reflect the needs of communities nationwide. ▪ In February 2016, FNS hosted two Webinars to share the strategies and best practices related to charge and alternate meal policies uncovered through the RFI. ▪ In March 2016, FNS invited representatives from professional associations and advocacy groups to participate in a roundtable discussion to give a broad, national perspective on the challenge of unpaid meal charges. FNS invited a range of experts from organizations that work on child education and hunger issues to share the impact of unpaid meal charges on their key constituencies. <p>Actions Planned to Reduce Improper Payments (Actions Planned):</p> <p>FNS is executing several key measures to improve Federal and State oversight and technical assistance in</p>

Agency	Program	Corrective Actions
		<p>order to identify and recover improper payments in the NSLP. The following outlines the proactive measures FNS is taking to strengthen Program integrity:</p> <ul style="list-style-type: none"> ▪ FNS and its research partners at the Office of Science and Technology Policy’s Social and Behavioral Sciences Team (SBST) will finalize analysis of their school year 2015-2016 pilot to reduce household nonresponse in the school meal verification process. FNS and the SBST will continue the pilot with a different set of school districts in school year 2016-2017. ▪ The following initiatives started in previous years will extend into FY 2017: <ul style="list-style-type: none"> ○ Further improve the model requirements for the States and local districts automated information systems used to manage school meal programs, including functionality to capture eligibility certification, meal claiming and reporting, program monitoring, administrative review, and other components of State and local program operations; ○ Under a contract with expert consultants, develop an intensive data study survey for State and local NSLP agencies to establish best practices in the collection, reporting, and monitoring of program data at State and local levels aimed at improving management data. FNS expects to complete the survey development and to obtain OMB approval for distribution by early FY 2017; and <p>FNS is completing or has already completed a number of proposed rules resulting from the 2010 Child Nutrition Reauthorization Act that will serve to reduce improper payments due to certification error by applying:</p> <ul style="list-style-type: none"> ▪ As a method for enforcing program compliance, the Child Nutrition Program Integrity Proposed Rule will call for fines for egregious or persistent problems, as well as those that remain unsolved after initial reviews. The State agency will be able to fine local program operators and FNS will be able to fine both State agencies and local program operators for gross

Agency	Program	Corrective Actions
		<p data-bbox="737 275 1398 342">mismanagement. The proposed rule was published March 29, 2016; and</p> <ul data-bbox="716 359 1419 1136" style="list-style-type: none"> <li data-bbox="716 359 1419 831">■ FNS' examination of unpaid meal charges revealed where clarification was needed and what policy changes would best support local program operators and at-risk students participating in the school meal programs nationwide. New policies, to be released in 2016, will clarify how Federal cost principals on allowable and unallowable costs apply when the nonprofit school food service account is not repaid for meal charges incurred by students, provide guidance on developing effective meal charge policies, explain how overt identification applies to students unpaid meal charges, and address other topics needing clarification. <li data-bbox="716 848 1419 1136">■ FNS will also issue a handbook in 2016 summarizing the best practices collected throughout the examination of unpaid meal charges. The handbook will share strategies local program operators can use in their efforts to do the following: 1) connect more eligible children with free meals, 2) make payment more convenient for families, and 3) get buy-in for a local charge policy, among other topics. <p data-bbox="737 1152 1419 1514">In June 2016, FNS issued a policy memorandum that encourages LEAs to accept eligibility determinations from a transferring student's former LEA in order to minimize disruptions in meal benefits for low-income students and avoid student debt resulting from unpaid meal charges. Children who are eligible but not certified for free or reduced price meals may be unable to afford meals at the "paid" rate. This can result in unpaid meal charges and an unnecessary loss of funds for the school food service account.</p> <p data-bbox="716 1539 1105 1570">Community Eligibility Provision</p> <ul data-bbox="716 1587 1419 1883" style="list-style-type: none"> <li data-bbox="716 1587 1419 1728">■ In the summer of 2016, FNS published the Community Eligibility Provision final rule, which formalized details of the provision, now in its second year of nationwide implementation. <li data-bbox="716 1745 1419 1883">■ In the summer of 2016, FNS issued an updated policy memo providing guidance and updated Questions and Answers (Q&As) on the Community Eligibility Provision. This memo provided guidance

Agency	Program	Corrective Actions
		<p>on all aspects of CEP implementation, including eligibility for CEP election, meal counting and claiming, integrity and recordkeeping, and other administrative procedures.</p> <p>Root Cause #2: Meal counting and claiming error. These include: 1) meal claiming (cashier) errors, which occur when meals are incorrectly categorized as reimbursable or non-reimbursable at the point of sale (e.g., number of free, reduced-price, and paid meals), and 2) aggregation errors, which occur when a school, SFA, or State agency tallies the number of reimbursable meals incorrectly and thus makes an error in the number of meals claimed for reimbursement.</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ In FY 2016, FNS expanded the "Team Up for School Nutrition Success Initiative," to State-level trainings through the Institute of Child Nutrition (ICN). This Initiative provides training, technical assistance, and peer-to-peer mentorship opportunities to school food service professionals. The Team Up For School Nutrition Success training is tailored to schools and covers topics including menu planning, financial management, procurement, and meal presentation and appeal, as well as youth engagement tactics and strategies to reduce plate waste. Through the Team Up initiative, schools have the opportunity to learn from each other in order to make positive strides toward providing healthy school environments with financial stability and strong student participation. <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ FNS will again convene a national workgroup of State as well as 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 started in FY 2016 and extending into FY 2017 include the following: <ul style="list-style-type: none"> ▪ Planning for national technology training to take place in September 2017 for State agencies to

Agency	Program	Corrective Actions
		<p>showcase best practices in automation for program operations including Federal reporting, project management, data analytics, direct certification, administrative review, and other topics, with the goal of assisting States in better use of automation and data analytics to improve program operations and integrity.</p> <ul style="list-style-type: none"> ▪ FNS has an on-going contract with expert consultants that continued in FY 2016. The consultants are required 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 2013-2015 to date, FNS has completed close to 70 site visits to provide State agencies with technical assistance on improving automation programs and direct certification, training, and monitoring of program operations with special emphasis on error-prone LEAs. <p>On March 29, 2016, FNS published the Child Nutrition Program Integrity Proposed Rule. The proposed Rule identifies criteria for assessments against State agencies, School Food Authorities, or Schools whose program operators fail to correct severe mismanagement of any Child Nutrition program, fail to correct repeat violations of program requirements, or disregard a requirement of which they have been informed. The Rule is expected to serve as a deterrent against program violators and to contribute to safeguarding the integrity of all Child Nutrition Programs.</p> <p>High-Priority Program Discussion:</p> <p>Much of the activity summarized above is guided by the findings of FNS research. The 2015 APEC-II study, in particular, provides the agency with actionable information on program error at four critical points: 1) when households complete applications for school meal benefits, 2) when school districts certify those applications, 3) when cafeteria staff determine whether the meals served are reimbursable, and</p>

Agency	Program	Corrective Actions
		<p>4) when meal counts are aggregated and submitted for reimbursement.</p> <p>In addition to estimating the dollar value of program error at each of these steps, APEC II offers insight into the nature and causes of that error. With information from APEC and other FNS studies, as well as from information gathered over many years from State agency administrative reviews of school districts and FNS reviews of State agencies, FNS has tailored its corrective actions to target the processes at greatest risk for error. A few examples include:</p> <ul style="list-style-type: none"> ▪ The agency's considerable efforts to improve direct certification performance and the adoption of CEP. APEC-II finds that both of these are associated with far less certification error than the traditional application process. ▪ FNS redesign of the Administrative Review (AR) process and AR reporting. The redesign of the AR was guided by careful review and analysis of past review findings, and places increased emphasis on the processes and sites that pose the greatest risk for error. As mentioned above, the redesigned AR reporting form, FNS-640, seeks to capture information at a low level of aggregation to support more meaningful analysis of the data. Better analysis will guide more effective monitoring and technical assistance to school districts by State agencies and FNS. ▪ Training modules developed recently for the Professional Standards requirements include those that target administrative tasks and business processes identified as high risk by the AR and APEC. ▪ Development of the agency's redesigned paper application prototype was guided by human-centered design research that seeks to improve clarity to reduce household reporting mistakes. The agency's upcoming Web-based application prototype includes elements that respond directly to APEC findings on household and administrative certification error. <ul style="list-style-type: none"> ○ The agency's work on the development of model requirements for State agency and school district

Agency	Program	Corrective Actions
		<p>information systems has been guided from the start by a careful examination and analysis of existing system capabilities. It is also guided by USDA research that demonstrates a link between certain processes and a reduction in program error, particularly the automation of student certification and meal counting and claiming.</p>
FNS	Special Supplemental Nutrition Program for Women, Infants, and Children (WIC)	<p>Root Cause #1: Administrative or Process Error made by Other party.</p> <p>Actions Taken to reduce improper payments in Certification Error:</p> <ul style="list-style-type: none"> ▪ FNS awarded a WIC Special Project Grant to a competitively selected State agency to identify and test risk factors that could prevent participant program fraud and abuse (February 2016). ▪ FNS conducted Certification/Eligibility (CE) Management Evaluation (ME) Reviews for all 90 WIC State agencies (FY 2015 and 2016). ▪ FNS developed and implemented uniform indicators to identify State agencies at risk for WIC certification integrity issues (September 30, 2016). FNS conducts monthly CE and ME conference call with Regional Office staff to clarify certification/eligibility policy (Monthly since October 2015). <p>Actions Planned to reduce improper payments in Certification Error:</p> <ul style="list-style-type: none"> ▪ FNS has conducted quarterly reviews and will complete a comprehensive analysis of all the CE ME Reviews to identify areas where additional training, technical assistance, and policy guidance needed (November 2016). ▪ FNS is preparing to issue Certification Guidance that will provide clarification of policy related to income eligibility determination, identity, and residency requirements in a single document. This will provide easy reference for State and local agency use (December 2016). ▪ FNS will continue to conduct monthly CE ME conference calls with Regional Office staff to clarify

Agency	Program	Corrective Actions
		<p>certification/eligibility policy (through November 2017).</p> <p>Actions Taken to reduce improper payments in Vendor Error:</p> <ul style="list-style-type: none"> ▪ FNS issued updated WIC State Plan Guidance as part of an overall process to improve and streamline the monitoring of State plans (May 16, 2016). ▪ FNS formed a Funding and Participation ME workgroup to revise a uniform set of evaluation criteria (June 17, 2016). ▪ As of writing, FNS has conducted MEs on Funding and Participation for 12 WIC State agencies (June 23, 2016). ▪ FNS assessed data currently collected from WIC State agencies on vendor monitoring, and compliance activity (August 15, 2016). ▪ FNS conducted training on vendor management practices for regional office staff tasked with vendor management oversight (August 25, 2016). ▪ FNS created a Vendor Management Handbook as a resource for FNS Regional Offices to assist WIC State agencies in their vendor management responsibilities (September 30, 2016). ▪ FNS provided technical assistance to seven targeted State agencies with identified weaknesses in the vendor management system (November 15, 2016). <p>Actions planned to reduce improper payments in Vendor Error:</p> <ul style="list-style-type: none"> ▪ FNS will conduct ME Reviews on Funding and Participation for 55 WIC States agencies (September 30, 2017). <p>FNS will establish requirements for a new system to collect and analyze data from WIC State agencies on vendor authorization, training, monitoring and compliance activity (June 2017).</p>

Agency	Program	Corrective Actions
FSA, CCC	Livestock Forage Disaster Program (LFP)	<p>Root Cause #1: Administrative or Process Errors Made by Federal Agency.</p> <p>Actions taken to reduce improper payments.</p> <ul style="list-style-type: none"> ▪ A CCC-770 LFP checklist form was developed for the District Director (DD) review of LFP applications in order to ensure that payment eligibility and payment documentation are correctly reviewed and documented and was provided to the field in June 2016. ▪ A notice was issued in September 2016 to field offices to reinforce and outline program policies and procedures that payments are to be made on correct forage information and livestock, carrying capacities, and complete applications for payment. <p>Actions planned to reduce improper payments</p> <ul style="list-style-type: none"> ▪ N/A <p>Root Cause #2: Inability to Authenticate Eligibility.</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ A CCC-770 LFP checklist form was developed for the DD review of LFP applications to ensure payment eligibility and payment documentation are correctly reviewed and documented and was provided to the field in June 2016. ▪ A notice was issued in September 2016 to field offices to reinforce and outline program policies and procedures for what is acceptable evidence for documenting that grazing land was owned or leased by a producer and ensuring that it is on file before an application is approved. <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ N/A <p>Root Cause #3: Insufficient Documentation to Determine.</p> <ul style="list-style-type: none"> ▪ A CCC-770 LFP checklist form was developed for the DD review of LFP applications in order to ensure payment eligibility and that payment documentation are correctly reviewed and documented and was provided to the field in June 2016.

Agency	Program	Corrective Actions
		<ul style="list-style-type: none"> ▪ A notice will be issued in September 2016 to field offices to reinforce and outline program policies and procedures for the following: 1) what is acceptable evidence for documenting, 2) what is acceptable documentation for determining eligibility for completing paperwork for farm operation plans, acreage reports, and highly erodible land conservation and wetland conservation certifications; and what is acceptable evidence that grazing land is owned or leased. <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ N/A
FNS	Child and Adult Care Food Program (CACFP)	<p>Root Cause # 1: Improper payments are caused by sponsor error in determining a participating home's reimbursement tier (<i>tiering error</i>) and/or by FDCH error in reporting the number of meals which are eligible for reimbursement (<i>claiming error</i>).</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ On March 29, 2016, FNS published the Child Nutrition Program Integrity Proposed Rule. This proposed rule addresses several provisions of the Healthy, Hunger-Free Kids Act of 2010 that are designed to further enhance the integrity of the Child Nutrition Programs. The Child Nutrition Program Integrity Rule provides tools to eliminate mismanagement of Federal funds and will help: <ul style="list-style-type: none"> ○ Ensure proper and efficient administration of the programs ○ Reduce misuse of program funds ○ Improve compliance with meal patterns and nutrition standards ○ Reduce participant certification error ○ Improve the integrity of the procurement process ○ Reduce meal counting and claiming error through increased administrative review and penalties for non-compliance ▪ In March 2016, FNS provided an overview of the Child Nutrition Program Integrity Proposed Rule to State agency personnel through Webinar training.

Agency	Program	Corrective Actions
		<ul style="list-style-type: none"> ■ In FY 2015, FNS issued the following guidance materials to clarify existing regulations, policy, and instructions in order to help States and institutions improve administrations of CACFP: <ul style="list-style-type: none"> ○ Serious Deficiency, Suspension, and Appeals for State Agencies and Sponsoring Organizations, updated February 2015 ○ At-Risk Afterschool Care Handbook, updated July 2015 ○ Eligibility Manual for School Meals, updated July 2015 ■ In addition, FNS issued policy memos during FY 2015 on the following program areas, which are intended to minimize meal counting and claiming errors, thus decreasing improper payments: <ul style="list-style-type: none"> ○ Area Eligibility in Child Nutrition Programs, CACFP 04-2015, November 21, 2014 ○ 2015 Edition of Eligibility Manual for School Meals, CACFP 18-2015, July 10, 2015 ■ In June 2016, FNS updated the CACFP Management Evaluation Guide. The workgroup focused on improving the efficiency of the ME process to better assist states in oversight of the Program. ■ The HHFKA strengthened CACFP administration, certification, and monitoring processes by: <ul style="list-style-type: none"> ○ Providing additional CACFP audit funding and making additional monies available to State agencies for Program improvement. The audit funds may equal a maximum of 2 percent of the CACFP funds used by each State agency during the second preceding fiscal year. The State agency must demonstrate it can effectively utilize this funding for Program improvement. This provision is addressed in the proposed rule, <i>Child Nutrition Program Integrity</i>, which was published on March 29, 2016. The comment period ended on July 7, 2016. <p>The following study strengthens the financial integrity process and work towards improving the balance of erroneous payments:</p>

Agency	Program	Corrective Actions
		<ul style="list-style-type: none"> <li data-bbox="716 275 1414 825"> <p>▪ <i>CACFP Assessment of Sponsors Tiering Determinations:</i> an evaluation providing a national estimate of the share of CACFP-participating FDCHs approved for an incorrect level of per meal reimbursement based on sponsor tiering determinations. This study assesses sponsor tiering determinations for family day care homes (FDCHs) participating in the CACFP. The assessment evaluated FDCHs that were misclassified by sponsoring agencies into the wrong tier and the resulting erroneous payments for meals and snacks reimbursed at the wrong rate. The study will provide estimates of the percent of misclassified FDCHs and the associated payment errors. The estimated completion date for the study is fall 2016.</p> <p>Actions Planned:</p> <p><u>Management Evaluations (MEs)</u> – FNS Regional offices are in the process of conducting MEs of State agencies to ensure State agency compliance with Program regulations and the Healthy, Hunger-Free Kids Act of 2010 (HHFKA; PL 111-296). These reviews contain a local component that helps FNS assess how effectively State agencies are communicating program requirements to the local level, thereby minimizing the probability of improper payments.</p> <p>Two additional CACFP studies related to CACFP improper payments were awarded in 2014:</p> <ol style="list-style-type: none"> <li data-bbox="716 1314 1414 1875"> <p>1. <i>Improper Payments in CACFP Centers</i></p> <p>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. This study has three important goals: 1) provide FNS with a reliable</p>

Agency	Program	Corrective Actions
		<p>measure to estimate erroneous payments in the child care center component of the CACFP, 2) develop reliable estimation models that FNS can use to update erroneous payment estimates annually, and 3) prepare a white paper on methodologies to compute State-level estimates of erroneous payments. Data collection began in fall of 2016. The estimated completion date for the study is fall 2019.</p> <p>2. <i>CACFP Family Day Care Homes Meal Claims Feasibility Study</i></p> <p>The aim of this study is to develop and test reliable methods to accurately estimate erroneous payments of meal claims in FDCHs participating in CACFP. The study is testing the feasibility of two automated reporting systems for gathering information from parents and FDCH providers. The estimated completion date for the study is March 2018.</p>
RMA	Federal Crop Insurance Corporation (FCIC) Program Fund	<p>Root Cause #1: Inability to authenticate eligibility</p> <p>Inability to authenticate eligibility was the primary reason for improper payments errors in 83 percent of policies with errors in RMA's FY 2016 IPERIA sample. Most of these authentication errors were attributable to the producers (e.g., the program beneficiary) not reporting accurate or complete data needed to determine eligibility.</p> <p>The majority of these authentication errors were related to actual production history (APH) issues, such as the quality and completeness of supporting production records that help determine the producer's premium rate and production guarantees. For example, some of these errors were due to inaccurate or unsupported records at the unit structure (parcel of land). The unit structure is determined by the amount and location of producer crops and impacts premium prices and indemnity payments.</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ Incorporated APH reviews into anomalous agent review plan (April 2016). RMA developed a Program

Agency	Program	Corrective Actions
		<p>Review Plan to examine policies on the Anomalous Agent List in order to determine whether anomalous losses are the result of fraud, waste, or abuse. The Program Review Plan focuses on conducting a detailed APH review of anomalous yields. This review will help increase the accuracy of APH records and identify agents responsible for improper payments.</p> <ul style="list-style-type: none"> ▪ Clarify the consequences for not maintaining acceptable production records to support the Enterprise Unit structure (July 2016). The revised 2017 Crop Insurance Handbook will clarify that the producer must have acceptable records at the reported enterprise unit level (all insurable crops in a county). If the producer does not have acceptable records at the correct unit level, RMA will assign yields, which are often lower than the producer's actual yields and can impact the amount of insurance payments. The clarification is intended to encourage producers to maintain acceptable records and increase consistency in RMA's oversight. <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ N/A. <p>Root Cause #2: Administrative or process error: The remainder of errors in RMA's FY 2016 IPERIA sample were due to administrative or process errors caused by the approved insurance providers (AIPs), insurance agents, or loss adjusters. The most frequent type of administrative or process errors were transcription or key-stroke errors in records such as acreage reports or production records.</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ RMA's new AIP Performance Review (APR) process includes tools that focus on the quality of training for stakeholders, such as the AIPs, sales agents, and loss adjusters, that can help ensure the accuracy of data and reduce errors. In May 2016, RMA trained its compliance staff on the revised APR process. <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ Solicit AIPs' input on addressing root causes of errors (February 2017).

Agency	Program	Corrective Actions
		<ul style="list-style-type: none"> ▪ RMA will share the results of the FY 2016 IPERIA review process and the types of errors leading to improper payments. Through the Data Mining Steering Committee, RMA will obtain the AIPs' feedback on strategies to reduce errors, with a specific focus on administrative or process errors.
NRCS	Farm Security and Rural Investment Act Programs (FSRIP)	<p>Root Cause #1: Inability to authenticate eligibility</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ N/A <p>Actions Planned:</p> <p>NRCS will monitor the ProTracts System for Award Management (SAM) interface to ensure it prevents payments without an active registration. Any discrepancies will be noted, and the interface will be modified/corrected if needed. In the event the interface cannot be modified for the discrepancy, NRCS will establish a mitigating control to detect and correct the discrepancy. The proposed completion date is June 30, 2017.</p> <p>Root Cause #2: Administrative or Process Error by Federal Agency</p> <p>Actions Taken:</p> <ul style="list-style-type: none"> ▪ N/A <p>Actions Planned:</p> <ul style="list-style-type: none"> ▪ NRCS will provide training and guidance to Program and Financial Managers on Improper Payments. The training and guidance shall address the legislative requirements, as well as the timing and reporting requirements. It shall address what an improper payment is, how to classify them, when they are to be collected, and the testing that conducted on an annual basis. The criteria used to evaluate improper payments and the policies that govern the programs and their compliance shall be reviewed to ensure the staff understands the necessity to adhere not only to legislative requirements, but also to internal Departmental and agency policy. The proposed completion date is July 31, 2017.

Agency	Program	Corrective Actions
		<ul style="list-style-type: none"> ▪ NRCS plans to test and monitor Q3 and Q4 FY 2016 payments in order to ensure the prior year corrective actions have been successful and maintained. NRCS has statistically sampled and tested the first and second quarter FY 2016 payments. The results were consistent with the FY 2015 results of 2.4 percent. NRCS will review and analyze the results to determine if additional corrective actions are required. NRCS corrective actions identified will be immediately implemented throughout the FY 2016 testing process, which is proposed to be completed by December 31, 2016.

Internal Control Over Improper Payments

As shown in [Table 16](#) below, USDA programs have implemented internal controls to prevent improper payments. USDA programs are:

- enhancing communication of updated policies and guidance to the field offices;
- having managers build an atmosphere in which reducing improper payments is a top priority;
- establishing accountability through performance standards;
- examining root causes of error;
- developing appropriate corrective actions; and
- engaging critical stakeholders through communication and educational efforts.

Table 16: Status of Internal Controls

Internal Control Standards	FNS NSLP	FNS SBP	FNS WIC	FSA/CCC LFP	RMA FCIC	NRCS FSRIP	SNAP	CACFP
Control Environment	3	3	3	4	3	3	3	3
Risk Assessment	3	3	3	3	3	3	3	3
Control Activities	3	3	3	3	3	2	3	3
Information and Communication	3	3	3	4	3	2	3	3
Monitoring	3	3	3	4	3	3	3	3

Legend:

4 = Sufficient controls are in place to prevent improper payments.

3 = Controls are in place to prevent improper payments but there is room for improvement.

2 = Minimal controls are in place to prevent improper payments.

1 = Controls are not in place to prevent improper payments.

Accountability

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

FOOD AND NUTRITION SERVICE (FNS)

1. FNS has established corporate priorities to improve stewardship of Federal funds and to improve program management. Within these priorities are specific goals applicable to programs at high risk for erroneous payments. The goal for SNAP, NSLP, SBP, WIC, and CACFP is to continue management improvements. The agency goals and priorities are incorporated into each manager's performance plan. Standards for meeting reduction targets and establishing and maintaining sufficient internal controls have been incorporated into each manager's plan since FY 2005.
2. In NSLP and SBP, USDA has a strategic objective to improve nutrition assistance program management that is managed by FNS, including 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. Standards for meeting

reduction targets and establishing and maintaining sufficient internal controls have been incorporated into each manager's plan since FY 2005.

3. 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, to use multiple strategies to support payment accuracy even as program participation increases, 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. Standards for meeting reduction targets and establishing and maintaining sufficient internal controls have been incorporated into each manager's plan since FY 2005.

FARM SERVICE AGENCY (FSA)

The following steps were completed by September 2015 and are ongoing:

1. FSA has a performance management program in place to improve individual and organizational effectiveness in accomplishing the agency's mission and goals. This program provides for improper payments to be included in the State Executive Director's Performance Plan, Element 5, titled "Program Management."
2. National Office 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. National Office managers are also held accountable, as reflected in the performance-based rating measures, for overall program administration at the National level. In accordance with agency performance management requirements in FSA Handbook 5-PM and FSA Notice PM-2948, all FSA employees have performance elements that are aligned with applicable strategic goals and objectives from FSA's FY 2012-16 Strategic Plan. Goal #4, Objectives 1 and 6, specifically address accountability and internal controls. In addition, all field office employees who work with farm program payments have an improper payments performance standard as detailed in FSA Notice PM-2948.
3. COF employees, including the County Executive Director, are responsible for making payments to producers and for following all administrative steps in doing so. Employees will be evaluated, through their performance plans, on program delivery, and also on their compliance with regulations, policies, and procedures.
4. The Deputy Administrator of Field Operations will facilitate meetings with the program areas to discuss any additional action necessary for senior management to address accountability.

5. FSA's 2016-2018 Strategic Plan provides that, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, as well as comply with the IPIA, FSA has incorporated the priority of reducing improper payments into its strategic planning documents.

RISK MANAGEMENT AGENCY (RMA)

1. RMA senior accountable officials' annual performance plans are tied to Goal #4 of the Strategic Plan – "Safeguarding the integrity of the Federal crop insurance program." The performance measure is to reduce the improper payment rate from 5.23 percent in 2013 to 4.9 percent by 2018. The rate was reduced to 2.2 percent for FY 2015.
2. RMA incorporated standards in the FY 2016 annual performance plans to ensure that compliance personnel conduct Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERIA) reviews to measure the Federal Crop Insurance Program (FCIP) improper payment error rate and perform data mining reviews to identify, reduce, and collect improper payments. RMA conducted Improper Payments Elimination and Recovery Improvement Act of 2012 (IPERA) reviews between May 2015 through March 2016 using statistical sampling and data mining reports.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

1. Reducing improper payments is essential to NRCS management goals. To that end, NRCS has conducted on-site State audit remediation reviews of easement programs; reviewed and sampled various financial transactions related to obligations, advances, and payments; created a robust A-123 testing schedule; and included the reduction of improper payments in senior managers performance plans.

Agency Information Systems and Other Infrastructure

FOOD AND NUTRITION SERVICE (FNS)

1. CACFP does not have an infrastructure or methods for producing yearly estimates of improper payment rates and dollar values. FNS has developed a measurement methodology for one component of the program and is in the process of determining the feasibility of measuring error in a second component.

CACFP payments and claim information are transferred among 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 their initial request for resources in the FY 2006 budget. The original plan was to develop a program-wide study to examine reimbursements for meals served and develop program error measurements that complied with the requirements of the Improper Payments Information Act of 2002 (IPIA). Because of the complexities of the program, FNS estimated that it would cost \$20 million to measure improper payments at the precision required by IPIA. Although the FY 2006 budget request included funds designated for the nationally representative CACFP erroneous payments study, funds were not provided by Congress.

FNS awarded a contract in September 2014 to conduct a new CACFP study to look at alternative methodologies for developing a reliable measurement for the meal claims component. This new study was completed on September 30, 2016.

2. The NSLP does not have an administrative infrastructure for producing yearly estimates of improper payment rates and dollar values. FNS uses its periodic Access, Participation, Eligibility, and Certification (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 worked with OMB to provide an annual estimate using an approved methodology to estimate payment errors. The continuance of the APEC 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.
3. The FNS FY 2016 Budget requested an increase in funding for the following program integrity line items in order to establish and maintain effective internal controls to reduce improper payments as follows:
 - a. Training and Technical Assistance
 - b. CN Payment Accuracy

CN Training and Technical Assistance—an increase of \$12.1 million was requested (\$8,137,000 enacted for FY 2015). Effective and continual training and technical assistance are necessary to help States properly administer the Child Nutrition program to ensure that 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 Healthy, Hunger-Free Kids Act of 2010, which reauthorized these programs and instituted new requirements on

State agencies. This request reflects an increase in Federal activity associated with this project, including implementation of the new requirements.

CN Payment Accuracy—an increase of \$658,000 was requested (\$9,904 million enacted for FY 2015). Robust Federal oversight, monitoring, and technical assistance are essential to the identification, prevention, and resolution of erroneous payments. This request supports FNS' efforts to reduce erroneous payments through training, technical assistance, and oversight. An increase of \$500,000 is related to an Enhanced State/Local Reporting proposal.

FNS' FY 2016 Budget reflects the same level of funding as in previous years to continue effective internal control measures to promote program integrity for the Coordinated Review Effort.

Coordinated Review Effort—\$10 million was provided for 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.

FARM SERVICE AGENCY (FSA)

FSA has the internal controls, human capital, information systems, and other infrastructure needed to reduce improper payments.

RISK MANAGEMENT AGENCY (RMA)

One of RMA's primary tools for assessing approved insurance providers' (AIPs) compliance with all crop insurance program requirements is the National Program Operations Review (NPOR). RMA contracted with a business consultant to assist in the redesign of RMA's AIP operations reviews to more effectively evaluate the AIP's internal controls and identify and address program vulnerabilities.

Discretionary Funding – Salaries and Expenses (S&E) – Discretionary funds for the Federal crop insurance programs cover most of the Federal salaries and related expenses necessary to managing the program. The 2017 Budget includes about \$67 million in direct discretionary appropriations for these costs, which is \$8 million below FY 2016. In addition, Section 11021 of the Agricultural Act of 2014 allowed the transfer of up to \$9 million each fiscal year from the FCIC mandatory account to the RMA S&E account for program compliance and integrity reviews. Further, the discretionary appropriation would allow the transfer of up to \$20 million in (catastrophic level of coverage) Catastrophic Risk Protection (CAT) fees into the RMA S&E account as authorized by the Federal Crop Insurance Act.

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

NRCS has the internal controls, human capital, and information systems and other infrastructure it needs to reduce improper payments to the levels the agency has targeted.

Barriers

FOOD AND NUTRITION SERVICE (FNS)

Federal nutrition assistance was not designed with accuracy as its primary purpose; accountability is often a secondary consideration to other concerns in managing the program. 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 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 (FDCH) sponsoring organizations, and approximately 117,621 FDCH providers through which benefits are distributed. Many of these simply do not have the capacity to develop robust accountability processes, which 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 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.

Proper implementation of nutrition assistance programs requires a high degree of accuracy. This accuracy helps to ensure that benefits are 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.

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 meals locations at which benefits are provided. Many of these benefit providers simply do not have the capacity to develop robust accountability processes. For these reasons, any approach to reducing school meals improper payments must do the following:

1. Improve accuracy without compromising access for low-income families. A process that keeps eligible children from participating would undermine the program;
2. Not unduly increase burden on schools. Many schools consider the program burdensome now. Adding burden could discourage schools from participating;
3. Be cost effective. Improving accuracy is potentially resource-intensive, and policymakers must not create a process that increases net program costs; and
4. Answer the needs of other users of program data, which often use certification data to distribute millions of dollars in other kinds of benefits to schools. As these needs contribute to the problem, a solution may also require new commitments from those users.

In SNAP, the 2002 Farm Bill restricted the liability levels States can be sanctioned due to high error rates and also restricted the amount of bonus funding available to States that do a good job reducing and maintaining a low error rate. The goal of providing easy access to benefits must be balanced with the goal of reducing improper and erroneous payments.

FARM SERVICE AGENCY (FSA)

One barrier that limits FSA's ability to recover improper payments is the Department of Agriculture Reorganization Act of 1994, Section 281. This legislation provides that "Each 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 as the "Finality Rule."

RISK MANAGEMENT AGENCY (RMA)

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

NATURAL RESOURCES CONSERVATION SERVICE (NRCS)

NRCS is not aware of any legislative barriers that will inhibit its payment processes; however, in October 2015, NRCS embarked on an Administrative Transformation of its administrative services. The consolidation and standardization of functions will lead the way to ensuring that all easement and program obligations, acquisitions, and payments will be conducted by one centralized national branch, rather than separately by individual States. As with any transition, there will be learning curves and challenges associated with change.

Recapture of Improper Payments Reporting

In FY 2016, the Department required that all programs with over \$1 million in annual expenditures perform payment recapture audits, or provide justification that a payment recapture audit program would not be cost effective, per OMB Circular A-123 Appendix C. The following results highlight the payment recapture activities completed in FY 2016:

1. USDA recaptured approximately \$0.43 million from its Supplier Credit Recovery Audit contractor, \$9.42 million from USDA programs' internal payment recapture audits, and \$1,041.58 million outside of payment recapture audits. The results are shown in [Table 17](#).
2. USDA distributed \$9.81 million in recovered funds in accordance with IPERA as shown in [Table 18](#).
3. In FY 2016, 126 USDA programs and activities had over \$1 million in annual expenditures. The Rental Assistance Program conducted payment recapture auditing through a Departmental contract; 61 programs participated in the Supplier Credit Recovery Audit, and 35 programs developed internal payment recapture plans, which were approved by the Office of the Chief Financial Officer (OCFO). These internal plans identify and recover improper payments. Activities include data mining-initiated reviews, limited scope reviews, special investigations, eligibility verification, agency-wide audits, etc. As outlined in OMB Circular A-123 Appendix C Pat 1 Section D.5-6, 30 programs notified OMB that payment recapture audits would not be cost effective in May 2016 and submitted justifications for that determination. A detailed list of programs by category follows.

SUPPLIER CREDIT RECOVERY AUDIT PROGRAMS

1. Agriculture Marketing Service (AMS) Commodity Purchase Programs
2. AMS Grants Programs
3. AMS Salaries and Expenses

4. APHIS Buildings and Facilities
5. APHIS Indemnity Program
6. APHIS Salaries and Expenses
7. APHIS Trust Funds
8. Agricultural Research Service (ARS) Buildings and Facilities
9. CCC Export 416 Ocean Transportation
10. CCC Food for Progress Program
11. Office of Civil Rights (CR) Salaries and Expenses
12. Departmental Administration (DA) Agriculture Buildings and Facilities
13. DA Biobased Markets Program
14. DA Hazardous Materials Management
15. Foreign Agricultural Service (FAS) McGovern-Dole Food for Education Grants
16. FFAS Salaries and Expenses
17. FNS Child and Adult Care Food Program
18. FNS Commodity Supplement Food Program
19. FNS The Emergency Food Assistance Program
20. FNS Food Distribution Program on Indian Reservations
21. FNS National School Lunch Program
22. FNS Program Administration
23. FNS Summer Food Service Program
24. Food Safety and Inspection Salaries and Expenses
25. FSA Public Law 480
26. FS Capital Improvement and Maintenance
27. FS Forest and Rangeland Research
28. FS Forest Service Permanent Appropriations
29. FS Forest Service Trust Funds

30. FS Land Acquisition
31. FS Management of National Forest Lands for Subsistence Uses
32. FS National Forest System
33. FS Range Betterment Fund
34. FS State and Private Forestry
35. FS Stewardship Contracting Product Sales
36. FS Wildland Fire Management
37. FS Wildland Fire Management- Suppression
38. FS Working Capital Fund
39. Grain Inspection Packers and Stockyards Administration
40. National Appeals Division (NAD) Salaries and Expenses
41. NRCS Conservation Technical Assistance (non-Farm Bill)
42. NRCS Farm Bill Financial Assistance
43. NRRC Farm Bill Technical Assistance
44. NRCS Hurricane Sandy, Emergency Watershed Protection Program
45. NRCS Plant Materials Centers
46. NRCS Salaries and Expenses
47. NRCS Snow Survey and Water Supply Forecasting
48. NRCS Soil Surveys
49. NRCS Watershed Programs
50. Office of Advocacy and Outreach's Outreach for Socially Disadvantaged Farmers
51. Office of Budget and Program Analysis Salaries and Expenses
52. Office of the Chief Economist Salaries and Expenses
53. OCFO Salaries and Expenses
54. OCIO Salaries and Expenses
55. OGC Salaries and Expenses

56. OIG Salaries and Expenses
57. Office of the Secretary Salaries and Expenses
58. RD Salaries and Expenses
59. RHS Voucher Program (Section 542) [Note #1]
60. RUS Water and Waste Disposal Systems for Rural Communities- Loans
61. REE Salaries and Expenses

PROGRAMS AND ACTIVITIES WITH INTERNAL PAYMENT RECAPTURE PLAN

1. APHIS Internal Program
 - a. APHIS Cooperative Agreements
2. FSA/CCC Internal Program [Note #2]
 - a. CCC Administrative Contracts
 - b. CCC Agricultural Wool Apparel Manufacturers Trust Funds
 - c. CCC Biomass Crop Assistance Program
 - d. CCC Conservation Reserve Program
 - e. CCC Cotton Transition Assistance Program
 - f. CCC Emergency Assistance for Livestock, Honeybees, and Farm Raised Fish Program
 - g. CCC Emergency Forestry Conservation Reserve
 - h. CCC Farm Storage Facility Loan
 - i. CCC Food for Progress Program [Note #3]
 - j. CCC Hazardous Waste Activities
 - k. CCC Livestock Forage Disaster Program
 - l. CCC Livestock Indemnity Programs
 - m. CCC Loan Deficiency Payments
 - n. CCC Marketing Assistance Loan Program
 - o. CCC Marketing Programs

- p. CCC Noninsured Crop Disaster Assistance Program
 - q. CCC Pima Agriculture Cotton Trust Fund
 - r. CCC Supplemental Revenue Assistance Payments Program
 - s. CCC Tobacco Transition Payment Program
 - t. CCC Tree Assistance Program
 - u. CCC Upland Cotton Economic Adjustment Assistance Program
 - v. FSA Agricultural Credit Insurance Fund - Program Account
 - w. FSA Emergency Conservation Program
 - x. FSA Reimbursement Transportation Cost Payment Program
 - y. FSA State Mediation Grants
3. NIFA Internal Program [Note #2]
 - a. NIFA Community Foods Project
 - b. NIFA Extension Activities
 - c. NIFA Integrated Activities
 - d. NIFA Research and Education Activities
 4. RD Internal Program
 - a. RHS Direct Single Family Housing
 - b. RHS Guaranteed Single Family Housing
 - c. RHS Rental Assistance Program [Note #4]
 - d. RHS Voucher Program (Section 542) [Note #1]
 5. RMA Federal Crop Insurance Corporation.

PROGRAMS AND ACTIVITIES THAT DETERMINED PAYMENT RECAPTURE AUDITS
NOT COST EFFECTIVE [NOTE # 5]

1. FSIS Cooperative State Food Safety and Inspection
2. RBS Grant Programs and RBS Cooperative Agreement Program
3. RBS Guaranteed Loan Programs

4. RBS Relending Programs
5. RBS Payment Programs
6. RHS Community Program Grants
7. RD RHS Rural Community Development Initiative Grants
8. RHS Farm Labor Housing Loans (Section 514) Farm Labor Housing Grants (Section 516)
9. RHS Direct Community Facility Loans
10. RHS Housing Loans and Grants - Other
11. RHS Guaranteed Community Facility Loans
12. RHS Guaranteed Multi-Family Housing Loans (Section 583 Loans)
13. RHS MFH Preservation & Revitalization Demo Program: 514/516 Loans/Grants & 515 Loans
14. RHS Rural Rental Housing Loans (Section 515 Direction Rural Rental Housing Loans)
15. RUS Broadband Telecom Loans - Treasury Rate
16. RUS Community Connect Grants
17. RUS Congressional Earmarked Funds
18. RUS Electric Loan Programs (CFDA 10.850) - Direct Treasury Rate
19. RUS Electric Loan Programs (CFDA 10.850) - FFB Guaranteed
20. RUS Grants- Other Electric - Telecom. WEP
21. RUS Public Television Digital Transition Grants
22. RUS Revolving Loan Fund Program
23. RUS Rural Telecommunications Hardship Loans - Direct Telecom. Loans
24. RUS Rural Telecommunications Loans - FFB Telecom. Loans
25. RUS Rural Telecommunications Loans - Treasury Telecom Loans
26. RUS Rural Utilities Electric Program - Direct 5 percent
27. RUS Rural Utilities Electric Program -Municipal Rate
28. RUS Water and Waste Disposal Systems Loans and Grants Section 306C

29. RUS Water and Waste Disposal Systems for Rural Communities - Grant
30. RUS Water and Waste Disposal Systems for Rural Communities -Loans
31. RUS Water and Waste Guaranteed Loans

PROGRAMS AND ACTIVITIES OVER ONE MILLION DOLLARS NOT CURRENTLY CONDUCTING RECOVERY AUDITS

1. CCC Agriculture Risk Coverage and Price Loss Coverage
2. CCC Dairy Indemnity
3. CCC Export Guarantee Program
4. CCC Marginal Protection Program for Dairy Producers
5. FNS America Samoa
6. FNS Commonwealth of the Northern Mariana Islands
7. FNS Farmers Market Nutrition Program
8. FNS Nutrition Assistance-Puerto Rico
9. FNS School Breakfast Program
10. FNS Senior Farmers Market Nutrition Program
11. FNS Special Milk Program
12. FNS Supplemental Nutrition Assistance Program
13. FNS Women, Infants, and Children

Table 17: Overpayment Recaptures with and without Recapture Audit Programs (\$ In Millions)

	Activity	Rental Assistance [Note #4]	Supplier Credit Recovery Audit Program	APHIS Internal Program
Overpayments Recaptured through Payment Recapture Audits				
Contracts	Amount Identified	\$0.00	\$0.43	\$0.00
	Amount Recaptured	\$0.00	\$0.43	\$0.00
	CY Recapture Rate	0%	100%	0%
	CY + 1 Recapture Rate Target	0%	100%	0%
	CY + 2 Recapture Rate Target	0%	100%	0%
Grants	Amount Identified	\$0.00	\$0.00	\$0.06
	Amount Recaptured	\$0.00	\$0.00	\$0.06
	CY Recapture Rate	0%	0%	100%
	CY + 1 Recapture Rate Target	0%	0%	100%
	CY + 2 Recapture Rate Target	0%	0%	100%
Loans	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Other	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Total	Amount Identified	\$0.00	\$0.43	\$0.057
	Amount Recaptured	\$0.00	\$0.43	\$0.057
Overpayments Recaptured outside of Payment Recapture Audits				
	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00

	Activity	FSA/CCC Internal Program	NIFA Internal Program	RD Internal Programs
Overpayments Recaptured through Payment Recapture Audits				
Contracts	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Grants	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Loans	Amount Identified	\$0.00	\$0.00	\$2.05
	Amount Recaptured	\$0.00	\$0.00	\$1.59
	CY Recapture Rate	0%	0%	78%
	CY + 1 Recapture Rate Target	0%	0%	83%
	CY + 2 Recapture Rate Target	0%	0%	88%
Other	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Total	Amount Identified	\$0.00	\$0.00	\$2.05
	Amount Recaptured	\$0.00	\$0.00	\$1.59
Overpayments Recaptured outside of Payment Recapture Audits				
	Amount Identified	\$0.00	\$0.00	\$2.29
	Amount Recaptured	\$0.00	\$0.00	\$1.70

	Activity	RMA- Federal Crop Insurance Corporation [Note #6]	Programs Not Currently Conducting Recovery Audits	Overpayments Recaptured Outside of Payment Recapture Audits
Overpayments Recaptured through Payment Recapture Audits				
Contracts	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Grants	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Loans	Amount Identified	\$0.00	\$0.00	\$0.00
	Amount Recaptured	\$0.00	\$0.00	\$0.00
	CY Recapture Rate	0%	0%	0%
	CY + 1 Recapture Rate Target	0%	0%	0%
	CY + 2 Recapture Rate Target	0%	0%	0%
Other	Amount Identified	\$0.55	\$0.00	\$0.00
	Amount Recaptured	\$7.77	\$0.00	\$0.00
	CY Recapture Rate	1413%	0%	0%
	CY + 1 Recapture Rate Target	100%	0%	0%
	CY + 2 Recapture Rate Target	100%	0%	0%
Total	Amount Identified	\$0.55	\$0.00	\$0.00
	Amount Recaptured	\$7.77	\$0.00	\$0.00
Overpayments Recaptured outside of Payment Recapture Audits				
	Amount Identified	\$0.00	\$0.00	\$1,178.84
	Amount Recaptured	\$0.00	\$0.00	\$1,041.58

	Activity	USDA TOTAL
Overpayments Recaptured through Payment Recapture Audits		
Contracts	Amount Identified	\$0.43
	Amount Recaptured	\$0.43
	CY Recapture Rate	100%
	CY + 1 Recapture Rate Target	100%
	CY + 2 Recapture Rate Target	100%
Grants	Amount Identified	\$0.057
	Amount Recaptured	\$0.057
	CY Recapture Rate	100%
	CY + 1 Recapture Rate Target	100%
	CY + 2 Recapture Rate Target	100%
Loans	Amount Identified	\$2.05
	Amount Recaptured	\$1.59
	CY Recapture Rate	78%
	CY + 1 Recapture Rate Target	83%
	CY + 2 Recapture Rate Target	88%
Other	Amount Identified	\$0.55
	Amount Recaptured	\$7.77
	CY Recapture Rate	1413%
	CY + 1 Recapture Rate Target	100%
	CY + 2 Recapture Rate Target	100%
Total	Amount Identified	\$3.09
	Amount Recaptured	\$9.85
Overpayments Recaptured outside of Payment Recapture Audits		
	Amount Identified	\$1,178.84
	Amount Recaptured	\$1,041.58

Table 18: Disposition of Funds Recaptured Through Payment Recapture Audit Programs

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other [Note #7]
Rental Assistance	\$0.00	Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Supplier Credit Recovery Audit Program	\$0.43	Contracts	\$0.00	\$0.037	\$0.029	\$0.092	\$0.006	\$0.015	\$0.246
APHIS Internal Program	\$0.057	Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.057	\$0.00
FSA/CCC Internal Program	0.00	Contracts, Benefits, Loans & Other	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
NIFA Internal Program	0.00	Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
RD Internal Program	\$1.59	Grants and Loans	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$1.59	\$0.00
RMA- Federal Crop Insurance Corporation	\$7.77	Other	\$0.00	\$0.00	\$0.00	\$7.77	\$0.00	\$0.00	\$0.00

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	Office of Inspector General	Returned to Treasury	Other [Note #7]
Programs Not Currently Conducting Recovery Audits	\$0.00	N/A	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Overpayments Recaptured Outside of Payment Recapture Audits	\$0.00	N/A	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
USDA Total	\$9.84	N/A	\$0.00	\$0.04	\$0.03	\$7.86	\$0.01	\$1.66	\$0.25

Table 19: Aging of Outstanding Overpayments Identified in the Payment Recapture Audits (\$ In Millions)

Program or Activity	Type of Payment	Amount Outstanding (0 – 6 months)	Amount Outstanding (6 months to 1 year)	Amount Outstanding (over 1 year)	Amount determined to not be collectable
Rental Assistance	Grant	\$0.00	\$0.00	\$0.00	\$0.013
Supplier Credit Recovery Audit Program	Contract	\$0.00	\$0.00	\$0.00	\$0.00
APHIS Internal Program	Grant	\$0.00	\$0.00	\$0.00	\$0.00
FSA/CCC Internal Program	Contract, Benefit, Loans & Other	\$0.00	\$0.00	\$0.00	\$0.00
NIFA Internal Program					
RD Internal Program	Loan	\$0.14	\$0.18	\$2.72	\$0.00
RMA Federal Crop Insurance Corporation	Other	\$1.05	\$1.55	\$7.56	\$0.00
Programs Not Currently Conducting Recovery Audits	N/A	\$0.00	\$0.00	\$0.00	\$0.00
Overpayments Recaptured Outside of Payment Recapture Audits	N/A	\$0.00	\$0.00	\$0.00	\$0.00
TOTAL		\$1.19	\$1.73	\$10.28	\$0.04

Note #1: The RD RHS Voucher Program (Section 542) is participating in both the Supplier Credit Recovery Audit Program and the RD Internal Program.

Note #2: The CCC, FSA, and NIFA internal recovery audit plans were approved in the fourth quarter of FY 2016 and will start reporting recoveries in the first quarter of FY 2017.

Note #3: The Food for Progress Program is participating in both the Supplier Credit Recovery Audit Program and the FSA/CCC Internal Program.

Note #4: The Rental Assistance Program conducted program recovery auditing through a recovery audit contract. This contract ended in FY 2014. FY 2016 is the last year of reporting under this program since all recoveries identified have now been recovered or written off per government-wide debt management standards. Rural Development's (RD) internal recovery audit program which was approved in FY 2016, covers the Rental Assistance Program.

Note #5: OMB was notified of RD's and FSIS' determination in May 2016. FSIS determined that conducting recovery audits for their State Meat and Poultry Inspection Programs (SMPI) would not be cost effective because the cost benefit of conducting a recovery audit could possibly yield a negative return. FSIS currently performs comprehensive fiscal reviews of their state inspection programs, and they believe a recovery audit program would be duplicative of existing audit efforts. The RD internal control structure ensures operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations, and policies. RD employs controls and processes that prevent, detect, and recover improper payments, and the programs that have submitted a cost-effective waiver have identified minimal overpayments during the past 2 fiscal years. Any recaptured recoveries have been substantially minimal compared to the costs of designing and implementing additional assessments targeted at identifying improper payments. RD believes implementing a recovery audit program would be costly to reduce rates that are already low and would greatly impact the mission and program operations of the agency.

Note #6: RMA Calendar Year (CY) Recapture Rate percentage is greater than 100 percent because the amount collected includes final findings collected in the calendar year, but could have also been identified in previous CYs.

Note #7: The Other amounts are funds that have been recovered but have not yet completed the disposition process.

Additional Comments

COMPLIANCE WITH IPERA REQUIREMENTS

The USDA Office of Inspector General (OIG) conducts a compliance review of IPERA requirements annually. OIG's USDA IPERA Compliance Review for FY 2015, dated May 2016, found that USDA agencies did not fully comply with three of six IPERA requirements. Information on the findings, accomplishments, and planned actions are included in Section 1: Management's Discussion and Analysis, Compliance with Laws and Regulations.

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 2 consecutive fiscal years, OMB is to review the program and determine if additional funding would help the agency come into compliance. For programs that are non-compliant with IPERA for 3 consecutive fiscal years, the agency must submit to Congress a reauthorization proposal for each discretionary program, or proposed statutory changes necessary to bring a mandatory program into compliance.

STATUS OF NON-COMPLIANT PROGRAMS

It appears that USDA will be non-compliant with three of the six IPERA requirements for FY 2016. OIG will conduct the FY 2016 USDA's IPERA Compliance Review and will publish a report in FY 2017.

PROGRAMS NON-COMPLIANT WITH IPERA:

The following programs are projected to be non-compliant with IPERA for one year:

- Farm Services Agency (FSA) Loan Deficiency Program (LDP) did not meet their reduction target.
- FSA Livestock Indemnity Program (LIP) did not meet their reduction target and reported an error rate over ten percent.

The following programs are projected to be non-compliant with IPERA for two years:

- FSA Livestock Forage Disaster Program (LFP) did not meet their reduction target.
- FSA Supplemental Revenue Assistance Payments (SURE) did not meet their reduction target and reported an error rate over ten percent.
- Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP) did not report an error rate.

The following programs are projected to be non-compliant with IPERA for four or more years:

- FNS National School Lunch Program did not meet their reduction target and reported an error rate over ten percent.
- FNS National School Breakfast Program did not meet their reduction target and reported an error rate over ten percent.
- FNS Special Supplemental Nutrition Program; Women, Infants, and Children (WIC) did not meet their reduction target.
- FNS Child and Adult Care Food Program (CACFP) did not report an error rate.

Agency Reduction of Improper Payments with the Do Not Pay Initiative

USDA continued to expand its use of the Do Not Pay (DNP) portal in FY 2016 with Rural Development (RD) alone enrolling over 1,600 new users. USDA has incorporated the DNP databases in the following ways.

1. The death records maintained by the Commissioner of Social Security are checked extensively for FSA, CCC, and RMA awards outside of the DNP portal. Several additional programs use this database in pre-award activities in the DNP portal. All USDA payments made through the U.S. Department of the Treasury (Treasury) are checked against this database on a post-payment basis. Our very small number of improper payments identified in the post-payment review (see [Table 20](#)) demonstrates the effectiveness of our pre-award activities.
2. The General Services Administration's Excluded Parties List System (EPLS), or the updated System for Award Management (SAM)) database is checked at pre-award for all contracts, grants, cooperative agreements, and insurance programs. All USDA payments made through Treasury are checked against this database on a post-payment basis. Our very small number of improper payments identified in the post-payment review (see [Table 20](#)) demonstrates the effectiveness of our pre-award activities.
3. The Credit Alert System or Credit Alert Interactive Voice Response System of the U.S. Department of Housing and Urban Development (CAIVRS) is used by USDA loan programs at time of award. RD updated its system of records notice and signed a memorandum of understanding with Treasury to begin providing CAIVRS data to Treasury.
4. RD is using the Debt Check Database of the Treasury (Debt Check) for pre-award.

5. USDA is using the List of Excluded Individuals/Entities (LEIE) of the Office of Inspector General of the U.S. Department of Health and Human Services for pre-award for some loans, grants, and contracts.
6. USDA is not currently using the Prisoner Update Processing System of the Social Security Administration (PUPS) but is evaluating programs that have the legal authority to use and benefit from this database. State officials in our food and nutrition programs are required to use prisoner data when making awards, and some use PUPS.

USDA's use of these databases is through Treasury's DNP portal and directly from the database providers. USDA expanded its use of the DNP portal's single search capabilities in FY 2016 with the largest example being RD's implementation of 1,600 field staff into the portal. However, most pre-award checks for contracts and grants are still performed directly with the SAM system rather than through the DNP portal. The primary reason for this is USDA's extensive use of system interfaces in its business processes. So far, USDA has not been able to complete the computer matching agreements needed to convert these processes to the DNP portal. USDA's partners are using death records, SAM, and CAIVRS directly from the source agencies because there is not yet a streamlined process for non-federal employees to use the portal without extensive fees or background checks. USDA's guaranteed loan programs have its partner banks verify eligibility through an automated interface with the U.S. Department of Housing and Urban Development's CAIVRS system. Currently, the DNP portal offers CAIVRS through online single search only.

USDA uses one database not listed in IPERIA to prevent improper payments. The Federal Awardee Performance and Integrity Information System (FAPIIS) is checked before making some high-dollar awards.

Treasury's post-payment review has allowed USDA to identify and correct issues with long-term contracts and awards. Improved internal controls are now in place to update payment records with our long-term business partners as ownership changes. Independently verifying SAM registration before making awards has allowed NRCS to dramatically reduce their improper payment rate and achieve compliance with IPERA requirements.

USDA has implemented four business rules to reduce the number of false positives in the post-payment review—This has greatly reduced the time needed to perform the post-payment review. USDA has participated in six data analytics projects with the DNP staff. USDA has received preliminary results and is analyzing them to determine if they can be used to reduce improper payments.

RD established a memorandum of understanding to provide source data for CAIVRS to Treasury at the end of FY 2016. To date, USDA has not yet received notifications of needed corrections or identification of incorrect information.

Table 20: Results of the Do Not Pay Initiative in Preventing Improper Payments (\$ In Millions)

	Number (#) of payments reviewed for possible improper payments	Dollars (\$) of payments reviewed for possible improper payments	Number (#) of payments stopped	Dollars (\$) of payments stopped	Number (#) of potential improper payments reviewed and determined accurate	Dollars (\$) of potential improper payments reviewed and determined accurate
Reviews with the Do Not Pay databases	26,463,515	61,356.54	0	0.00	3,382	8.65
Reviews with databases not listed in IPERIA as Do Not Pay databases	0	0.00	0	0.00	0	0.00

Data gathered October 1, 2015 through June 30, 2016

Inspector General Act Amendments of 1988: Management's Report on Audit Follow Up

Background

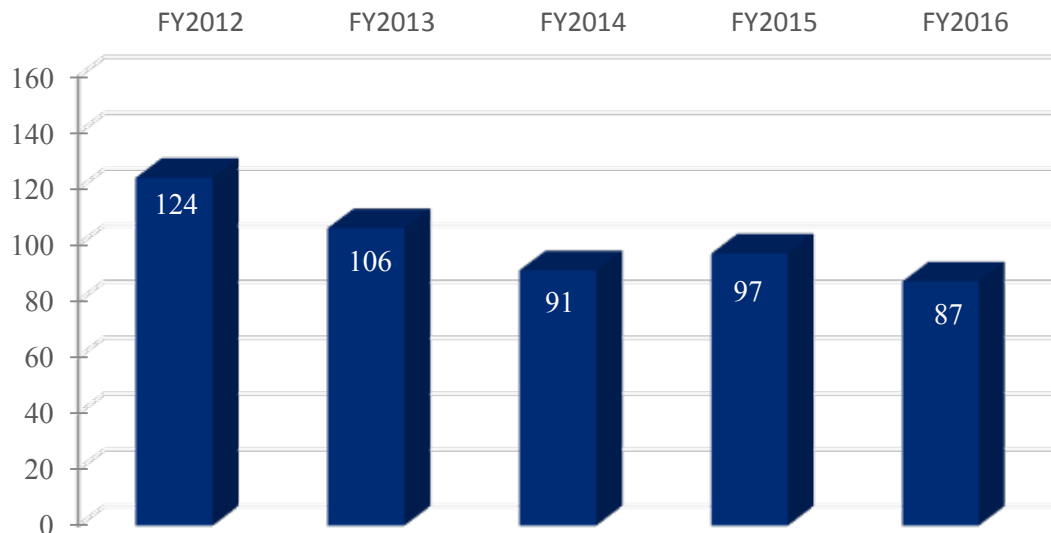
The Inspector General Act Amendments of 1988 (P.L. 100-504), require that each agency head submit semi-annual reports to Congress on the actions taken in response to Office of Inspector General (OIG) audit, evaluation, and inspection reports. Consistent with the Reports Consolidation Act of 2000 (P.L. 106-531), the U.S. Department of Agriculture's (USDA) Office of the Chief Financial Officer (OCFO) consolidates and annualizes the required semi-annual Inspector General Act Amendments' reporting elements for inclusion in the annual Agency Financial Report.

OIG audits USDA's programs, systems, and operations. It then recommends improvements to management based on its findings. USDA management may agree or disagree with the audit's findings or recommendations. An agreement is reached during the management-decision process. If management agrees with a recommendation, a written plan for corrective action with a target completion date is developed. The plan is then submitted to OIG for concurrence. If both OIG and management agree that the proposed corrective action will correct the weakness, 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, 2016)

USDA agencies closed 36 audits in fiscal year (FY) 2016. As of July 31, 2016, OIG and USDA agencies reached management decisions on 25 audits. As shown in the following exhibit, the Department's inventory of open audits decreased in FY 2016 by 10 percent from 97 to 87.

Exhibit 20: Open Audit Inventory

Note: The FY 2015 ending balance was revised from 88 to 97 to include nine audits transmitted from the OIG after the reporting period. These adjustments are also reflected in the beginning balances for audits with disallowed costs (DC) shown in [Exhibit 20](#) and [Exhibit 22](#).

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 21](#) 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 21: 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: <ul style="list-style-type: none"> ▪ Reductions in outlays or other savings; ▪ Deobligation 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 36 audits that achieved final action during the fiscal year, 5 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 \$101,042,763. See [Exhibit 22](#) below.

Exhibit 22: Inventory of Audits with Disallowed Costs

Audits with Disallowed Costs (DC)	# of Audits	Amount (\$)
Beginning of the Period (October 2015)	26	\$110,639,113
Plus: New Management Decisions	1	\$27,719
Total Audits Pending Collection of DC	27	\$110,666,832
Adjustments (see Exhibit 23)		\$5,927,033
Revised Subtotal		\$104,739,799
Less: Final Actions (Recoveries)	5	\$3,697,036
Audits with DC Requiring Final Action at the End of the Period (July 2016)	22	\$101,042,763

Exhibit 22 and Exhibit 24 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 22 and Exhibit 24 does not equal the total resolved audit inventory balance in Exhibit 20. The Beginning balance in Exhibit 22 was adjusted to include three audits with DC that were transmitted from OIG after the July 31, 2015 reporting period.

As shown in Exhibit 22 above, for DC audits that achieved final action in FY 2016, OIG and management agreed to collect \$9,624,069. Adjustments were made totaling \$5,927,033 (62 percent of the total) for the following reasons: 1) documentation; 2) Legal Decision; 3) appeals; and 4) agency discovery. Management recovered the remaining \$3,697,036.

Exhibit 23: Distribution of Adjustments to Disallowed Cost

Category	Amount (\$)
Documentation	\$166,933
Legal Decision	\$2,029,691
Appeals	\$179,129
Agency Discovery	\$3,551,280
Total	\$5,927,033

Final action occurred on 6 audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is 13, with a monetary value of \$755,165,636 (see Exhibit 24).

Exhibit 24: Inventory of Audits with Funds to Be Put to Better Use (FTBU)

Audits with FTBU	# of Audits	Amount (\$)
Beginning of the Period	16	\$749,694,002
Plus: New Management Decisions	3	\$41,449,570
Total Audits Pending	19	\$791,143,572
Less: Final Actions	6	\$35,977,936
Audits with FTBU Requiring Final Action at the End of the Period	13	\$755,165,636
Disposition of FTBU:		
FTBU Implemented		\$35,919,077
FTBU Not Implemented		\$58,859
Total FTBU Amounts for Final Action Audits		\$35,977,936

Exhibit 22 and Exhibit 24 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 22](#) and [Exhibit 24](#) do not equal the total resolved audit inventory balance in [Exhibit 20](#).

The number of audits open one or more years without final action in FY 2016 decreased from 58 to 56 audits, or a 3 percent decrease. The 56 audits include 18 audits that reached one year past management decision date during FY 2016. USDA agencies continue to pursue compensating controls that address many of the underlying issues identified in these older audits.

Exhibit 25: Decrease 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	58
Less: Audits closed	20
Subtotal FY 2016 audits one year or more past MDD	38
Plus: Audits that reached one year past MDD during FY 2016	18
Ending balance as of July 31, 2016	56

Agencies have completed all planned corrective actions on 12 audits that are pending collection of associated DC (see [Exhibit 26](#) below).

Exhibit 26: 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 (\$)
1	\$120,635	\$0	42	\$55,590,656	\$644,805,979	12	\$42,526,975	\$65,669,524

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 27](#). The audits are categorized by agency, and by reason, final action has not occurred. More detailed information on audits on-schedule, and audits under collection, is available from OCFO.

Exhibit 27: Audits Open One Year or More Past the MDD, and Behind Schedule

Agricultural Marketing Service (AMS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
01601-0002-32	7/15/2013	12/31/2016	National Organic Program—Organic Milk Operations	\$0	\$0	Pending Administrative Action
50601-0002-31	7/31/2013	09/30/2016	FSIS' and AMS' Field-Level Workforce Challenges	\$11,740,000	\$0	Pending Administrative Action
AMS Subtotal (2)				\$11,740,000	\$0	

Animal and Plant Health Inspection Service (APHIS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
33601-0001-41	12/09/2014	08/31/2016	Oversight of Research Facilities		\$420,299	Issuance of Policy Guidance and Legislation
50601-0008-TE	1/28/2005	09/30/2016	Controls over APHIS Issuance of Genetically Engineered Organisms Release Permits	\$0	\$0	Issuance of Policy Guidance and Legislation
50601-0016-TE	5/31/2011	12/30/2016	Controls over Genetically Engineered Animal and Insect Research	\$0	\$0	Issuance of Policy Guidance and Legislation
APHIS Subtotal (3)				\$0	\$420,299	

Agricultural Research Service (ARS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
50601-0006-TE	3/4/2004	12/31/2016	ARS Controls Over Plant Variety Protection and Germplasm Storage	\$0	\$0	Issuance of Policy Guidance and Legislation
50601-0010-AT	3/8/2004	12/31/2016	ARS Follow Up Report on the Security of Biological Agents at U.S. Department of Agriculture Laboratories	\$0	\$0	Issuance of Policy Guidance and Legislation
ARS Subtotal (2)				\$0	\$0	

Commodity Credit Corporation (CCC)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
06401-0020-FM	11/9/2005	09/30/2017	CCC's Financial Statements for FY 2005 and 2004	\$0	\$0	Pending Administrative Action
CCC Subtotal (1)				\$0	\$0	

Foreign Agricultural Service (FAS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
07601-0001-22	03/31/2014	12/31/2016	Private Voluntary Organization Grant Fund Accountability	\$242,676	\$8,481	Issuance of Policy Guidance and Legislation
50601-0001-22	03/28/2013	4/30/2017	Effectiveness of FAS Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals	\$0	\$0	Pending Administrative Action
50601-0002-16	02/06/2014	9/30/2017	Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan	\$0	\$0	Issuance of Policy Guidance and Legislation
FAS Subtotal (3)				\$242,676	\$8,481	

Food and Nutrition Service (FNS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
27002-0011-13	9/28/2012	10/31/2016	Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts	\$0	\$0	Pending Administrative Action
27004-0001-22	09/25/2014	11/30/2016	State Agencies' Food Costs For the Food and Nutrition Service's Special Supplemental Nutrition Program For Women, Infants, and Children	\$0	\$0	Pending Administrative Action
27601-0001-23	1/3/2013	09/30/2016	National School Lunch Program-Food Service Management Company Contracts	\$0	\$0	Pending Administrative Action
27601-0001-31	07/31/2013	10/31/2017	Controls for Authorizing Supplemental Nutrition Assistance Program Retailers	\$0	\$6,700,000	Issuance of Policy Guidance and Legislation
27099-0049-TE	3/10/2008	11/30/2016	Disaster Food Stamp Program for Hurricanes Katrina and Rita in Louisiana, Mississippi, and Texas	\$0	\$0	Issuance of Policy Guidance and Legislation
50601-0014-AT	8/16/2010	09/30/2016	Effectiveness and Enforcement of Suspension and Debarment Regulations	\$0	\$0	Pending Administrative Action
FNS Subtotal (6)				\$0	\$6,700,000	

Farm Service Agency (FSA)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
03601-0001-22	7/31/2014	9/30/2016	Compliance Activities	\$0	\$0	Issuance of Policy Guidance and Legislation
03601-0018-CH	8/10/2010	06/30/2016	Farm Loan Security	\$0	\$0	Pending IT System Implementation and Enhancements
FSA Subtotal (2)				\$0	\$0	

Food Safety and Inspection Service (FSIS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
24601-0001-41	5/9/2013	9/30/2016	Inspection and Enforcement Activities at Swine Slaughter Plants	\$0	\$0	Issuance of Policy Guidance and Legislation
24601-0004-31	7/27/2015	9/30/2016	FSIS Ground Turkey Inspection and Safety Protocols	\$0	\$0	Issuance of Policy, guidance and Legislation
50601-0006-HY	7/15/2009	10/31/2016	Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	\$0	\$0	Pending IT System Implementation and Enhancements
FSIS Subtotal (3)				\$0	\$0	

Natural Resources Conservation Service (NRCS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
10099-0001-31	9/27/2013	11/30/2016	Natural Resources Conservation Service's Administration of Easement Programs in Wyoming	\$0	\$0	Pending Administrative Action
10601-0002-31	7/30/2014	09/30/2016	NRCS Conservation Easement Compliance	\$0	\$0	Issuance of Policy Guidance and Legislation
NRCS Subtotal (2)				\$0	\$0	

Office of the Chief Financial Officer (OCFO)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
50024-0005-11	4/15/2014	9/30/2016	U.S. Department of Agriculture Improper Payments Elimination and Recovery Act of 2010 Compliance Review for Fiscal Year 2013	\$0	\$0	Pending Administrative Action
50099-0001-23	9/18/2014	12/30/2016	USDA's Controls Over Economy Act Transfers and Greenbook Program Charges	\$ 43,516,842	\$0	Pending Administrative Action
OCFO Subtotal (2)				\$ 43,516,842	\$0	

Office of the Chief Information Officer (OCIO)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
50501-0001-IT	8/15/2011	11/30/2016	OCIO USDA's Management and Security Over Wireless Handheld Devices	\$0	\$0	Pending Administrative Action
50501-0002-12	7/17/2014	11/30/2016	Fiscal Year 2011 Federal Information Security Management Act	\$0	\$0	Pending Administrative Action
50501-0002-IT	11/19/2010	11/30/2016	OCIO FY 2010 Federal Information Security Management Act	\$0	\$0	Pending IT System Implementation and Enhancements
50501-0015-FM	11/18/2009	1/01/2017	OCIO FY 2009 Federal Information Security Management Act	\$0	\$0	Issuance of Policy Guidance
88401-0001-12	8/2/2012	11/30/2016	OCIO's FY's 2010 and 2011 Funding Received for Security Enhancements	\$0	\$0	Pending Administrative Action
50501-0003-12	11/15/2012	9/30/2017	USDA, Office of The Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act	\$0	\$0	Issuance of Policy Guidance
50501-0004-12	11/26/2014	11/30/2016	USDA, Office of The Chief Information Officer, Fiscal Year 2013 federal Information Security Management Act	\$0	\$0	Pending Administrative Action

Audits	Date Issued	Revised	Audit Title	Monetary Amount		Pending by Reason
50501-0005-12	9/26/2014	11/30/2016	Cigie Cloud Computing Initiative – Status of cloud – computing Environment Within The USDA	\$0	\$0	Pending IT System Implementation and Enhancements
50501-0006-12	11/12/2014	11/30/2017	USDA, Office of The Chief Financial Officer, Fiscal Year 2014 Federal Information Security Management Act	\$0	\$0	Pending IT System Implementation and Enhancements
OCIO Subtotal (9)				\$0	\$0	

Rural Development (RD)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
04601-0001-31	7/18/2014	12/31/2015	Rural Development: Single Family Housing Direct Loan Servicing and Payment Subsidy Recapture	\$34,338	\$0	Pending Administrative Action
04601-0018-CH	9/27/2012	12/31/2015	Project Cost and Inspection Procedures for the Rural Rental Housing Program	\$0	\$0	Issuance of Policy Guidance and Legislation
09703-0001-32	3/29/2013	12/31/2015	American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Pre-Approval Controls	\$0	\$6,378,419	Pending Administrative Action
09703-0002-32	8/22/2013	12/31/2015	American Recovery and Reinvestment Act of 2009—Broadband Initiatives Program—Post-Award Controls	\$0	\$150,503,439	Pending Administrative Action
34601-0001-31	12/5/2011	9/30/2016	American Recovery and Reinvestment Act—Business and Industry Guaranteed Loans, Phase 2	\$56,800	\$0	Pending Administrative Action
RD Subtotal (5)				\$91,138	\$156,881,858	

Risk Management Agency (RMA)

Audits	Date Issued	Revised Completi on Date	Audit Title	Monetary Amount		Pending by Reason
				DC (\$)	FTBU (\$)	
05601-0001-31	9/03/2013	5/30/2016	Controls Over Prevented Planting	\$0	\$480,795,341	Pending Administrative Action
05601-0001-22	4/30/2015	7/30/2016	Risk Management Agency National Program Operations Reviews	\$0	\$0	Pending Administrative Action
RMA Subtotal (2)				\$0	\$480,795,341	
Total Number Audits (42)			Total	\$55,590,656	\$644,805,979	

Freeze the Footprint

The U.S. Department of Agriculture (USDA) successfully implemented the Office of Management and Budget (OMB) “Freeze the Footprint” policy initiative by committing to maintain its office and warehouse square footage baselines at the Fiscal Year (FY) 2012 levels through 2015. Beginning FY 2016, the policy shifted to “Reduce the Footprint” with an emphasis on disposal of excess properties held by the Federal Government, thus making better use of the Government’s real estate asset portfolio.

Exhibit 28: Freeze the Footprint Baseline Comparison
Square Footage (SF) (\$ In Millions)

Fiscal Year 2012 Baseline	2015	Change (2012–2015)
35.93	35.26	-1.86%

Exhibit 29: Reporting of Operation and Maintenance Costs—Owned and Direct-Leased Buildings and Structures
Operations and Maintenance (O&M) Costs (\$ In Millions)

Fiscal Year 2012 Baseline	2015	Change (2012–2015)
\$615.87	\$555.90	\$-59.97

More information about Federal Real Property can be found in the [Federal Real Property Profile Summary Report Library](#).

USDA issued an Agriculture Property Management Regulation Advisory (AGPMR [No. 15-05](#)) providing policy guidance and procedures for the Reduce the Footprint OMB space initiative. Since FY 2015, Departments have been projecting their 5-year office and warehouse requirements. The Department has set forth processes and procedures to manage space needs at or below the FY 2012 baseline, represented in the figure above.

USDA continues to support footprint reductions by identifying opportunities for disposal, consolidation, and increased utilization of real property. The Department leads this initiative through the formation of the Real Property Strategic Sourcing Initiative. USDA has also created a Center of Excellence (COE) for Leasing to achieve cost-savings for the more than 3,000 direct leases in the portfolio. USDA issued an updated AGPMR Advisory ([No 16-01](#)) “Space Utilization Rate Policy,” to clarify the existing 150-square foot per person office utilization rate policy. These continuing actions represent USDA’s commitment to strategically managing and utilizing its space to achieve the highest return for the taxpayer.

Civil Monetary Penalties

USDA maintains regulations regarding civil monetary policies at Title 7 of the Code of Federal Regulations § 3.91¹⁸. The Department is reviewing, updating, and making adjustments to the penalties; however, they will not be finalized and published in the Federal Register when the Agency Financial Report is published in November 2016. The table below briefly describes the penalty, under which authority, the dates of the previous and current adjustments, and anticipated current penalty amount.

Exhibit 30: Civil Monetary Penalties

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Improper recordkeeping; pesticides	7 U.S.C. 136i-1(d)	4/7/2010		\$891
Violation of the unfair conduct rule	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499b(5)	4/7/2010		\$4,848
Violation of the licensing requirements	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499c(a)	4/7/2010		\$1,547 plus \$387 a per day for as long as offense occurs or \$387 for each non-willful offense
Violative transaction	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499h(e)	4/7/2010		\$3,095
Violation	Export Apple Act, 7 U.S.C. 586	4/7/2010		\$141–\$14,140

¹⁸ <https://www.gpo.gov/fdsys/pkg/CFR-2011-title7-vol1/xml/CFR-2011-title7-vol1-sec3-91.xml>

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation	Export Grape and Plum Act, codified at 7 U.S.C. 596	4/7/2010		\$275–\$27,500
Violation of an order issued by the Secretary	Agricultural Adjustment Act, reenacted with amendments by the Agricultural Marketing Agreement Act of 1937, codified at 7 U.S.C. 608c(14)(B)	4/7/2010		\$2,750
Failure to file certain reports	Agricultural Adjustment Act, reenacted by the Agricultural Marketing Agreement Act of 1937, codified at 7 U.S.C. 610(c)	4/7/2010		\$275
Violation of a seed program	Federal Seed Act, codified at 7 U.S.C. 1596(b)	4/7/2010		\$94–\$1,875
Failure to collect any assessment or fee for violation	Cotton Research and Promotion Act, codified at 7.U.S.C. 2112(b)	4/7/2010		\$2,750
Failure to obey a cease and desist order, or for deceptive marketing	Plant Variety Protection Act, codified at 7 U.S.C. 2568(b)	4/7/2010		\$795–\$15,909

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to pay, collect, or remit any assessment or fee for a violation of a program	Potato Research and Promotion Act, codified at 7 U.S.C. 2621(b)(1)	4/7/2010		\$1,212–\$12,121
Failure to obey a cease and desist order	Potato Research and Promotion Act, codified at 7 U.S.C. 2621(b)(3)	4/7/2010		\$1,212
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Egg Research and Consumer Information Act, codified at 7 U.S.C. 2714(b)(1)	4/7/2010		\$1,402–\$14,023
Failure to obey a cease and desist order	Egg Research and Consumer Information Act, codified at 7 U.S.C. 2714(b)(3)	4/7/2010		\$1,402
Failure to remit any assessment or fee or for a violation of a program	Beef Research and Information Act, codified at 7 U.S.C. 2908(a)(2)	4/7/2010		\$10,940
Failure to remit any assessment or for a violation of a program regarding wheat and wheat foods research	7 U.S.C. 3410(b)	4/7/2010		\$2,750
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Floral Research and Consumer Information Act, codified at 7 U.S.C. 4314(b)(1)	4/7/2010		\$1,273–\$12,732

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to obey a cease and desist order	Floral Research and Consumer Information Act, codified at 7 U.S.C. 4314(b)(3)	4/7/2010		\$1,273
Violation of an order	Dairy Promotion Program, codified at 7 U.S.C. 4510(b)	4/7/2010		\$2,355
Failure to pay, collect, or remit any assessment or fee or for a violation	Honey Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 4610(b)(1)	4/7/2010		\$725–\$7,251
Failure to obey a cease and desist order	Honey Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 4610(b)(3)	4/7/2010		\$725
Violation of a program	Pork Promotion, Research, and Consumer Information Act of 1985, codified at 7 U.S.C. 4815(b)(1)(A)(i)	4/7/2010		\$2,188
Failure to obey a cease and desist order	Pork Promotion, Research, and Consumer Information Act of 1985, codified at 7 U.S.C. 4815(b)(3)(A)	4/7/2010		\$1,094

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Watermelon Research and Promotion Act, codified at 7 U.S.C. 4910(b)(1)	4/7/2010		\$1,094–\$10,940
Failure to obey a cease and desist order	Watermelon Research and Promotion Act, codified at 7 U.S.C. 4910(b)(3)	4/7/2010		\$1,094
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Pecan Promotion and Research Act of 1990, codified at 7 U.S.C. 6009(c)(1)	4/7/2010		\$1,782–\$17,816
Failure to obey a cease and desist order	Pecan Promotion and Research Act of 1990, codified at 7 U.S.C. 6009(e)	4/7/2010		\$1,782
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Mushroom Promotion, Research, and Consumer Information Act of 1990, codified at 7 U.S.C. 6107(c)(1)	4/7/2010		\$865–\$8,655
Failure to obey a cease and desist order	Mushroom Promotion, Research, and Consumer Information Act of 1990, codified at 7 U.S.C. 6107(e)	4/7/2010		\$865

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to pay, collect, or remit any assessment or fee or for a violation	Lime Research, Promotion, and Consumer Information Act of 1990, codified at 7 U.S.C. 6207(c)(1)	4/7/2010		\$865–\$8,655
Failure to obey a cease and desist order	Lime Research, Promotion, and Consumer Information Act of 1990, codified at 7 U.S.C. 6207(e)	4/7/2010		\$865
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Soybean Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 6307(c)(1)(A)	4/7/2010		\$1,782
Failure to obey a cease and desist order	Soybean Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 6307(e)	4/7/2010		\$8,908
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Fluid Milk Promotion Act of 1990, codified at 7 U.S.C. 6411(c)(1)(A) and 7 U.S.C. 6411(c)(1)(B)	4/7/2010		Unwillful violation: \$865–\$8,655; willful violation: \$17,310–\$173,099
Failure to obey a cease and desist order	Fluid Milk Promotion Act of 1990, codified at 7 U.S.C. 6411(e)	4/7/2010		\$8,908

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Knowingly labeling or selling a product as organic except in accordance with the Organic Foods Production Act of 1990	Organic Foods Production Act of 1990, codified at 7 U.S.C. 6519(a)	4/7/2010		\$17,310
Failure to pay, collect, or remit any assessment or fee or for a violation of a program	Fresh Cut Flowers and Fresh Cut Greens Promotion and Information Act of 1993, codified at 7 U.S.C. 6808(c)(1)(A)(i)	4/7/2010		\$816–\$8,162
Failure to obey a cease and desist order	Fresh Cut Flowers and Fresh Cut Greens Promotion and Information Act of 1993, codified at 7 U.S.C. 6808(e)(1)	4/7/2010		\$8,162
Violation of a program	Sheep Promotion, Research, and Information Act of 1994, codified at 7 U.S.C. 7107(c)(1)(A)	4/7/2010		\$1,591
Failure to obey a cease and desist order	Sheep Promotion, Research, and Information Act of 1994, codified at 7 U.S.C. 7107(e)	4/7/2010		\$795

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of an order or regulation issued under the Commodity Promotion, Research, and Information Act of 1996	Commodity Promotion, Research, and Information Act of 1996, codified at 7 U.S.C. 7419(c)(1)	4/7/2010		\$1,502–\$15,024 for each violation
Failure to obey a cease and desist order	Commodity Promotion, Research, and Information Act of 1996, codified at 7 U.S.C. 7419(e)	4/7/2010		\$1,502–\$15,024
Violation of an order or regulation issued under the Canola and Rapeseed Research, Promotion, and Consumer Information Act	Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(c)(1)(A)(i)	4/7/2010		\$1,502 for each violation
Failure to obey a cease and desist order	Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(e)	4/7/2010		\$7,512 for each day the violation occurs
Violation of an order or regulation issued under the National Kiwifruit Research, Promotion, and Consumer Information Act	National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(c)(1)	4/7/2010		\$751–\$7,512

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to obey a cease and desist order	National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(e)	4/7/2010		\$751 for each day the violation occurs
Violation of an order or regulation under the Popcorn Promotion, Research, and Consumer Information Act	Popcorn Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 7487(a)	4/7/2010		\$1,502 for each violation
Certain violations	Egg Products Inspection Act, codified at 21 U.S.C. 1041(c)(1)(A)	4/7/2010		\$8,655 for each violation
Violation of an order or regulation issued under the Hass Avocado Promotion, Research, and Information Act of 2000	Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(c)(1)(A)(i)	4/7/2010		\$1,367–\$13,669 for each violation
Failure to obey a cease and desist order	Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(e)(1)	4/7/2010		\$13,669 for each offense
Violation of certain provisions of the Livestock Mandatory Reporting Act of 1999	Livestock Mandatory Reporting Act of 1999, codified at 7 U.S.C. 1636b(a)(1)	4/7/2010		\$14,140 for each violation

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to obey a cease and desist order	Livestock Mandatory Reporting Act of 1999, codified at 7 U.S.C. 1636b(g)(3)	4/7/2010		\$14,140 for each violation
Failure to obey an order of the Secretary issued pursuant to the Dairy Product Mandatory Reporting program	Dairy Product Mandatory Reporting program, codified at 7 U.S.C. 1637b(c)(4)(D)(iii)	4/7/2010		\$13,669
Willful violation of the Country of Origin Labeling program by a retailer or person engaged in the business of supplying a covered commodity to a retailer	7 U.S.C. 1638b(b)(2)	4/7/2010		\$1,098 for each violation
Violations of the Dairy Research Program	Dairy Research Program, codified at 7 U.S.C. 4535 and 4510(b)	4/7/2010		\$2,355 for each violation
Violation of the imported seed provisions of the Federal Seed Act	Federal Seed Act, codified at 7 U.S.C. 1596(b)	4/7/2010		\$94–\$1,875
Violation of the Animal Welfare Act	Animal Welfare Act, codified at 7 U.S.C. 2149(b)	4/7/2010		\$10,982, and knowing failure to obey a cease and desist order has a civil penalty of \$1,647

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Any person that causes harm to, or interferes with, an animal used for the purposes of official inspection by the Department	7 U.S.C. 2279e(a)	4/7/2010		\$13,669
Penalty for a violation of the Swine Health Protection Act	Swine Health Protection Act, codified at 7 U.S.C. 3805(a)	4/7/2010		\$27,500
Any person that violates the Plant Protection Act (PPA), or that forges, counterfeits, or, without authority from the Secretary, uses, alters, defaces, or destroys any certificate, permit, or other document provided for in the PPA	Plant Protection Act, 7 U.S.C. 7734(b)(1)	4/7/2010		\$68,344 in the case of an individual, \$341,722 in the case of any other person for each violation, \$549,095 for all violations adjudicated in a single proceeding if the violations do not include a willful violation, \$1,098,190 for all violations adjudicated in a single proceeding if the violations include a willful violation; or twice the gross gain or gross loss for any violation, forgery, counterfeiting, unauthorized use, defacing, or destruction of a certificate, permit, or other document provided for in the PPA that results in the person deriving pecuniary gain or causing pecuniary loss to another person.

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Any person [except as provided in 7 U.S.C. 8309(d)] that violates the Animal Health Protection Act (AHPA), or that forges, counterfeits, or, without authority from the Secretary, uses, alters, defaces, or destroys any certificate, permit, or other document provided under the AHPA	Animal Health Protection Act, 7 U.S.C. 8313(b)(1)	4/7/2010		\$65,592 in the case of an individual, \$327,962 in the case of any other person for each violation, \$549,095 for all violations adjudicated in a single proceeding if the violations do not include a willful violation, \$1,098,190 for all violations adjudicated in a single proceeding if the violations include a willful violation; or twice the gross gain or gross loss for any violation, forgery, counterfeiting, unauthorized use, defacing, or destruction of a certificate, permit, or other document provided under the AHPA that results in the person deriving pecuniary gain or causing pecuniary loss to another person.
Any person that violates certain regulations under the Agricultural Bioterrorism Protection Act of 2002 regarding transfers of listed agents and toxins or possession and use of listed agents and toxins.	Bioterrorism Protection Act of 2002, codified at 15 U.S.C. 8401(i)(1)	4/7/2010		\$327,962 in the case of an individual and \$655,925 in the case of any other person.

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of the Horse Protection Act	Horse Protection Act, codified at 15 U.S.C. 1825(b)(1)	4/7/2010		\$5,500
Failure to obey Horse Protection Act disqualification	Horse Protection Act, codified at 15 U.S.C. 1825(c)	4/7/2010		\$10,750
Knowingly violating, or, if in the business as an importer or exporter, violating, with respect to terrestrial plants, any provision of the Endangered Species Act of 1973, any permit or certificate issued thereunder, or any regulation issued pursuant to section 9(a)(1)(A) through (F), (a)(2)(A) through (D), (c), (d) (other than regulations relating to recordkeeping or filing reports), (f), or (g) of the Endangered Species Act of 1973	Endangered Species Act of 1973, (16 U.S.C. 1538(a)(1)(A) through (F), (a)(2)(A) through (D), (c), (d), (f), and (g)), as set forth at 16 U.S.C. 1540(a)	4/7/2010		\$49,467
Knowingly violating, or, if in the business as an importer or exporter, violating, with respect to terrestrial plants, any other regulation under the Endangered Species Act of 1973	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)	4/7/2010		\$23,744

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation, with respect to terrestrial plants, of the Endangered Species Act of 1973, or any regulation, permit, or certificate issued thereunder	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)	4/7/2010		\$1,772
Knowingly and willfully violating 49 U.S.C. 80502 with respect to the transportation of animals by any rail carrier, express carrier, or common carrier (except by air or water), a receiver, trustee, or lessee of one of those carriers, or an owner or master of a vessel	49 U.S.C. 80502(d)	4/7/2010		\$159–\$795
Violating a provision of the Food and Nutrition Act of 2008 (Act), or a regulation under the Act, by a retail food store or wholesale food concern	Food and Nutrition Act of 2008 (Act), or a regulation under the Act, codified at 7 U.S.C. 2021(a) and (c)	4/7/2010		\$109,819
Trafficking in food coupons	Food and Nutrition Act of 2008 (Act), codified at 7 U.S.C. 2021(b)(3)(B)	4/7/2010		\$39,574–\$71,262
Sale of firearms, ammunitions, explosives, or controlled substances for coupons	Food and Nutrition Act of 2008 (Act), codified at 7 U.S.C. 2021(b)(3)(c)	4/7/2010		\$35,631–\$71,262

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Any entity that submits a bid to supply infant formula to carry out the Special Supplemental Nutrition Program for Women, Infants, and Children and discloses the amount of the bid, rebate, or discount practices in advance of the bid opening, or for any entity that makes a statement prior to the opening of bids for the purpose of influencing a bid	42 U.S.C. 1786(h)(8)(H)(i)	4/7/2010		\$167,728,000
Vendor convicted of trafficking in food instruments	42 U.S.C. 1786(o)(1)(A) and 42 U.S.C. 1786(o)(4)(B)	4/7/2010		\$14,502–\$58,009
Vendor convicted of selling firearms, ammunition, explosives, or controlled substances in exchange for food instruments	2 U.S.C. 1786(o)(1)(B) and 42 U.S.C. 1786(o)(4)(B)	4/7/2010		\$14,502–\$58,009
Failure to timely file certain reports	21 U.S.C. 467d	4/7/2010		\$275 per day for each day the report is not filed
Failure to timely file certain reports	21 U.S.C. 677	4/7/2010		\$275 per day for each day the report is not filed
Failure to timely file certain reports, codified at 21 U.S.C. 678	21 U.S.C. 1051	4/7/2010		\$275 per day for each day the report is not filed

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Willful disregard of the prohibition against the export of unprocessed timber originating from Federal lands	16 U.S.C. 620d(c)(1)(A)	4/7/2010		\$890,780
Violation in disregard of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	16 U.S.C. 620d(c)(2)(A)(i)	4/7/2010		\$133,617
Person that should have known that an action was a violation of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act, 16 U.S.C. 620d(c)(2)(A)(ii)	4/7/2010		\$89,078
Willful violation of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act, codified at 16 U.S.C. 620d(c)(2)(A)(iii)	4/7/2010		\$890,780
Violation involving protections of caves	16 U.S.C. 4307(a)(2)	4/7/2010		\$19,787
Packer or swine contractor violation	7 U.S.C. 193(b)	4/7/2010		\$27,500

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Livestock market agency or dealer failure to register	Packers and Stockyards Act of 1921, 7 U.S.C. 203	4/7/2010		\$94–\$1,875
Operating without filing, or in violation of, a stockyard rate schedule, or of a regulation or order of the Secretary made thereunder	Packers and Stockyards Act of 1921, 7 U.S.C. 207(g)	4/7/2010		\$94–\$1,875
A stockyard owner, livestock market agency, and dealer violation	Packers and Stockyards Act of 1921, 7 U.S.C. 213(b)	4/7/2010		\$27,500
Stockyard owner, livestock market agency, and dealer compliance order	Packers and Stockyards Act of 1921, 7 U.S.C. 215(a)	4/7/2010		\$1,875
Failure to file required reports	15 U.S.C. 50	4/7/2010		\$275
Live poultry dealer violations	Packers and Stockyards Act of 1921, 7 U.S.C. 228b-2(b)	4/7/2010		\$80,000
Refusal of inspection and weighing services violation	7 U.S.C. 86(c)	4/7/2010		\$268,750

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Any person who willfully and intentionally provides any false or inaccurate information to the Federal Crop Insurance Corporation or to an approved insurance provider with respect to any insurance plan or policy that is offered under the authority of the Federal Crop Insurance Act	Federal Crop Insurance Act, codified at 7 U.S.C. 1506(n)(1)(A)	4/7/2010		\$11,555
Any person who willfully and intentionally provides any false or inaccurate information to the Federal Crop Insurance Corporation or to an approved insurance provider with respect to any insurance plan or policy that is offered under the authority of the Federal Crop Insurance Act, or who fails to comply with a requirement of the Federal Crop Insurance Corporation	Federal Crop Insurance Act, codified at 7 U.S.C. 1515(h)(3)(A)	4/7/2010		\$11,555
Violation of section 536 of Title V of the Housing Act of 1949	Section 536 of Title V of the Housing Act of 1949, codified at 42 U.S.C. 1490p(e)(2)	4/7/2010		\$189,361 for an individual and \$1,893,610 in the case of an applicant other than an individual
Equity skimming	Section 543(a) of the Housing Act of 1949, codified at 42 U.S.C. 1490s(a)(2)	4/7/2010		\$34,172

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of regulations or agreements made in accordance with Title V of the Housing Act of 1949, by submitting false information, submitting false certifications, failing to timely submit information, failing to maintain real property in good repair and condition, failing to provide acceptable management for a project, or failing to comply with applicable civil rights statutes and regulations	Section 543b of the Housing Act of 1949, codified at 42 U.S.C. 1490s(b)(3)(A)	4/7/2010		\$68,344
Failure to comply with certain provisions of the U.S. Warehouse Act	U.S. Warehouse Act, codified at 7 U.S.C. 254	4/7/2010		\$34,172
Willful failure or refusal to furnish information, or willful furnishing of false information under section 156 of the Federal Agricultural Improvement and Reform Act of 1996	Section 156 of the Federal Agricultural Improvement and Reform Act of 1996, codified at 7 U.S.C. 7272(g)(5).	4/7/2010		\$15,024
Willful failure or refusal to furnish information or willful furnishing of false data by a processor, refiner, or importer of sugar, syrup and molasses	Section 156 of the Federal Agriculture Improvement and Reform Act of 1996, codified at 7 U.S.C. 7272(g)(5)	4/7/2010		\$15,024

Penalty (Name of Penalty)	Authority (Statute)	Date of Previous Adjustment	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Filing a false acreage report that exceeds tolerance	Federal Agriculture Improvement and Reform Act of 1996, Section 156	4/7/2010		\$15,024
Knowingly violating any regulation of the Secretary of the Commodity Credit Corporation pertaining to flexible marketing allotments for sugar	Section 359h(b) of the Agricultural Adjustment Act of 1938 codified at 7 U.S.C. 1359hh(b)	4/7/2010		\$10,982
Knowing violation of regulations promulgated by the Secretary pertaining to cotton insect eradication	Section 104(d) of the Agricultural Act of 1949 codified at 7 U.S.C. 1444a(d)	4/7/2010		\$13,750
Making, presenting, submitting, or causing to be made, presented or submitted, a false, fictitious, or fraudulent claim	Program Fraud Civil Remedies Act of 1986, codified at 31 U.S.C. 3802(a)(1)	4/7/2010		\$10,871
Making, presenting, submitting, or causing to be made, presented, or submitted, a false, fictitious, or fraudulent written statement	Program Fraud Civil Remedies Act of 1986, codified at 31 U.S.C. 3802(a)(2)	4/7/2010		\$10,871

Abbreviations—Acronyms

A

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

B

BDO—Barter Delivery Obligation	BLM—Bureau of Land Management
BFDL—Black Farmers Discrimination Lawsuit	

C

C&A—Certification and Accreditation	CI—Condition Index
CACFP—Child and Adult Care Food Program	CIO—Chief Information Officer
CAP—Corrective Action Plan	CIP—Continuous Improvement Plan
CBO—Certificates of Beneficial Ownership	CM—Continuous Monitoring
CCC—Commodity Credit Corporation	CMDF—Construction Disaster Fund Supplemental
CED—County Executive Director	CN—Child Nutrition
CEP—Community Eligibility Provision	CND—Child Nutrition Division
CFR—Code of Federal Regulations	

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—Current Year

D

DAFP—Deputy Administrator for Farm Programs
 DC—Disallowed Costs
 DCP—Direct and Counter-Cyclical Payments

DHS—U.S. Department of Homeland Security
 DM&R—Deferred Maintenance & Repairs
 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
 EFCRP—Emergency Forestry Conservation Reserve Program
 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

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
 FMS—Financial Management 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
 FNCS—Food, Nutrition and Consumer Services
 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—U.S. 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

NFAOC—National Financial and Accounting Operations Center

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

R

RA—Rental Assistance	RFA—Request for Application
RAP—Rental Assistance Program	RHIF—Rural Housing Insurance Fund
RBEG—Recovery Act Rural Business Enterprise Grant	RHS—Rural Housing Service
RBS—Rural Business and Cooperative Service	RMA—Risk Management Agency
RC&D—Resource Conservation and Development	RME—Risk Management Education
RD—Rural Development	RMF—Risk Management Framework
REE—Research, Education, and Economics	RO—Regional Office
	RORA—Regional Office Review of Applications
	RUS—Rural Utilities Service

S

SA—State Agency	SFA—School Food Authority
SAM—System for Award Management	SFH—Single Family Housing
SAP— <i>Salmonella</i> Action Plan (SAP)	SIP— <i>Salmonella</i> Initiative Program
SAP—Systems, Applications, and Products	SITC—Smuggling, Interdiction and Trade Compliance
SBP—School Breakfast Program	SMI—School Meal Initiative
SBR—Statement of Budgetary Resources	SNAP—Supplemental Nutrition Assistance Program
SCRA—Supplier Credit Recovery Audit	SOP—Standard Operating Procedure
SDA—Socially Disadvantaged Farmers	SOS—Schedule of Spending
SED—State Executive Director	
SER—Single Effective Rate	

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—U.S. 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