



# U.S. Department of Agriculture's Consolidated Balance Sheet for Fiscal Year 2017

## Audit Report 50401-0013-11

OIG audited USDA's consolidated balance sheet for fiscal year 2017 and assessed internal controls over financial reporting and compliance with laws and regulations.

### OBJECTIVE

Our objective was to determine, as required, whether USDA's consolidated balance sheet for fiscal year 2017 is fairly presented in accordance with generally accepted accounting principles. Our objective was also to review USDA's internal controls over financial reporting and test compliance with applicable laws and regulations.

### REVIEWED

To assess whether information in the underlying accounting records and other sources is reliable and sufficient to serve as the basis of USDA's financial statement, we performed tests at the financial offices of various USDA agencies and offices in Washington, D.C., at USDA's National Finance Center in New Orleans, Louisiana, and at selected agencies' field offices.

### RECOMMENDS

We recommended additional oversight to ensure that financial reporting controls over unliquidated obligations are strengthened and maintained.

### WHAT OIG FOUND

The Office of Inspector General (OIG) determined that the U.S. Department of Agriculture's (USDA) consolidated balance sheet presents fairly, in all material respects, USDA's financial position as of September 30, 2017, in accordance with accounting principles generally accepted in the United States.

OIG's review of USDA's internal controls over financial reporting identified three significant deficiencies, two of which are material weaknesses. Specifically, two of USDA's component agencies need to make further improvements to their overall financial management. Also, USDA needs to improve its information technology security and controls, as many long-standing weaknesses remain. Moreover, USDA needs to improve its controls over financial reporting, as our review again disclosed deficiencies related to obligations. Additionally, this report includes findings related to USDA's lack of substantial compliance with the Federal Financial Management Improvement Act of 1996, violations of the Anti-Deficiency Act, and non-compliance with the Digital Accountability and Transparency Act of 2014.

The Department concurred with our findings and generally agrees with our recommendation. It stated that it will develop corrective action plans with milestones to address the findings within 60 days.





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



DATE: November 15, 2017

AUDIT  
NUMBER: 50401-0013-11

TO: Lynn Moaney  
Acting Deputy 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: U.S. Department of Agriculture's Consolidated Balance Sheet for  
Fiscal Year 2017

This report presents the results of our audit of the Department of Agriculture's consolidated balance sheet for the fiscal year ending September 30, 2017. 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 recommendation for which management decision has 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 <http://www.usda.gov/oig> in the near future.



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## **Independent Auditor’s Report**

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Lynn Moaney  
Acting Deputy Chief Financial Officer  
Office of the Chief Financial Officer

The United States Department of Agriculture’s (USDA) Office of Inspector General (OIG) audited the consolidated balance sheet of the Department for fiscal year 2017. 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 year ended September 30, 2017. 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, 2017, and the related notes (hereinafter referred to as the “consolidated financial statement”). The objective of our audit was to express an opinion on the fair presentation of this 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 our audit. We conducted 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 17-03, *Audit Requirements for Federal Financial Statements*. Those standards and OMB Bulletin 17-03 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



auditor's 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. Our audit also included performing such other procedures as we considered necessary in the circumstances.

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

## **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, 2017, in accordance with accounting principles generally accepted in the U.S.

## **Other Matters**

### **Required Supplementary Information**

Accounting principles generally accepted in the U.S. require that the information in the Management's Discussion and Analysis (MD&A), Required Supplementary Information (RSI), and Required Supplementary Stewardship Information (RSSI) 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 statement in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the MD&A, RSI, and RSSI 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 "Other Information" sections are presented for purposes of additional analysis, and are not a required part of the basic consolidated 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 year ended September 30, 2017, 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 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.

OMB Bulletin 17-03 requires us to describe significant deficiencies and material weaknesses identified during our audit, and in the event that no material weaknesses were identified, to so report. In our fiscal year 2017 audit, 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 unliquidated obligations.

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.

OMB Bulletin 17-03 also requires us to compare the material weaknesses identified in the audit with the material weaknesses identified in USDA's *FMFIA Report on Management Control*. 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 effect on the determination of material amounts and disclosures in the consolidated financial statement. 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 compliance with FFMIA was not an objective of our engagement, and accordingly, we do not express such an opinion. The results of our tests of FFMIA 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.

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. In addition, we identified USDA’s noncompliance with the Digital Accountability and Transparency Act of 2014 (DATA Act), described in more detail in Finding 6 of the “Findings and Recommendations,” Section 3.

Additionally, during fiscal year 2017, 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.<sup>1</sup>

## **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 FFMIA, (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.

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<sup>1</sup> 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 effect on the determination of material amounts and disclosures in the consolidated financial statement.

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 amounts and disclosures in the consolidated financial statement for the fiscal year ended September 30, 2017. 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 compliance. These reports are an integral part of an audit performed in accordance with government auditing standards in considering USDA’s internal control and compliance. Accordingly, these reports are not suitable for any other purpose.



Gil H. Harden  
Assistant Inspector General for Audit

Washington, D.C.  
November 14, 2017

## Findings and Recommendations

### Section 1: Material Weaknesses in Internal Control Over Financial Reporting

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#### 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 system 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 for budgetary transactions and accounting estimates. 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 2017, the Department reported the above material weakness for overall financial management with the following corrective action plans:

- CCC, in fiscal year 2018, plans to implement improvements and refine processes for account reconciliations and analysis and the calculation of accruals and advances for the U.S. Agency for International Development grants funded by CCC. Some of these actions include updating policies and procedures, developing effective communication processes, and improving the timeliness of financial statement preparation and applicable support.
- NRCS, in fiscal year 2018, plans to re-engineer the process for reviewing data files to ensure invalid adjustments are identified and negated in a timely manner, improve the transparency of recording and liquidating obligations, and implement a confirmation process to ensure direct-entry expense accruals are recorded.

Since 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 during fiscal year 2017.<sup>2</sup>

USDA is working to improve IT security, but many longstanding weaknesses remain. We continue to find that the Department has not implemented corrective actions in response to prior OIG recommendations. For FISMA audits from 2009 through 2016, OIG made 67 recommendations for improving the overall security of USDA's systems. Forty of the 67 recommendations have been closed, 1 open recommendation has not yet surpassed its implementation date, and the remaining 26 open recommendations are overdue. Our testing identified that security weaknesses still exist for five closed recommendations.

Our testing also identified weaknesses in seven subject areas as defined for review by FISMA: risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response, and contingency planning.

We noted the Office of the Chief Information Officer (OCIO) continues to take positive steps towards improving the Department's security posture. For instance, the Department's participation in the Continuous Diagnostic and Mitigation project should expand its continuous diagnostic capabilities and provide a step forward to attaining a higher security capability.

OCIO concurred with the findings in the report. No new recommendations were made as the prior FISMA reports addressed the security weaknesses noted this year. As a result, we are making no further recommendations in this report.

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<sup>2</sup> Audit Report 50501-0015-12, *U.S. Department of Agriculture, Office of the Chief Information Officer, Fiscal Year 2017 Federal Information Security Modernization Act*, issued October 2017.

## Section 2: Significant Deficiency in Internal Control Over Financial Reporting

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### Finding 3: Controls Over Unliquidated Obligations Can Be Strengthened

Last year, our report identified deficiencies with controls over inactive Unliquidated Obligations (ULO).<sup>3</sup> 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, 2017. We found that five ULOs from four agencies<sup>4</sup> were invalid because no future expenditures were expected. We also found two ULO balances that were valid, but should have been liquidated prior to the sample date if those had been properly monitored.

We nonstatistically selected three agencies and reviewed their obligation certifications submitted to the Department for the third quarter of fiscal year 2017. To assess the appropriateness of the ULO certifications, we then selected 11 obligation balances nonstatistically from each of the three certifications. We found that one agency did not deobligate a ULO deemed invalid within the required time frame and incorrectly completed the certification statement by listing the incorrect number and dollar amount of ULOs.<sup>5</sup>

The U.S. Department of the Treasury's (Treasury) annual closing guidance (Treasury Bulletin 2017-08, *2017 Yearend Closing*, dated June 1, 2017), 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.

Management generally agreed with our findings and will continue to implement controls over unliquidated obligations.

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<sup>3</sup> An obligation is a binding agreement that will result in outlays, immediately or in the future. Budgetary resources must be available before obligations can be incurred legally.

<sup>4</sup> Agricultural Marketing Service, Animal and Plant Health Inspection Service, Agricultural Research Service and Forest Service (FS).

<sup>5</sup> The National Agricultural Statistics Service should have deobligated one ULO shortly after being deemed invalid and certified incorrect obligation data.



**Recommendation 1:**

Provide additional oversight to ensure that financial reporting controls over ULOs are strengthened and maintained.

## **Section 3: Noncompliance with Laws and Regulation**

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### **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 2017, 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 an ineffective information security program due to many longstanding weaknesses with outstanding recommendations. See Finding 2 of this report for more details.

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

1. CCC was not compliant with Federal accounting standards for weaknesses in the accounting for budgetary transactions and accounting estimates. In addition, financial management systems did not record certain accounting events at the transaction level in accordance with USSGL. During fiscal year 2017, 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 of this report for more details on CCC and NRCS issues.

Due to planned actions, we are making no further recommendations in this report.

## **Finding 5: Anti-deficiency Act Violations**

In fiscal year 2017, 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, which prohibited the use of appropriations to employ non-U.S. citizens. This ADA violation was reported to Congress and the President during fiscal year 2017.

The Farm Service Agency (FSA) identified an ADA violation under 31 U.S.C. § 1517(a). In fiscal year 2014, OMB approved an apportionment request for \$1 million from FSA for the purchase of guaranteed loans. 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 was reported to Congress and the President during fiscal year 2017.

In fiscal year 2016, the Office of the Chief Financial Officer (OCFO) identified an ADA violation under General Provision (GP) 706 of the Agriculture, Rural Development, Food and Drug Administration, and Related Agencies Appropriations Act of 2016, Public Law 114-113, Div. A (Dec. 18, 2015), which prohibits USDA from making certain obligations for IT projects without prior written approval. 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 \$25,000 on four occasions prior to an approved Acquisition Approval Request from the CIO. These violations were reported to Congress and the President during fiscal year 2017.

The Office of Advocacy and Outreach (OAO) identified an ADA violation for fiscal years 2011 and 2012, under the Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008). OAO awarded more than \$19 million for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" (Section 2501) Grants in excess of amounts permitted by the Farm Bill of 2008. The ADA violation is in the process of being reported to Congress and the President.

In fiscal year 2015, the Foreign Agricultural Service (FAS) identified a potential ADA violation that may have occurred in its fiscal year 2009 appropriation. FAS has completed its analyses and identified the causes of this potential violation. During fiscal year 2017, the Office of the General Counsel (OGC) made a determination that FAS properly adjusted its accounts to correct the errors that had created the negative balance. With these account adjustments there was no ADA violation.

In fiscal year 2016, a potential ADA violation may have occurred in CCC expenditures. Expenditures for CCC interest to Treasury appear to have exceeded apportioned amounts. CCC

expended approximately \$37 million in interest to Treasury, more than the apportioned amount of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury. FSA is seeking further review of the legal authority of CCC, with respect to the apportionment requirements, with OGC in conjunction with the Office of Management and Budget.

In fiscal year 2017, the National Finance Center (NFC) identified a potential ADA violation. The NFC has been managing Web pages for the New Orleans chapter of the Association of Government Accountants (AGA), which is a non-governmental organization, on the NFC Web site at no cost to AGA since 1999. The services provided were minimal, and were limited to basic maintenance of AGA Web pages, and updates to contact information or changes of officers. NFC also maintains the Federal Executive Board (FEB) Web pages in a similar manner to the AGA, and these services are performed at no cost to the FEB. OGC is reviewing the potential violation.

In fiscal year 2017, the U.S. Government Accountability Office (GAO) determined that, under the previous administration, the Office of the Secretary violated the purpose statute, improperly augmented several of its appropriations, and potentially violated the ADA when it obligated several of its appropriations for the expenses of separately funded USDA components. Allegedly, USDA improperly relied on the Economy Act to enter into interagency agreements, under which the agency obligated its appropriations for (1) Rural Development Salaries and Expenses, (2) Food and Nutrition Service, Nutrition Programs Administration, and (3) Office of Civil Rights, for personnel details that GAO determined did not actually occur. Instead, these appropriations were used for the salaries and benefits of employees performing work for separately funded USDA components. The Economy Act was referenced as the authority to transfer the appropriations, however, the purpose statute was violated when the incorrect appropriation was used for the salaries and benefits in question and improperly augmented the appropriations of these other USDA components. If USDA subsequently exceeds appropriations by adjusting its accounts to correct the charges, then a potential ADA violation could occur. The Department will seek a determination by OGC.

In fiscal year 2017, CCC identified a potential ADA violation. Prior year accounting treatment for obligations related to the Conservation Reserve Program annual rental contracts was determined to be in error. Only the annual portion of the contract values was recorded as an obligation, whereas OMB Circular No. A-11 requires recognition of the obligation in the amount necessary to cover the full-term of the contractual obligation. As a result, CCC recorded approximately \$10 billion in obligations as a beginning balance adjustment, whereby apportioned authority may not have been available in prior years. CCC will seek a determination by OGC.

## **Finding 6: DATA Act Non-Compliance**

The DATA Act<sup>6</sup> was enacted on May 9, 2014, to expand the reporting requirements pursuant to the Federal Funding Accountability and Transparency Act of 2006<sup>7</sup> (FFATA). The DATA Act expanded FFATA by disclosing direct Federal agency expenditures and linking data, establishing Governmentwide data standards, simplifying reporting for entities receiving Federal funds, improving the quality of data submitted, and applying approaches developed by the Recovery Accountability and Transparency Board to spending across the Federal Government. Under the DATA Act, Federal agencies and their components were required to begin reporting data during fiscal year 2017.

During fiscal year 2017, OIG conducted an audit<sup>8</sup> to review the data USDA submitted for the DATA Act April 2017 reporting deadline for completeness, timeliness, quality, and accuracy. We found while USDA submitted and certified second quarter files to Treasury's broker by the reporting deadline, the files were incomplete and of insufficient quality.

Specifically, USDA submitted data, which only contained 1 of 670 required Treasury account symbols, 6 of 576 program activities, and a third, blank file, even though the third file was supposed to include all financial award data for the quarter. This occurred, in part, because USDA's DATA Act repository was not fully functional at the time of the second quarter submission, OCFO did not have formalized policies and procedures in place to govern the DATA Act submission and reconciliation process within USDA, and not all USDA agencies submitted the required financial award data to OCFO for processing to Treasury. As a result, OIG recommended that, as the Department moves forward, USDA should take appropriate action to improve the quality of its data by ensuring its future quarterly data submissions are timely, complete, and accurate for display on USASpending.gov.

OCFO generally agreed with the findings and recommendations made in our DATA Act audit; therefore, we are making no further recommendations in this report.

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<sup>6</sup> DATA Act, Pub. L. No. 113-101.

<sup>7</sup> FFATA, Pub. L. 109-282.

<sup>8</sup> Audit Report 11601-0001-22, *USDA's 2017 Compliance with the Digital Accountability and Transparency Act (DATA Act)*, issued November 2017.

## Abbreviations

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ADA	Anti-Deficiency Act
AGA	Association of Government Accountants
CCC	Commodity Credit Corporation
CFO	Chief Financial Officer
CIO	Chief Information Officer
DATA Act	Digital Accountability and Transparency Act of 2014
FAS	Foreign Agricultural Service
FEB	Federal Executive Board
FFATA	Federal Funding Accountability and Transparency Act of 2006
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
FS	Forest Service
FSA	Farm Service Agency
GAO	Government Accountability Office
GP	General Provisions
IT	information technology
IPERA	Improper Payments Elimination and Recovery Act of 2010
MD&A	Management's Discussion and Analysis
NFC	National Finance Center
NRCS	Natural Resources Conservation Service
OAO	Office of Advocacy and Outreach
OCFO	Office of the Chief Financial Officer
OCIO	Office of the Chief Information Officer
OGC	Office of the General Counsel
OIG	Office of Inspector General
OMB	Office of Management and Budget
RSI	Required Supplementary Information
RSSI	Required Supplementary Stewardship Information
Treasury	U.S. Department of the Treasury
ULO	Unliquidated Obligations
U.S.	United States of America
U.S.C.	United States Code
USSGL	U.S. Standard General Ledger
USDA	United States Department of Agriculture

## **Exhibit A: Summary of Open Recommendations from Prior Years**

**Report 50401-0011-11**, *Department of Agriculture's Consolidated Balance Sheet for Fiscal Year 2016*, dated December 6, 2016.

### **Finding 3: Controls Over Financial Reporting Can be Strengthened**

#### **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 Work-In-Progress and lease agreements.

#### **Departmental Status**

OCFO stated both recommendations are in the process of being closed.

#### **OIG Results**

OIG did not identify similar deficiencies during our review of the fiscal year 2017 financial statements in regards to abnormal balances and property. However, we continue to find similar deficiencies related to ULOs and have issued a repeat Finding 3 and recommendation.

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

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This table reports the fiscal year 2017 status of material weaknesses and significant deficiencies reported in fiscal year 2016.

<b>Control Deficiency</b>	<b>2016 Status</b>	<b>2017 Status</b>
Overall Financial Management	Material Weakness	Material Weakness
Overall Information Technology Security Program	Material Weakness	Material Weakness
Financial Reporting Controls	Significant Deficiency	Significant Deficiency



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

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**Report 50401-0011-11**, *U.S. Department of Agriculture's Consolidated Balance Sheet for Fiscal Year 2016*, dated December 6, 2016.

### **Finding 4: 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 2017, 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 5: ADA Violations**

#### **Reported Noncompliance**

In fiscal year 2016, the Department reported seven actual and two potential ADA violations in its Agency Financial Report. Specifically, 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, OAO identified an ADA exceeding the amount available for "Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers" grants, and OCFO obligated funds for IT on four occasions prior to an approved Acquisition Approval Request from the CIO. 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 CCC identified a potential ADA with expenditures for interest to Treasury that appear to have exceeded amounts initially apportioned by OMB. These potential ADA's are in the process of being researched to make final determinations.

Also in fiscal year 2016, the Department reported a potential ADA by OAO associated with the Strikeforce Initiative and a potential ADA by the Office of the Assistant Secretary for Civil Rights, however after further research; both agencies determined these were not ADA violations.

#### **Status**

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

**USDA'S  
RESPONSE TO AUDIT REPORT**



**United States  
Department of  
Agriculture**

November 14, 2017

Office of the Chief  
Financial Officer

1400  
Independence  
Avenue, SW

Washington, D.C.  
20250

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

**FROM:** Lynn Moaney /s/  
Acting Deputy Chief Financial Officer

**SUBJECT:** U.S. Department of Agriculture's Consolidated Balance Sheet for Fiscal  
Year 2017

The Department is pleased to respond to your audit report on the Consolidated Balance Sheet for fiscal year 2017.

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.

**AGENCY'S FINANCIAL REPORT**

**FISCAL YEAR 2017  
FINANCIAL STATEMENTS**

**PREPARED BY USDA**

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

# 2017 AGENCY FINANCIAL REPORT



*Take care of the land  
and the land will take care of you.*



United States Department of Agriculture

# Non-Discrimination Statement

The U.S. Department of Agriculture (USDA) prohibits discrimination against its customers, employees, and applicants for employment on the basis of race, color, national origin, age, disability, sex, gender identity, religion, protected genetic information, reprisals for whistle blowing or filing grievances, and, where applicable, political beliefs, marital status, familial or parental status, sexual orientation; or whether all or part of an individual's income is derived from any public assistance program or any program or activity conducted or funded by the Department. (Not all prohibited discrimination will apply to all programs and/or employment activities.)

## TO FILE AN EMPLOYMENT COMPLAINT

If you wish to file an employment complaint, you must contact the agency's Equal Employment Opportunity (EEO) Counselor within 45 days of the date of the alleged discriminatory act, event, or personnel action. Contact the EEO Counselor that serves the agency you feel has discriminated against you. Additional information can be found on the [USDA Office of the Assistant Secretary of Civil Rights Web site](#).

## TO FILE A PROGRAM COMPLAINT

To file a program discrimination complaint, please complete the [USDA Program Discrimination Complaint form](#). You or your authorized representative must sign the complaint form. You are not required to use the complaint form; you may write a letter instead. If you write a letter, it must contain all of the information requested in the form and be signed by you or your authorized representative. Incomplete information will delay the processing of your complaint.

Persons with disabilities who require alternative means for communication of program information (Braille, large print, audiotape, etc.) should contact USDA's Technology Accessible Resources Give Employment Today (TARGET) Center at (202) 720-2600 (voice and Telecommunication Device for the Deaf [TDD]).

Send your completed USDA Program Discrimination Complaint form or letter to us by mail, fax, or email to the address below. Employment civil rights complaints will not be accepted through the email address.

**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](mailto:program.intake@usda.gov)

# About the Report

The purpose of the U.S. Department of Agriculture (USDA) fiscal year (FY) 2017 Agency Financial Report (AFR) is to inform Congress, the President, and the American people how USDA has used Federal resources entrusted to the Department in FY 2017.

USDA strives to do the following: remove obstacles in order to give farmers, ranchers, foresters, and producers every opportunity to prosper; prioritize customer service every day for American taxpayers and consumers; ensure that the food we put on the table to feed our families meets the strict safety standards we have established; and be good stewards of the land to leave it better than we found it. USDA has demonstrated good stewardship of taxpayer resources by putting in place well-controlled and well-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 2017. USDA will include its FY 2017 APR with its Congressional Budget Justification and will post this AFR online at [www.usda.gov](http://www.usda.gov).

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 Act (GPRA) of 1993;
- GPRA 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;
- GONE Act, PL 114-117; 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](http://Performance.gov) and [www.usda.gov](http://www.usda.gov).





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# Message from Secretary Perdue

In my short time as the United States Secretary of Agriculture (USDA), we have accomplished a great deal. This would not have been possible without the finest group of public servants in the United States who make up the Department.

Our policies have been guided by four principles that have informed our every decision and action. First, we have helped maximize the ability of the men and women of America's agriculture and agribusiness sector to create jobs, to produce and sell the foods and fiber that feed and clothe the world, and to reap the earned rewards of their labor. It is our aim to remove every obstacle possible and give farmers, ranchers, and producers every opportunity to prosper. Second, we have worked hard to prioritize customer service every day for American taxpayers and consumers. They will expect, and have every right to demand, that their government conduct the people's business efficiently, effectively, and with the utmost integrity. Third, as Americans expect a safe and secure food supply, USDA has continued to serve in the critical role of ensuring that the food we put on the table to feed our families meets the strict safety standards we have established. We must never forget that we are the fortunate beneficiaries of past generations who put a premium on smart stewardship — protecting, preserving, and entrusting us with those valuable resources. And finally, we have kept in mind that America's agricultural bounty comes directly from the land. Today, those land resources sustain more than 320 million Americans and countless millions more around the globe. My farmer father's words still ring true: We're all stewards of the land, owned or rented, and our responsibility is to leave it better than we found it.



Today, we are engaged in a global economy in which the United States is a world leader. We are blessed to be able to produce more than our citizens can consume, which implies that we should sell the bounty around the world. The relationship between the USDA and its trade representatives, as well as with the U.S. Trade Representative and the Department of Commerce, have been vital. The work of promoting American agricultural products to other countries began with those relationships and will benefit us domestically, just as it will fulfill the moral imperative of helping to feed the world. These ideas must also light the path we walk at USDA, and just as we have done over the past 6 months, we will continue to be unapologetic advocates for American agriculture.

The USDA I envisioned in my first days as Secretary was one that is fact-based, and which makes data-driven, customer-focused decisions. We are working each day to make this a reality. We are opposed to lamenting the difficult challenges we face, instead focusing our efforts to find solutions to problems. The public servants who work at USDA know that they work on behalf of the American people, and those people — our customers — expect results. No doubt, there is great talent here at this agency — probably more than at any other place in the Federal Government — both in the Washington Capital Region and in even greater numbers in the world that stretches out across America and the globe. It truly is a pleasure to learn from them.

As a simple Georgia farm boy, making sure Americans who make their livelihood in the agriculture industry are thriving is near and dear to my heart. We have continued to champion the concerns of American agriculture and worked tirelessly to solve the issues facing our farm families. As shown in this report and mentioned above, here at USDA, we strive to efficiently deliver services to our customers — the taxpayers of America. The ranchers, farmers, foresters, producers, and consumers we serve are the heart of this country, and we would not be here without them. They deserve the best we have to offer, and I know that is exactly what they get from us.

Sincerely,



Sonny Perdue  
U.S. Secretary of Agriculture

November 14, 2017

# Section I

## Management's Discussion and Analysis (Unaudited)

### 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](http://www.usda.gov).

### Mission Statement

---

USDA provides leadership on food, agriculture, natural resources, rural development, nutrition, and related issues based on sound public policy, the best available science, and efficient management. As public servants, our greater understanding of these important rules help serve USDA's motto to "Do Right and Feed Everyone" so that we enhance the American public's confidence in the integrity and important work of USDA.

### Vision Statement

---

To remove every obstacle possible and give farmers, ranchers, and producers every opportunity to prosper; to prioritize customer service every day for American taxpayers and consumers; to ensure the food we put on the table to feed our families meets the strict safety standards we have established; to be good stewards of the land, owned or rented, and leave it better than we found it; and to "Do Right and Feed Everyone."

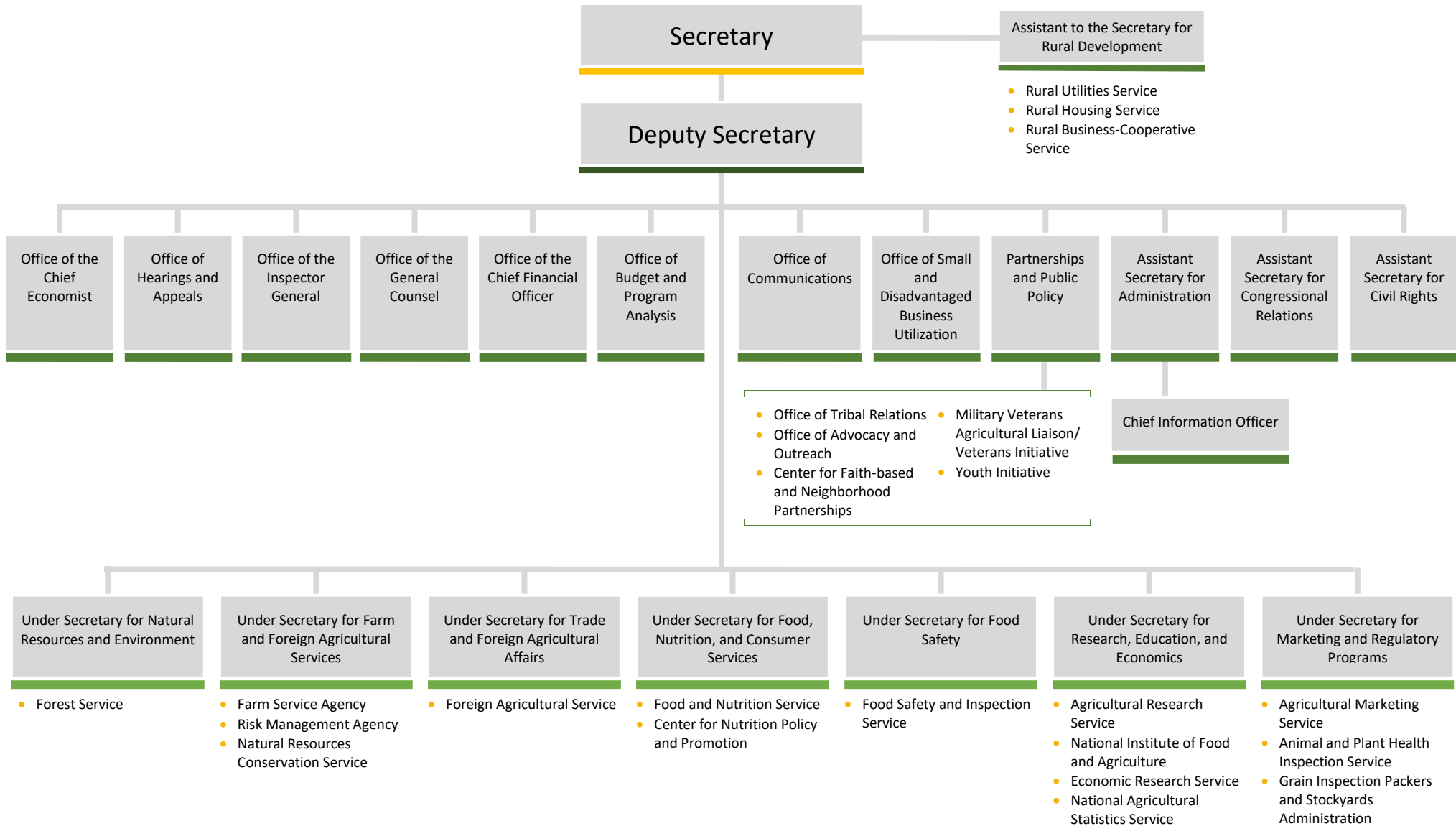
### Core Values

---

Our success depends on the following:

- Ensuring USDA programs are delivered efficiently, effectively, and with integrity
- Maximizing the ability of American agricultural producers to prosper by feeding and clothing the world
- Promoting American agricultural products and exports
- Facilitating rural prosperity and economic development
- Strengthening the stewardship of private lands through technology and research
- Ensuring productive and sustainable use of our national forest system lands
- Providing all Americans access to a safe, nutritious, and secure food supply.

# USDA ORGANIZATION CHART



# USDA Mission Areas

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## RURAL DEVELOPMENT

Rural Development (RD) 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. RD 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](#)

## TRADE AND FOREIGN AGRICULTURAL AFFAIRS

Trade and Foreign Agricultural Affairs (TFAA) is American agriculture's unapologetic advocate and chief salesman around the world. With a sharp focus on foreign markets, the TFAA ensures that American producers are well equipped to sell their products and feed the world.

- [Foreign Agricultural Service](#)

## FOOD, NUTRITION, AND CONSUMER SERVICES

Food, Nutrition, and Consumer Services (FNCS) works to harness the Nation's agricultural abundance to end hunger and improve health in the United States. FNCS administers Federal domestic nutrition

assistance programs. The Center for Nutrition Policy and Promotion (CNPP) links scientific research to the nutritional needs of consumers through science-based dietary guidance, nutrition policy coordination, and nutrition education.

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

## FARM AND FOREIGN AGRICULTURAL SERVICES

Farm and Foreign Agricultural Services (FFAS) is focused on domestic agricultural issues by providing a simplified one-stop shop for USDA's primary customers, the men and women farming, ranching, and foresting across America. FFAS helps to keep America's farmers and ranchers in business as they face the uncertainties of weather and markets and delivers commodity, credit, conservation, disaster, and emergency assistance programs that help improve the stability and strength of the agricultural economy.

- [Farm Service Agency](#)
- [Risk Management Agency](#)
- [Natural Resources Conservation Service](#)

## NATURAL RESOURCES AND ENVIRONMENT

Natural Resources and Environment (NRE) oversees efforts to do the following: get our forests working again, to make them more productive, as well as create more jobs. The focus of NRE is on ensuring we are good neighbors and are managing our forests

effectively, efficiently, and responsibly, as well as working with states and local governments to ensure the utmost collaboration.

- [Forest Service](#)

## 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. Food Safety serves in the critical role of ensuring the food we put on the table to feed our families meets the strict safety standards we have established.

- [Food Safety and Inspection Service](#)

## RESEARCH, EDUCATION, AND ECONOMICS

Research, Education, and Economics (REE) 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.

- [Agricultural Research Service](#)
- [National Institute of Food and Agriculture](#)
- [Economic Research Service](#)
- [National Agricultural Statistics Service](#)

## MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Programs (MRP) 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.

- [Agricultural Marketing Service](#)
- [Animal and Plant Health Inspection Service](#)
- [Grain Inspection Packers and Stockyards Administration](#)

# USDA Program Performance

## USDA PERFORMANCE AND RESULTS FOR FY 2017

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.

For purposes of the Agency Financial Report (AFR), a performance summary is provided using the Department’s key performance indicators as a mechanism to gauge progress in achieving its mission. In fiscal year (FY) 2017, USDA had 37 key performance indicators.

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 mission areas. The tables provide key performance indicator historical

results, and include FY 2017 preliminary results indicating anticipation in meeting/not meeting performance targets.

Final performance information and a detailed discussion of the Department’s FY 2017 performance results, assessment methodologies, metrics, external reviews, and documentation of performance data will be presented in the FY 2017 USDA Annual Performance Report. The report is planned to be released with the President’s 2019 budget in February and will be available on the [USDA Performance Improvement and Accountability](#) Web site.

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.

## FARM AND FOREIGN AGRICULTURAL SERVICES

Farm and Foreign Agricultural Services (FFAS) is the Department’s focal point for the nation’s farmers and ranchers and other stewards of private agricultural lands and non-industrial private forest lands. FFAS agencies implement programs designed to mitigate the significant risks of farming through crop insurance services, conservation programs and technical assistance, and commodity, lending, and disaster programs.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Conservation Reserve Program (CRP) restored wetland acreage (millions of acres)	2.09	2.00	1.93	2.09	1.9	Meet



Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Percentage of Direct and Guaranteed lending to Socially Disadvantaged Farmers (SDA)	13.60	14.20	15.00	15.90	17	Meet
Percentage of Direct and Guaranteed lending to Beginning Farmers (BF)	70	79.2	85.6	95.5	100	Meet
Normalized value of risk protection provided to agricultural producers through the Federal Crop Insurance Program (\$ in billions)	66.00	67.90	68.7	74.0	63.6	Meet
Conservation Technical Assistance (CTA) land with conservation applied to improve water quality (millions of acres)	N/A	18.2	18.1	15.8	15.8	Meet
CTA cropland with conservation applied to improve soil quality (millions of acres)	N/A	6.2	6.0	6.0	5.9	Meet
CTA grazing and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	13.1	13.1	11.1	13.0	Meet
Environmental Quality Incentives Program (EQIP) land with conservation applied to improve water quality (millions of acres)	N/A	12.3	12.7	10.5	13.5	Meet
EQIP cropland with conservation applied to improve soil quality (millions of acres)	N/A	3.1	3.0	2.8	3.0	Meet

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
EQIP grazing land and forest land with conservation applied to protect and improve the resource base (millions of acres)	N/A	14.8	13.9	12.6	13.5	Meet
EQIP non-Federal land with conservation applied to improve fish and wildlife habitat quality (millions of acres)	N/A	1.4	1.4	1.0	0.9	Meet

## FOOD, NUTRITION, AND CONSUMER SERVICES

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

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Prevalence of food insecurity in households with children (percentage)	19.5	19.2	16.6	16.5	18.5	Deferred <sup>1</sup>
Annual percentage of eligible people participating in the Supplemental Nutrition Assistance Program (SNAP)	85	85	N/A	Deferred <sup>2</sup>	85	Deferred
SNAP payment accuracy rate (percentage)	96.8	96.3	N/A	N/A	96.34	Deferred <sup>3</sup>

<sup>1</sup> FY 2017 data will be released in the first quarter of FY 2018.

<sup>2</sup> FY 2016 data will be available in 2018. FY 2017 data will be available in 2019.

<sup>3</sup> FY 2017 data will be available in June 2018.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
SNAP benefits redeemed annually at farmers markets and direct marketing farmers (\$ in millions)	17.5	18.8	19.4	20.2	20	Deferred <sup>4</sup>
Annual percentage of eligible people participating in the National School Lunch Program	55.7	54.8	55.4	54.7	58.3	Deferred <sup>5</sup>
Annual percentage of children participating in the free/reduced price school lunch program that participate in summer feeding programs	16.3	17.5	17.1	16.7	17.4	Deferred <sup>6</sup>

## FOOD SAFETY

USDA protects public health by ensuring the safety of the Nation’s commercial supply of meat, poultry, and egg products. This mission area also plays a key role in supporting Healthy People 2020 goals<sup>7</sup> and other crosscutting and targeted activities that promote food safety with partner agencies, including the U.S. Department of Health and Human Services’ Food and Drug Administration and Centers for Disease Control and Prevention.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Percentage of establishments that meet pathogen reduction performance standards <sup>8</sup>	N/A	N/A	N/A	N/A	77.0	Deferred
Percentage of establishments whose non-compliance rate decreases 120 days after receiving an early warning alert <sup>9</sup>	N/A	N/A	N/A	N/A	74.0	Deferred

<sup>4</sup> FY 2017 data will be available Q1, 2018.

<sup>5</sup> FY 2017 data will be available Q1, 2018.

<sup>6</sup> FY 2017 data will be available Q1, 2018.

<sup>7</sup> See [Healthy People 2020. Work is underway to develop Healthy People 2030 goals.](#)

<sup>8</sup> This is a new performance measure for FY 2017; actual data from 2013-2016 is not available.

<sup>9</sup> This is a new performance measure for FY 2017; actual data from 2013-2016 is not available.

## MARKETING AND REGULATORY PROGRAMS

Marketing and Regulatory Programs facilitate 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.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Cumulative number of biotechnology products deregulated by USDA based on scientific determinations that they do not pose a plant pest risk to agriculture	102	109	117	124	127	Meet

## NATURAL RESOURCES AND ENVIRONMENT

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

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Annual acres of public and private forest lands restored or enhanced (millions of acres)	2.53	2.91	3.10	3.22	2.90	Meet
Volume of timber sold (billion board feet)	2.610	2.831	2.867	2.942	3.200	Meet
Percentage of National Forests and Grassland watersheds in properly (class 1 watersheds) functioning condition	52	52	52	53	53	Deferred <sup>10</sup>
Acres of Wildland Urban Interface hazardous fuels treated to reduce the risk of catastrophic wildfire (millions of acres)	1.737	1.725	1.577	2.016	1.80	Meet

<sup>10</sup> Results are not available for this measure until after the end of FY 2017.

## RURAL DEVELOPMENT

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 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.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of jobs created or saved through USDA financing of businesses	44,419	41,202	52,697	51,286	39,764	Meet
Homeownership opportunities provided	170,055	146,388	141,314	123,817	173,678	Meet
Health Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	5.4	6.8	12.0	11.7	5.0	Meet
Safety Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	3.4	3.7	7.2	5.0	3.2	Meet
Educational Facilities: Percentage of customers who are provided access to new and/or improved essential community facilities	9.3	6.2	7.9	14.9	5.0	Meet
Number of borrowers/subscribers receiving new and/or improved electric facilities (millions)	8.7	4.6	5.5	5.5	5.1	Meet

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of borrowers/subscribers receiving new or improved telecommunications services (millions)	.120	.084	.095	.079	.100	Meet
Number of population receiving new or improved service from agency-funded water facilities (millions)	1.8	2.2	2.4	2.2	1.7	Meet

## TRADE AND FOREIGN AGRICULTURAL AFFAIRS

Trade and Foreign Agricultural Affairs' (TFAA) role is to provide our farmers and ranchers with opportunities to compete in the global marketplace. TFAA is the Department's lead on trade policy with the primary responsibility to ensure that USDA speaks with a unified voice on international agriculture issues domestically and abroad. It oversees and facilitates foreign market access and promotes opportunities for U.S. agriculture through various trade programs and high-level government negotiations.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Value of agricultural exports resulting from participation in foreign food and agricultural trade shows (\$ in billions)	1.48	1.50	1.52	1.28	1.5	Meet
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)	3.80	6.40	3.6	5.0	3.8	Meet

## DEPARTMENTAL MANAGEMENT

Departmental Management (DM) provides management leadership to ensure that USDA’s administrative programs, policies, advice, and counsel meet the needs of USDA program organizations, consistent with laws and mandates. DM is also tasked to provide safe and efficient facilities and services to customers.

Fiscal Year	2013 Actual	2014 Actual	2015 Actual	2016 Actual	2017 Target	2017 Preliminary
Number of employees participating in core telework	9,723	10,455	11,798	12,342	12,240	Deferred <sup>11</sup>
Amount of leased office and warehouse space controlled by USDA (millions of square feet)	25.6	24.9	23.9	23.2	23.2	Deferred <sup>12</sup>

<sup>11</sup> Results are not available for this measure until after the end of FY 2017.

<sup>12</sup> Results are not available for this measure until after the end of FY 2017.

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

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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 services 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;
- 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.



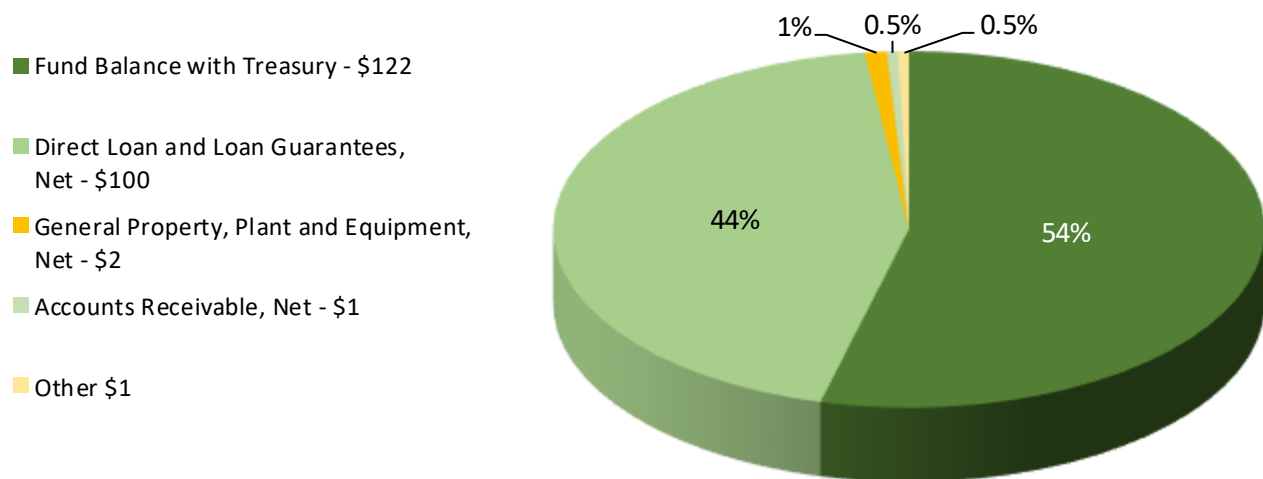
# Financial Statement Highlights

## BALANCE SHEET

### TOTAL ASSETS

Total assets for FY 2017 were \$226 billion. The following exhibit presents FY 2017 total assets.

**EXHIBIT 1:** Total Assets (\$ in billions)

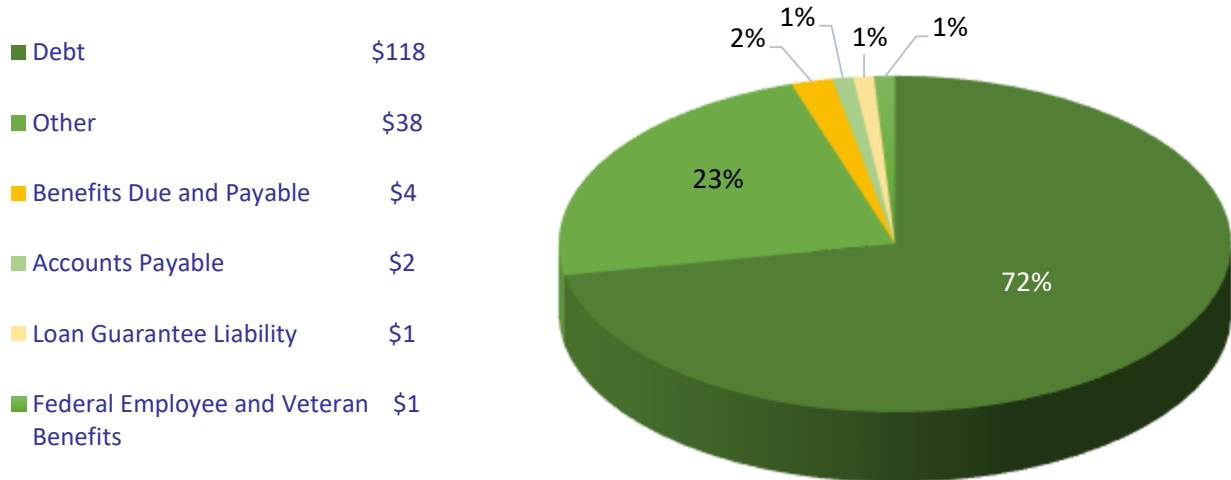


Direct Loan and Loan Guarantees, Net, is one of the largest assets on the USDA Balance Sheet. RD offers both direct and guaranteed loan products for rural housing and rural business infrastructure. These products represent 87 percent of the total Department loan programs. Loan programs administered by 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 Commodity Credit Corporation (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.

## TOTAL LIABILITIES

Total liabilities for FY 2017 were \$164 billion. The following exhibit presents FY 2017 total liabilities.

EXHIBIT 2: Total Liabilities (\$ in billions)



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.

## Statement of Assurance

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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 three 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, 2017, and financial reporting as of June 30, 2017. 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.

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, 2017, and (2) financial reporting as of June 30, 2017.



Sonny Perdue  
Secretary of Agriculture

November 14, 2017

# Federal Managers' Financial Integrity Act Report on Management Control

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## 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 2017 RESULTS

The Department has two existing material weaknesses in internal controls over financial reporting: Information Technology (IT) 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 fiscal year (FY) 2019.

The Food and Nutrition Service and the Farm Service Agency (FSA) are non-compliant with laws and regulations related to the Improper Payments Elimination and Recovery Act of 2010, as amended.

USDA has identified violations or potential violations with the Anti-deficiency Act (ADA). USDA has reported all of its ADA

violations to the President and Congress with the exception of the ADA violation for Office of Advocacy and Outreach (OAO) that is still in the process of being reported. A detailed description and summary of the Department’s ADAs, as well as, additional USDA non-compliances with laws can be found in the Compliance with Laws and Regulations section of this report.

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 2017 accomplishments and FY 2018 planned actions toward resolving the outstanding material weaknesses.

### EXHIBIT 3: Summary of Outstanding Material Weaknesses

<b>1. USDA Information Technology (IT)</b>	
<b>Material Weaknesses Existing</b>	The Department lacks an effective information security program. Unimplemented recommendations that address many longstanding weaknesses (related to risk management, configuration management, identity and access management, security training, information security continuous monitoring, incident response and contingency planning) remain outstanding. (Department)
<b>Overall Estimated Completion Date</b>	FY 2020
FY 2017 Accomplishments:	FY 2018 Planned Actions:
<p><b>During FY 2017 The Office of the Chief Information Officer (OCIO):</b></p> <ul style="list-style-type: none"> <li>▪ Continued the monitoring and closing of outdated Plan of Actions and Milestones (POA&amp;Ms) identified as part of the IT Material Weakness, and reported progress to USDA leadership. Ensured proper and full remediation of weaknesses across the USDA enterprise;</li> <li>▪ Continued to perform security assessments to analyze component agencies’ information architecture and related processes to develop a threat profile;</li> <li>▪ Continued to perform penetration testing: OCIO in collaboration with the U.S.</li> </ul>	<p><b>OCIO will:</b></p> <ul style="list-style-type: none"> <li>▪ Continue to track outdated POA&amp;Ms identified as part of material weakness and report progress to USDA leadership on a weekly basis. Leveraging the department’s biweekly scorecard reports and weekly meetings with our agencies, OCIO will continue our effort to work with specific agencies to achieve proper and full remediation of weaknesses across USDA;</li> <li>▪ As FY 2018 funding permits, perform security assessments on select agencies;</li> <li>▪ Perform penetration testing of all</li> </ul>

<b>1. USDA Information Technology (IT) Continued</b>	
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p>Department of Homeland Security (DHS) continued their vulnerability scans under the Binding Operational Directive, and the Agriculture Security Operations Center continued integration with the DHS Continuous Diagnostics Mitigation (CDM) program;</p> <ul style="list-style-type: none"> <li>▪ Continued to enhance centralized configuration management monitoring tools (currently IBM BigFix, formerly known as Tivoli Endpoint Manager) to monitor agency assets running specific operating systems;</li> <li>▪ Continued to formalize its internal monitoring processes into a Standard Operating Procedure (SOP);</li> <li>▪ Continued to implement the ASOC Change Advisory Board processes to document and control access of personnel to systems; document and control configuration changes to systems on a risk basis; document, evaluate and make risk-based recommendations to leadership regarding US Government Configuration Baseline waivers;</li> <li>▪ USDA continued working on the finalization of the DHS’ CDM, which will further enhance OCIO’s configuration management oversight function and timely coordination with subcomponents to ensure policy compliance;</li> <li>▪ Continued to further enforce Personal Identity Verification (PIV)/Homeland Security Presidential Directive (HSPD) 12 mandatory compliance for privileged and nonprivileged users to meet published FY 2017 Cross-Agency Priority (CAP) and Federal Information Security Management Act (FISMA) goals; and continued to develop additional implementation guidance for multi-factor authentication for network and application access, as needed.</li> </ul>	<p>USDA agencies in FY 2018; OCIO will also continue to assess DHS’ Cyber Hygiene Assessment reports and work with agencies to remediate findings of critical vulnerabilities in 30 days or less; and OCIO plans to continue its integration of CDM;</p> <ul style="list-style-type: none"> <li>▪ Continue to enhance centralized configuration management monitoring by leveraging CDM Phase 1 tools;</li> <li>▪ Continue to formalize its internal monitoring processes into an SOP;</li> <li>▪ Continue to mature and evolve the Change Advisory Board roles and responsibilities to meet the needs of the organization, including evolving to a paperless electronic process conducive to seamless customer service;</li> <li>▪ Transition CDM Phase 1 tools and CDM dashboard to full operations in Q2 FY 2018. As FY 2018 funding permits, OCIO plans to maintain operations of CDM Phase 1 tools and CDM dashboard through Q4 FY 2018; and</li> <li>▪ In collaboration with USDA agencies and mission areas OCIO will define a: <ul style="list-style-type: none"> <li>○ high-level strategy for “further enforcing” PIV authentication for logical system access throughout USDA,</li> <li>○ set of high level milestones for accomplishing that strategy, and</li> <li>○ process to oversee and measure progress.</li> </ul> </li> </ul>

<b>2. Financial Management — Natural Resources Conservation Service (NRCS)</b>	
<b>Material Weakness Existing</b>	NRCS needs improved controls over obligations and undelivered orders, as well as, accounting and controls over expenses.
<b>Overall Estimated Completion Date</b>	FY 2018
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 NRCS:</b></p> <ul style="list-style-type: none"> <li>Monitored the activity of upward and downward adjustments to ensure balances were appropriate;</li> <li>Monitored open obligations to ensure they are recorded and liquidated timely; and</li> <li>Enhanced policy and control procedures for period-end accruals.</li> </ul>	<p><b>NRCS will:</b></p> <ul style="list-style-type: none"> <li>Re-engineer the process for reviewing data files to ensure that invalid upward and downward adjustments are identified and negated in a timely manner;</li> <li>Improve the transparency of recording and liquidating obligations by utilizing new systems, such as the use of ezFedGrants and ServiceNow; and</li> <li>Implement a confirmation process, including negative confirmations, for all divisions to ensure direct-entry expense accruals are recorded.</li> </ul>

<b>2. Financial Management – Commodity Credit Corporation (CCC)</b>	
<b>Material Weaknesses Existing</b>	CCC needs to address material weaknesses related to accounting estimates and maintenance of accounting records.
<b>Overall Estimated Completion Date</b>	FY 2018
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 CCC:</b></p> <ul style="list-style-type: none"> <li>Continued to update Standard Operating Procedures (SOPs), policies, checklists, etc., to incorporate the requirements for identifying the need for, preparing, supporting, validating, reviewing, recording, and performing look-backs of accounting estimates;</li> <li>Developed effective information and communication processes to ensure policies and procedures, that may give rise to the recognition of accounting, are</li> </ul>	<p><b>CCC will:</b></p> <ul style="list-style-type: none"> <li>Continue the implementation of processes, procedures, and controls to improve the accuracy and timeliness of the FBWT reconciliation, including reconciliations of related child agency FBWT accounts;</li> <li>Implement an independent review and reconciliation of Fund Balance with Treasury for USAID and monitor internal controls regarding FBWT reconciliations in accordance with guidelines in the</li> </ul>

## 2. Financial Management – Commodity Credit Corporation Continued

### FY 2017 Accomplishments:

communicated and applied throughout the agency. Also ensured that technical accounting issues are identified, analyzed, and resolved in a timely manner;

- Implemented processes, procedures, and effective controls to enable the timely preparation of financial statements and sufficient evidential matter to support accounting transactions;
- Provided updated status to the Office of Management and Budget (OMB) A-123, Appendix A Corrective Action Plans;
- Designed and implemented Business Portfolio Manual (BPM) 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);
- Continued to refine the reconciliation process for 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 Fund Balance With Treasury (FWBT), Accounts Receivable, and Accounts Payable 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

### FY 2018 Planned Actions:

“Treasury Financial Manual;”

- Ensure the month-end reconciliations for significant accounts are performed timely and reviewed at appropriate precision levels through the implementation of dollar materiality thresholds that are monitored by management. Reconciled differences identified should be corrected timely in the subsidiary or General Ledger (GL). Research and identify existing unknown differences per Account Reconciliation and Analysis Policy;
- Continue to refine 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;
- Continue to 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;
- Continue to 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



<b>2. Financial Management – Commodity Credit Corporation Continued</b>	
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p>the U.S. Agency for International Development (USAID) general ledger for FBWT;</p> <ul style="list-style-type: none"> <li>■ Implemented a process to calculate accruals and advances for CCC funded USAID grants;</li> <li>■ Expanded 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</li> <li>■ Developed and implemented software modifications to the Commodity Loan Processing System and Automated Cotton Reporting System to incorporate Commodity Certificate Exchange (CCE) functionality, including providing the correct accounting entries to CCC’s General Ledger — CORE to remediate the condition.</li> </ul>	<p>General Ledger by further improving and enhancing CCC reconciliations and account analysis;</p> <ul style="list-style-type: none"> <li>■ Continually refine the accrual and advance calculation process for USAID grants funded by CCC; and</li> <li>■ Continue to refine the reconciliation process for unexpended appropriations, cumulative results of operations, allocation transfers, unapportioned authority, allotments, undelivered orders, delivered orders, expended appropriations, and operating expenses.</li> </ul>

## SUMMARY OF OUTSTANDING SYSTEM NON-CONFORMANCE

Funds Control Management non-conformance is also reported as a system non-compliance, and is included in the Federal Financial Management Improvement Act (FFMIA) Report on Financial Management Systems ([Exhibit 4](#)). The weakness involves component agency-specific deficiencies for CCC.

The following exhibit provides FY 2017 accomplishments and FY 2018 planned actions toward resolving the Department's outstanding system non-conformance.

### EXHIBIT 4: Summary of Outstanding System Non-conformance

<b>1. Funds Control Management</b>	
<b>System Non-conformance Existing</b>	System improvements needed in recording obligations at the transactional level. (CCC)
<b>Overall Estimated Completion Date</b>	FY 2019
<b>FY 2017 Accomplishments:</b>	<b>FY 2018 Planned Actions:</b>
<p><b>During FY 2017 CCC:</b></p> <ul style="list-style-type: none"> <li>▪ Developed policy, procedures and systems functionality to support the budget execution process for CCC programs;</li> <li>▪ Worked 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</li> <li>▪ Completed 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 Operated Facility (COF) to achieve full funds control at a transaction level.</li> </ul>	<p><b>CCC will:</b></p> <ul style="list-style-type: none"> <li>▪ Continue to establish Funds Control Levels by Program;</li> <li>▪ Update policy, procedures and systems functionality to support the budget execution process for CCC programs;</li> <li>▪ Continue to partner 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</li> <li>▪ Implement the ARC County Pilot Program with the eFMS/COF to achieve full funds control at a transaction level.</li> </ul>

## Compliance with Laws and Regulations

A summary of deficiencies and non-compliances are identified in the following table as well as in the Improper Payments Elimination and Recovery Act of 2010 (IPERA), Federal Managers’ Financial Integrity Act and Federal Financial Management Improvement Act sections of this report. For fiscal year (FY) 2017, the U.S. Department of Agriculture (USDA) has made progress in mitigating prior year non-compliances with laws and regulations. Despite the Department’s efforts, USDA is non-compliant or potentially non-compliant with the following acts:

- Anti-deficiency Act (ADA);
- Digital Accountability and Transparency Act of 2014 (DATA Act); and
- Federal Civil Penalties Inflation Adjustment Act Improvements Act of 2015.

The Department will monitor to resolve and/or mitigate these violations during FY 2018.

The following tables provide further details of each violation.

### ANTI-DEFICIENCY ACT

#### ADA Violations Reported to the President and Congress During FY 2017

AGENCY	Violation	Year Identified	Description	Status
Farm Service Agency (FSA)	(ADA), 31 U.S.C. § 1517(a)	FY 2014	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.

AGENCY	Violation	Year Identified	Description	Status
Forest Service (FS)	(ADA), 31 U.S.C. § 1341 (a) (1), and Government-wide General Provisions § 603 violation for FY 1990 through FY 2009	FY 2015	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.	ADA violation was reported to Congress and the President on September 13, 2017.
Office of the Chief Financial Officer (OCFO)	(ADA) 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)	FY 2016	USDA is prohibited 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 from CIO.	ADA violations were reported to the Congress and President on April 6, 2017.

**ADA Violation Not Reported to the President and Congress During FY 2017**

AGENCY	Description of Potential Violation	Status
Office of Advocacy and Outreach (OAO)	<u>PRIOR YEAR:</u> The Office of Advocacy and Outreach (OAO) identified an ADA violation for fiscal years 2011 and 2012, under the Food, Conservation, and Energy Act of 2008, Public Law 110-234 (Farm Bill of 2008). OAO awarded more than \$19 million for “Outreach and Assistance for Socially Disadvantaged and Veteran Farmers and Ranchers” (Section 2501) Grants in excess of amounts permitted by the Farm Bill of 2008.	The ADA violation is in the process of being reported to Congress and the President.

Potential ADAs — In addition to the violations that were reported to the President and Congress during FY 2017, there was one potential ADA from the prior year that remains unresolved. Three potential ADAs were identified during FY 2017. These occurrences were in various stages during the fiscal year, and are pending results from research and investigation for a determination as to whether or not a violation actually occurred. This table provides a status.

AGENCY	Description of Potential Violation	Status
The Foreign Agricultural Service (FAS)	<u>PRIOR YEAR:</u> FAS identified a potential violation of an ADA that may have occurred in its FY 2009 appropriation.	FAS has completed its analyses and identified the causes of this potential violation. During FY 2017, the Office of the General Counsel (OGC) made a determination that FAS properly adjusted its accounts to correct the errors that had created the negative balance. With these account adjustments, there is no ADA violation.
Commodity Credit Corporation (CCC)	<u>PRIOR YEAR:</u> FY 2016, a potential ADA violation may have occurred in CCC’s 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	FSA is seeking further review of the legal authority of CCC with respect to the apportionment requirements with the OGC in conjunction with the Office of Management and Budget.

AGENCY	Description of Potential Violation	Status
	of \$29.9 million; however, there is some question about the apportionment requirements for interest to Treasury.	
Office of the Chief Financial Officer/ National Finance Center (OCFO/NFC)	<p><u>FY 2017</u>: The National Finance Center (NFC) has been managing web pages for the New Orleans chapter of the Association of Government Accountants (AGA), which is a non-governmental organization, on the NFC website at no cost to AGA. The services provided were minimal and were limited to basic maintenance of AGA web pages, and updates to contact information or changes of officers. An investigation into this situation determined that NFC has been maintaining the AGA web pages since 1999. NFC also maintains the Federal Executive Board (FEB) web pages in a similar manner to the AGA, and these services are performed at no cost to the FEB.</p>	OGC is reviewing for a determination.
Office of the Secretary (USDA/OSEC)	<p><u>FY 2017</u>: A recent decision by the U.S. Government Accountability Office (GAO) General Counsel determined that, under the previous administration, USDA/OSEC violated the purpose statute, improperly augmented several of its appropriations, and potentially violated the Anti-deficiency Act when it obligated several of its appropriations for the expenses of separately funded USDA components. Allegedly, USDA improperly relied on the Economy Act to enter into interagency agreements, under which the agency obligated its appropriations for (1) Rural Development Salaries and Expenses, (2) Food and Nutrition Service, Nutrition Programs Administration, and (3) Office of Civil Rights, for personnel details that GAO determined did not actually occur. Instead, these appropriations were used for the salaries and benefits of employees performing work for separately funded USDA components. The Economy Act was</p>	The Department will seek an OGC determination.

AGENCY	Description of Potential Violation	Status
	<p>referenced as the authority to transfer the appropriations. The purpose statute was violated when the incorrect appropriation was used for the salaries and benefits in question and improperly augmented the appropriations of these other USDA components. If upon adjusting its accounts to charge the correct appropriations, USDA has incurred obligations in excess of those appropriations, and potentially violated the Anti-deficiency Act.</p>	
<p>Commodity Credit Corporation (CCC)</p>	<p><u>FY 2017</u>: The prior year accounting treatment for obligations related to the Conservation Reserve Program - Annual Rental contracts was determined to be in error. Only the annual portion of the contract values was recorded as an obligation, whereas OMB Circular No. A-11, requires recognition of the obligation in the amount necessary to cover the full-term of the contractual obligation. As a result, CCC recorded approximately \$10 billion in obligations as a beginning balance adjustment, whereby apportioned authority may not have been available in prior years.</p>	<p>CCC will seek an OGC determination.</p>

## DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT OF 2014 (DATA ACT)

USDA was unable to submit complete, accurate and timely files required for DATA Act reporting by the deadline of April 30, 2017. USDA made improvements to the submissions in fiscal quarters 3 and 4.

## FEDERAL CIVIL PENALTIES INFLATION ADJUSTMENT ACT IMPROVEMENTS ACT OF 2015

USDA has not updated the catch-up calculations in its draft rule from 2016 to 2017. The Department is in the process of revising the draft rule for submission and publication in the Federal Register.

## Improper Payments Elimination and Recovery Act of 2010 (IPERA)

The following exhibit provides a summary of agency programs not compliant with the Improper Payment Elimination and Recovery Act (IPERA). For FY 2017, two USDA agencies were non-compliant. The following exhibit identifies the non-compliance related to IPERA and target dates by which the deficiencies will be mitigated. The summary of corrective actions can be found in the Payment Integrity Management Section of this report.

### EXHIBIT 5: Outstanding Initiative to Achieve Compliance

Initiative	Section of Non-compliance	Agency/Program	Target Completion Date
Improper Payments Elimination and Recovery Act of 2010, as amended by the Improper Payments Elimination and Recovery Improvement Act of 2012	Publish improper payment estimates for all high-risk programs and activities	Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP)	11/15/2018
		FNS Child and Adult Care Food Program (CACFP)	11/15/2020
	Publish and meet annual reduction targets for each program assessed to be at risk and measured for improper payments	FNS National School Lunch Program (NSLP)	11/15/2018
		FNS School Breakfast Program (SBP)	11/15/2018
		FNS Special Supplemental Nutrition Program; Women, Infants, and Children	11/15/2018
	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)	Farm Service Agency (FSA) Noninsured Assistance Program (NAP)	11/15/2018
		FNS National School Lunch Program (NSLP)	11/15/2020
		FNS School Breakfast Program (SBP)	11/15/2020



# 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 information technology (IT) non-compliance is also reported as a material weakness and is included in the [Federal Managers' Financial Integrity Act Report on Management Control](#). Failure to resolve prior year recommendations identified by USDA's Office of Inspector General (OIG) has prevented the Department from mitigating repeated deficiencies and receiving a quality rating on the five Cybersecurity Framework security functions. 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.

The following exhibit contains the outstanding initiatives to achieve compliance.

### EXHIBIT 6: 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	12/31/2020
Financial Management	Federal accounting standards, and U.S. Standard General Ledger (USSGL) at the transaction level.	NRCS	9/30/2018
	Federal accounting standards, and USSGL at the transaction level.	CCC	9/30/2019

## FISCAL YEAR 2017 RESULTS

During fiscal year (FY) 2017, 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 2016 Agency Financial Report. USDA is not compliant with Federal accounting standards and the USSGL at the transaction level due to deficiencies identified for the Commodity Credit Corporation and Natural Resources Conservation Service.

Additionally, as reported in the FMFIA 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)

Non-compliance with Federal accounting standards was noted for weaknesses in the accounting for budgetary transactions and accounting estimates. The financial management systems did not record certain accounting events, at the transaction level, in accordance with the U.S. Standard General Ledger.

During FY 2017, 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.

### 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

The Financial Management Systems (FMS) component of OCFO is responsible for providing timely, accurate, and complete financial information to USDA agencies to enable them to execute the mission of USDA. Specifically, FMS provides cloud-based, Commercial Off the Shelf (COTS) Enterprise Resource Planning (ERP) software that provides USDA Agencies with the functionality they need to distribute, obligate, expend, and report on the funds entrusted to them by Congress.

FMS Operates as an Internal Shared Services Provider to USDA agencies, pooling resources to offer cost-effective systems and support through consolidation of functions, standard processing, and repeatable processes.

## FINANCIAL MANAGEMENT LINES OF BUSINESS

The COTS ERP Systems, Applications, and Products (SAP) offering is housed in the FMS Division. Under the Financial Management Modernization Initiative (FMMI), over the past eight years, this system has become the USDA Financial Management (FM) solution which covers almost all USDA accounting activity. Efforts are currently under way to migrate all remaining accounting activity that is not in FMMI over the next 3 years.

In addition, 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. Grants management is a major activity of many USDA Agencies and this system, integrated with FMMI, assists grants managers to run their grants programs efficiently and improve the accuracy of their accounting.

## MISSION

FMS' mission as an internal Financial Shared Service Provider is to provide reliable, cost-effective, employee-centric systems and services to USDA 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 Lines 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.

FMS' 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;
- Child care; and
- Grants management.
- 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.

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 configured ERP solution built for financials. FMS' primary objectives for this shared services effort are to provide the following:

- An enterprise financial management service that allows customers to reap the benefits of faster, less expensive, and less risky services as compared to starting with a new ERP 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;

## PROVIDER STATUS

As a Federal Shared Service Provider (FSSP), USDA continues to work with 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.

## SUCCESSSES

During fiscal year (FY) 2017, USDA succeeded in the following ways:

- 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 and planning to enable the Forest Service (FS) to begin deployment activities for EFG in 2018;
- Opened discussions with Rural Development (RD) about bringing loans into the USDA SAP corporate solution;

- Implemented an EFG interface with Grants.gov. 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;
- Implemented an enterprise version of EFG with the National Institute of Food and Agriculture (NIFA) and the Animal and Plant Health Inspection Service (APHIS);
- Converged existing EFG agencies into the enterprise solution (Foreign Agriculture Service [FAS], Agricultural Marketing Service [AMS], Office of Advocacy and Outreach [OAO], and the National Resources Conservation Service [NRCS]);
- Migrated several agencies into the Budget Status of Funds (BSF) tool (FAS, NRCS, RD, and the Risk Management Agency [RMA]);
- Deployed the Allotment Planning Module for NRCS;
- Migrated USDA’s SAP-based financial management system to the cloud — This has improved performance, reduced risks and costs, increased flexibility, and improved testing and training. Stability and performance was improved by over 400 percent by this migration to a commercial cloud. 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:

- Roll the SAP grants solution out to all USDA agencies and to agencies outside USDA;
- Create a new line of business to specifically support grants management; and
- Begin the integration of loan programs into the SAP solution within USDA.

FY 2017 and planned FY 2018 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.

## Other Management Information, Initiatives, and Issues

### DIGITAL ACCOUNTABILITY AND TRANSPARENCY ACT (DATA ACT)

In May 2014, the Digital Accountability and Transparency (DATA) Act was enacted. This Act extends Federal Funding Accountability and Transparency Act (FFATA) reporting by adding additional data elements to the previous FFATA reporting on financial assistance and procurements. The U.S. Department of the Treasury (Treasury) and the Office of Management and Budget (OMB) and Federal agencies are responsible for implementing the Act. Federal agencies are required to produce seven files as listed below and report them to the Treasury Broker quarterly:

- File A: Appropriations data by Treasury Symbol
- File B: Appropriations by Treasury Symbol, Budget Object Classification Code (BOC), and Program Activity (PA). The total of File B should equal the total of File A.
- File C: Financial attributes from the General Ledger(s) (GL) for each financial assistance award and procurement contract over the micro purchase threshold.
  - This file is compared and reconciled with the D1 and D2 files. For each award reported on the D1 and D2 files, the corresponding GL transactions are reflected on File C.

- File D1: Procurement data from the Federal Procurement Data System (FPDS). (Daily to FPDS)
- File D2: Financial Assistance award attributes.
  - Agencies submit data to the repository, which conducts edits and then transmits all error-free data to [USAspending.gov](http://USAspending.gov). Records with errors are sent back to the agencies and staff offices for correction before resubmission.
- File E: Financial Assistance Subaward Reporting (Pulled by the broker from the Federal Funding Accountability and Transparency Act Subaward Reporting System [FSRS]).
- File F: Top five most highly compensated officers (Pulled by Broker from System for Award Management [SAM]).

USDA developed a DATA Act repository to store data from all the U.S. Department of Agriculture (USDA) agencies and staff offices. This repository contains the data necessary to create files A-C by pulling data from the Financial Management Modernization Initiative (FMMI) general ledger. The Rural Development (RD) and Farm Service Agencies (FSA) use separate GLs (RD and FSA also have FMMI activity) and submit file A-C data to the repository. USDA is also a Financial Shared Service Provider, servicing 23 small government agency clients. All USDA and customer data is held in the FMMI repository.

D1 file data is submitted as frequently as daily to FPDS. The repository pulls in all data submitted to FPDS at quarter end for reconciliation purposes.

File D2 is submitted from agencies and staff offices to the repository where the files are checked for errors. All records that are error-free are submitted to [USAspending.gov](http://USAspending.gov) for posting. Error records are sent back to the agencies and staff offices for correction and resubmission.

Files E and F are pulled by the Treasury broker quarterly, so the data is not maintained in the USDA DATA Act repository.

OMB and Treasury developed phased guidance for implementation of the DATA Act. Guidance to date includes OMB Memorandum 15-12,<sup>13</sup> Management Procedures Memorandum (MPM) 2016-03<sup>14</sup> and OMB Memorandum 17-04.<sup>15</sup> Treasury published version 1.1 of the Requirements Submission Specifications (RSS) and Interface Design Document (IDD) on June 30, 2017. It will be implemented in the fall of 2017. 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

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<sup>13</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2015/m-15-12.pdf>

<sup>14</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/financial/memos/management-procedures-memorandum-no-2016-03-additional-guidance-for-data-act-implementation.pdf>

<sup>15</sup> <https://obamawhitehouse.archives.gov/sites/default/files/omb/memoranda/2017/m-17-04.pdf>

for USDA. OCFO Financial Management Services (FMS) developed a data repository for the Department to collect all DATA Act elements. The repository connects to the Beta [USAspending.gov](http://USAspending.gov) Web site and will report the data using Treasury's data broker.

USDA's Senior Accountable Official, the Chief Financial Officer, established a USDA DATA Act implementation team. This group inventoried DATA Act elements in the USDA agency source systems and coordinated any needed system changes to become compliant. USDA has four main general ledgers and multiple awards systems where data resides. Despite significant challenges (including a tornado that left the National Finance Center in New Orleans, where the FMS is headquartered, without a facility), USDA submitted DATA Act reporting by the May 2017 deadline.

USDA submitted third quarter data to the [USAspending.gov](http://USAspending.gov) Web site in August 2017. The data quality had improved compared to the second quarter. Fourth quarter data will be reported in November 2017. USDA is focused on improving data quality. OCFO developed a tool to assist USDA Agencies and Staff Offices to report financial assistance and Procurement Award Identification (IDs) to its GLs, a new requirement as of January 1, 2017. As Agencies address transactions and associate the correct Award ID or mark the transaction as not DATA Act reportable, matching transactions in the GLs to the Awards reported in files D1 and D2 will improve. OCFO began training agencies in August and will conduct several such trainings to assist the agencies with this task. The level of effort and research required to address transactions without Award IDs or marked as not reportable will take several reporting quarters to complete.

At least four USDA agencies are 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 FSA.

## Limitations of Financial Statement

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The Consolidated Balance Sheet has been prepared to report the financial position of the entity, pursuant to the requirements of 31 United States Code (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 the Office of Management and Budget (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 United States Government, a sovereign entity.



## Section II:

# Financial Information

## Message from the Acting Deputy Chief Financial Officer

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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 \$225 billion in assets, \$138 billion in annual spending, and approximately \$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 44 million low-income individuals 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.

Presented here, as Acting Deputy Chief Financial Officer for the USDA, is the Agency Financial Report (AFR) for fiscal year (FY) 2017. 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 goal of excellence in financial management.

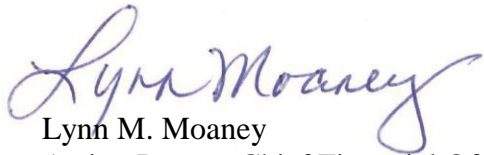
For the Office of the Chief Financial Officer (OCFO), this has been a year marred by the unexpected. Yet our resiliency in carrying out the mission and ensuring financial integrity remains unwavering. This was exemplified when the National Finance Center managed to process \$2.9 billion in payroll on time for more than 600,000 federal employees in the same week a tornado hit their facility. This accomplishment has made USDA the "Gold Standard" for Continuity of Operations (COOP) preparedness across Federal Government. In addition, we migrated the USDA corporate financial system, including the integrated Grants management system, to a commercial cloud provider. The migration reduces operating costs and eliminates the requirement for continued capital investment in USDA owned hardware to support the financial system.

USDA also made significant progress in the area of improper payments, including having eight programs removed from the Office of Management and Budget (OMB) list of programs susceptible to significant improper payments, thereby reducing the number of high risk programs from eighteen down to ten. Through aggressive measures to revise sampling and estimation methodology, as well as implementation of purposeful corrective actions, the Risk Management Agency Federal Crop Insurance Corporation program was removed from the OMB High-Priority

Program List. This is the first program in the Federal Government to be removed from the High Priority List.

Even still, there is more work to do, particularly related to management challenges. We recognize the importance of continuous process improvement over our internal controls, including any areas of weakness identified by our independent auditors. The Office of Inspector General (OIG) has made assessments of our management challenges, and we are committed to advancing the resolution of any deficiencies reported and will continue to build upon experiences gained through our annual financial statement audit.

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 2018. 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.



Lynn M. Moaney  
Acting Deputy Chief Financial Officer

November 14, 2017

# Independent Auditors Report

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# Agency Response to Auditors Report

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# Consolidated Balance Sheet

As of September 30, 2017 (\$ in millions)

	<u>2017</u>
<b>Assets (Note 2):</b>	
Intragovernmental:	
Fund Balance with Treasury (Note 3)	\$ 121,572
Investments (Note 5)	216
Accounts Receivable, Net (Note 6)	108
Other (Note 11)	<u>3</u>
Total Intragovernmental	121,899
Cash and Other Monetary Assets (Note 4)	255
Investments (Note 5)	3
Accounts Receivable, Net (Note 6)	1,155
Direct Loan and Loan Guarantees, Net (Note 7)	99,816
Inventory and Related Property, Net (Note 8)	35
General Property, Plant, and Equipment, Net (Note 9)	2,354
Other (Note 11)	<u>198</u>
<b>Total Assets</b>	<u><u>225,715</u></u>
Stewardship PP&E (Note 10)	
<b>Liabilities (Note 12):</b>	
Intragovernmental:	
Debt (Note 13)	118,031
Other (Note 15)	<u>10,636</u>
Total Intragovernmental	128,667
Accounts Payable	1,764
Loan Guarantee Liability (Note 7)	794
Federal Employee and Veteran Benefits	901
Environmental and Disposal Liabilities (Note 14)	201
Benefits Due and Payable	4,563
Other (Notes 15 & 16)	<u>27,463</u>
<b>Total Liabilities</b>	164,353
Commitments and Contingencies (Note 17)	
<b>Net Position:</b>	
Unexpended Appropriations - Funds From Dedicated Collections (Note 18)	156
Unexpended Appropriations - All Other Funds	55,947
Cumulative Results of Operations - Funds From Dedicated Collections (Note 18)	2,270
Cumulative Results of Operations - All Other Funds	<u>2,989</u>
<b>Total Net Position - Funds From Dedicated Collections</b>	2,426
<b>Total Net Position - All Other Funds</b>	<u>58,936</u>
<b>Total Net Position</b>	<u>61,362</u>
<b>Total Liabilities and Net Position</b>	<u><u>225,715</u></u>

*The accompanying notes are an integral part of these statements.*

# Notes to the Consolidated Balance Sheet

As of September 30, 2017 (\$ 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 eight 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:

#### Rural Development

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

#### 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)

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

- Food and Nutrition Service (FNS)

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

- Farm Service Agency (FSA)
  - Commodity Credit Corporation (CCC)
- Natural Resources Conservation Service (NRCS)
- Risk Management Agency (RMA)
  - Federal Crop Insurance Corporation (FCIC)

#### Trade and Foreign Agricultural Affairs (TFAA)

Foreign Agricultural Service (FAS)

#### 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)

### PRESENTATION

The Consolidated Balance Sheet for FY 2017 is presented for audit, in lieu of the basic statements on a comparative basis as required by OMB Circular A-136, to sustain the improvements made 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 (SBR) that is presented on a combined basis. The financial statements are prepared in accordance with generally accepted accounting principles for the Federal Government.

## 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.

	FY 2017
Intragovernmental:	
Fund balance with Treasury	\$ 260
Accounts Receivable	331
Subtotal Intragovernmental	<u>591</u>
With the Public:	
Cash and other monetary assets	41
Accounts receivable	144
Subtotal With the Public	<u>185</u>
Total non-entity assets	776
Total entity assets	224,939
Total Assets	<u><u>\$ 225,715</u></u>

### NOTE 3: Fund Balance with Treasury

Other Fund Types include deposit and clearing accounts.

	FY 2017
Fund Balances:	
Trust Funds	\$ 429
Special Funds	22,489
Revolving Funds	23,578
General Funds	74,834
Other Fund Types	242
Total	<u>121,572</u>

### NOTE 4: Cash and Other Monetary Assets

For FY 2017, cash mostly consists of Federal crop insurance escrow of \$157 million, deposits in transit of \$57 million and single family housing escrow of \$41 million.

	FY 2017
Cash	<u>\$ 255</u>

### NOTE 5: Investments

FY 2017	Amortization Method	Cost	Amortized (Premium) Discount	Interest Receivable	Investments, Net	Market Value Disclosure
Intragovernmental:						
Non-marketable						
Par value		\$ -	\$ -	\$ -	\$ -	\$ -
Market-based	Straight Line	215	-	1	216	216
Total		<u>\$ 215</u>	<u>\$ -</u>	<u>\$ 1</u>	<u>\$ 216</u>	<u>\$ 216</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 2017

	Accounts Receivable, Gross	Allowance for Uncollectible Accounts	Accounts Receivable, Net
Intragovernmental	\$ 108	\$ -	\$ 108
With the Public	1,317	(162)	1,155
Total	<u>\$ 1,425</u>	<u>\$ (162)</u>	<u>\$ 1,263</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 2017 was \$99,816 million. Loans exempt from the Federal Credit Reform Act of 1990 represent \$394 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 2017.

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 \$4,384 million during FY 2017. [Table 2](#) shows the subsidy cost allowance balances for FY 2017.

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 2017 was \$236 million. [Table 3](#) illustrates the breakdown of total subsidy expense for FY 2017 by program.

Direct loan volume was \$9,323 million in FY 2017. 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 2017 were \$146,425 million in outstanding principal and \$130,843 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 \$794 million during FY 2017. [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 2017 was negative \$548 million. [Table 8](#) illustrates the breakdown of total subsidy expense for FY 2017 by program.

Guaranteed loan volume was \$25,897 million in FY 2017. 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 2017 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 2017 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 SERVICES LIST OF PROGRAMS

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

### RURAL DEVELOPMENT (RD) MISSION AREA

RD offers both direct and guaranteed loans administered through three agencies with unique missions to bring prosperity and opportunity to rural areas. Each year, RD programs create or preserve tens of thousands of rural jobs and provide or improve the quality of rural housing, business, and utilities. To leverage the impact of its programs, RD is working with state, local, and Indian tribal governments, as well as private and non-profit organizations and user-owned cooperatives. RD is able to 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 Housing programs provide affordable, safe, and sanitary housing and essential community facilities to rural communities.

They also help finance new or improved housing for moderate, low, and very low-income families each year. Other programs help rural communities to finance, construct, enlarge or improve fire stations, libraries, hospitals and medical clinics, industrial parks, and other community facilities.

Rural Business programs promote a dynamic business environment in rural America. These programs work in partnership with the private sector and community-based organizations to provide financial assistance and business planning. They also provide technical assistance to rural businesses and cooperatives, conduct research into rural economic issues, and provide cooperative educational materials to the public.

Rural Utilities programs help to improve the quality of life in rural America through a variety of loan programs for electric energy, telecommunications, and water and environmental projects. These programs leverage scarce Federal funds with private capital for investing in rural infrastructure, technology, and development of water resources.



**RURAL DEVELOPMENT LIST OF PROGRAMS**

<b>Rural Housing Program</b>	<b>Rural Business Program</b>	<b>Rural Utilities Program</b>
Single Family Housing Direct Loans (including Self-Help Loans)	Business and Industry Loan Guarantees	Water and Waste Disposal Direct Loans, Loan Guarantees
Single Family Housing Loan Guarantees	Intermediary Relending Program Loans	Water and Waste Disposal Technical Assistance
Single Family Housing Repair Loans	Rural Microentrepreneur Assistance Program	Rural Broadband Direct Loans and Loan Guarantees
Rural Rental Housing Direct Loan	Rural Economic Development Loans	Electric and Telecommunications Direct Loans and Loan Guarantees
Rural Rental Housing Loan Guarantees	Rural Energy for America Program Loan Guarantees	Distance Learning and Telemedicine Loans
Farm Labor Housing Loans	Biorefinery Renewable Chemical, and Biobased Product Manufacturing Assistance Program Loan Guarantees	
Community Facilities Direct Loans and Loan Guarantees		

**EVENTS AND CHANGES HAVING A SIGNIFICANT AND MEASURABLE EFFECT ON SUBSIDY RATES, SUBSIDY EXPENSE, AND SUBSIDY REESTIMATES**

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

The annual reestimate process updates the budget assumptions with actual portfolio performance, interest rates, and updated estimates for future loan performance.

The FY 2017 reestimate process resulted in a \$308 million increase in the post-1991 estimated cost of the direct loan portfolio and a \$494 million decrease in the post-1991 estimated cost of the guaranteed loan portfolio, primarily comprised of the following programs.

**Direct Loans**

The Food Aid category had a total reestimate of \$105 million; \$70 million upward and \$175 million downward. The Debt Reduction Fund comprised 30 million of the upward and 160 million of the downward reestimate. The Debt Reduction Fund had not been reestimated since FY 2007. The large downward reestimate can be attributed to the difference between the large cash balances that have built up in the years since FY 2007 as compared to balances of outstanding loans.

The Electric Program had an overall upward reestimate of \$194 million as compared to an overall upward of \$103 million in FY 2016.

The change in material programs in FY 2017 was comprised primarily of \$75 million upward reestimate in the Federal Financing Bank (FFB) program, and an \$80 million downward reestimate in the FFB Underwriter program. The FFB program disbursed less funds than what was projected in the previous year resulting in a decreased amount of projected collection of interest, driving the reestimate upward. The trend of upward reestimates continued to occur in the FFB Underwriters program due to updated interest rate projections used in the economic assumptions.

### Guaranteed Loans

The Guaranteed Single Family Housing Section 502 Program had an overall downward reestimate of \$330 million as compared to an overall downward of \$4,231 million in FY 2016. The FY 2017 downward reestimate was comprised of an overall net downward reestimate of \$36 million in the material programs. This resulted from a downward reestimate of \$101 million, in the Blended component of the program, netted to an upward reestimate of \$65 million, in the Purchased component of the program. The blended component's change is mostly attributed to large downward reestimates in the last two cohort years due to upfront fees charged to borrowers, increasing the overall cash balances. The purchased component experienced an increase in actual defaults in FY 2017 as compared with FY 2016 for cohort years 2008 and 2010.

The Guaranteed Business and Industry Program had an overall downward reestimate of \$171 million in FY 2017 as compared to downward of \$10 million in FY 2016. The material programs in FY 2017 experienced an overall downward reestimate of \$116 million. The program had a reduction in anticipated defaults in later cohort years,

which lowered the projected subsidy level resulting in the overall downward reestimate.

### 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 2017. 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, 2017, foreclosed property consisted of 1,145 rural single family housing dwellings, with an average holding period of 16 months. As of September 30, 2017, FSA-Farm Loan Program properties consist primarily of 99 farms. The average holding period for these properties in inventory for FY 2017 was 64 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 \$15,375 million of Rural Housing Service unpaid loan principal as of September 30, 2017 were receiving interest credit. If those loans receiving interest credit had accrued interest at the full-unreduced rate, interest income would have been approximately \$744 million higher for FY 2017.

At the end of FY 2017, the RD portfolio contained approximately 58,524 restructured loans with an outstanding unpaid principal balance of \$2,900 million. At the end of FY 2017, the farm loan portfolio contained approximately 17,835 restructured loans with an outstanding unpaid principal balance of \$1,264 million. Direct credit and credit guarantee principal receivables in the food aid and export programs under rescheduling agreements as of September 30, 2017 were \$1,012 million.

**TABLE 1: Direct Loan and Loan Guarantees, Net**

FY 2017 Direct Loans	Loans Receivable, Gross	Interest Receivable	Foreclosed Property	Present Value Allowance	Value of Assets Related to Loans
<b>Obligated Pre-1992</b>					
Farm	\$ 268	\$ 16	\$ 5	\$ (16)	\$ 273
Export	-	-	-	-	-
Food Aid	1,049	13	-	(215)	847
Housing	6,642	115	12	(30)	6,739
Community Facility	18	-	-	-	18
Electric	2,357	12	-	(1,460)	909
Telecommunications	114	-	-	-	114
Water and Environmental	328	3	-	-	331
Intermediary Relending	9	-	-	-	9
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Pre-1992 Total</b>	<b>10,785</b>	<b>159</b>	<b>17</b>	<b>(1,721)</b>	<b>9,240</b>
<b>Obligated Post-1991</b>					
Farm	10,951	169	11	(447)	10,684
Export	-	-	-	-	-
Food Aid	685	10	-	(121)	574
Housing	17,951	143	62	(2,215)	15,941
Community Facility	7,497	53	-	(140)	7,410
Electric	45,831	268	-	(626)	45,473
Telecommunications	3,826	3	-	(7)	3,822
Water and Environmental	12,266	88	-	(228)	12,126
Intermediary Relending	370	2	-	(90)	282
Business and Industry	42	-	-	(3)	39
Economic Development	186	-	-	(14)	172
<b>Post-1991 Total</b>	<b>99,605</b>	<b>736</b>	<b>73</b>	<b>(3,891)</b>	<b>96,523</b>
Cushion of Credit	(6,840)	-	-	-	(6,840)
<b>Total Direct Loan Program Receivables</b>	<b>103,550</b>	<b>895</b>	<b>90</b>	<b>(5,612)</b>	<b>98,923</b>
<b>Defaulted Guarantee Loans</b>					
<b>Pre-1992</b>					
Farm	-	-	-	-	-
Export	2	-	-	-	2
Food Aid	-	-	-	-	-
Housing	-	-	-	-	-
Community Facility	-	-	-	-	-
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	-	-	-	-	-
Economic Development	-	-	-	-	-
<b>Pre-1992 Total</b>	<b>2</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2</b>
<b>Post-1991</b>					
Farm	166	1	-	(164)	3
Export	471	21	-	(246)	246
Food Aid	-	-	-	-	-
Housing	73	1	-	(36)	38
Community Facility	7	-	-	-	7
Electric	-	-	-	-	-
Telecommunications	-	-	-	-	-
Water and Environmental	-	-	-	-	-
Intermediary Relending	-	-	-	-	-
Business and Industry	247	4	-	(48)	203
Economic Development	-	-	-	-	-
<b>Post-1991 Total</b>	<b>964</b>	<b>27</b>	<b>-</b>	<b>(494)</b>	<b>497</b>
<b>Total Defaulted Guarantee Loans</b>	<b>966</b>	<b>27</b>	<b>-</b>	<b>(494)</b>	<b>499</b>
<b>Loans Exempt from Credit Reform Act:</b>					
Commodity Loans	392	3	-	(1)	394
Other Foreign Receivables	-	-	-	-	-
<b>Total Loans Exempt</b>	<b>392</b>	<b>3</b>	<b>-</b>	<b>(1)</b>	<b>394</b>
<b>Total Direct Loan and Loan Guarantees, Net</b>					<b>\$ 99,816</b>

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

Ending balance of the subsidy cost allowance \$ 4,384

**TABLE 3: Subsidy Expense for Direct Loans by Program and Component**

FY 2017

	<u>Interest Differential</u>	<u>Defaults</u>	<u>Fees and Other Collections</u>	<u>Other</u>	<u>Subtotal Subsidy</u>	<u>Total Modifications</u>	<u>Interest Rate Reestimates</u>	<u>Technical Reestimates</u>	<u>Total Reestimates</u>	<u>Total Subsidy Expense</u>
Direct Loan Programs										
Farm	\$ (38)	\$ 84	\$ (1)	\$ 3	\$ 48	\$ -	\$ (112)	\$ 188	\$ 76	\$ 124
Export	-	-	-	-	-	-	-	2	2	2
Food Aid	-	-	-	-	-	-	-	(105)	(105)	(105)
Housing	53	45	-	6	104	3	(20)	27	7	114
Community Facility	(164)	47	-	(1)	(118)	-	(5)	65	60	(58)
Electric	(104)	6	(14)	(33)	(145)	-	236	(42)	194	49
Telecommunications	-	5	-	(5)	-	-	(22)	56	34	34
Water and Environmental	48	1	-	(22)	27	-	25	18	43	70
Intermediary Relending	5	-	-	-	5	-	(2)	(8)	(10)	(5)
Business and Industry	-	-	-	-	-	-	-	6	6	6
Economic Development	4	-	-	-	4	-	1	-	1	5
Total Direct Loan Subsidy Expense	<u>\$ (196)</u>	<u>\$ 188</u>	<u>\$ (15)</u>	<u>\$ (52)</u>	<u>\$ (75)</u>	<u>\$ 3</u>	<u>\$ 101</u>	<u>\$ 207</u>	<u>\$ 308</u>	<u>\$ 236</u>

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

	<u>FY 2017</u>
Direct Loan Programs	
Farm	\$ 2,398
Export	-
Food Aid	-
Housing	1,123
Community Facility	1,638
Electric	3,045
Telecommunications	216
Water and Environmental	851
Intermediary Relending	17
Business and Industry	5
Economic Development	30
Total Direct Loans Disbursed	<u>\$ 9,323</u>

**TABLE 5:** Guaranteed Loans Outstanding

FY 2017	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	\$ 2	\$ 16,380	\$ 16,382	\$ 2	\$ 14,762	\$ 14,764
Export	-	1,671	1,671	-	1,638	1,638
Food Aid	-	-	-	-	-	-
Housing	1	120,408	120,409	1	108,329	108,330
Community Facility	-	1,129	1,129	-	1,002	1,002
Electric	3	166	169	3	166	169
Telecommunications	-	-	-	-	-	-
Water and Environmental	-	114	114	-	101	101
Intermediary Relending	-	-	-	-	-	-
Business and Industry	4	6,547	6,551	3	4,836	4,839
Economic Development	-	-	-	-	-	-
Total Guarantees Outstanding	<u>\$ 10</u>	<u>\$ 146,415</u>	<u>\$ 146,425</u>	<u>\$ 9</u>	<u>\$ 130,834</u>	<u>\$ 130,843</u>

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

FY 2017	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	\$ -	\$ 207	\$ 207
Export	-	13	13
Food Aid	-	-	-
Housing	-	115	115
Community Facility	-	43	43
Electric	-	-	-
Telecommunications	-	-	-
Water and Environmental	-	1	1
Intermediary Relending	-	-	-
Business and Industry	-	415	415
Economic Development	-	-	-
Total Liability for Loan Guarantees	<u>\$ -</u>	<u>\$ 794</u>	<u>\$ 794</u>

**TABLE 7: Loan Guarantee Liability**

Ending balance of the loan guarantee liability	<u>\$ 794</u>
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**TABLE 8:** Subsidy Expense for Loan Guarantees by Program and Component

FY 2017

Loan Guarantee Programs	Interest		Fees and Other			Total Modifications	Interest Rate Reestimates	Technical Reestimates	Total Reestimates	Total Subsidy Expense
	Supplement	Defaults	Collections	Other	Subtotal					
Farm	\$ -	\$ 32	\$ (17)	\$ -	\$ 15	\$ -	\$ 2	\$ (13)	\$ (11)	\$ 4
Export	-	-	9	(5)	4	-	-	5	5	9
Food Aid	-	-	-	-	-	-	-	-	-	-
Housing	-	708	(846)	-	(138)	-	21	(351)	(330)	(468)
Community Facility	-	4	(1)	-	3	-	-	12	12	15
Electric	-	-	-	-	-	-	-	-	-	-
Telecommunications	-	-	-	-	-	-	-	-	-	-
Water and Environmental	-	-	-	-	-	-	-	-	-	-
Intermediary Relending	-	-	-	-	-	-	-	-	-	-
Business and Industry	-	109	(47)	-	62	-	2	(172)	(170)	(108)
Economic Development	-	-	-	-	-	-	-	-	-	-
<b>Total Loan Guarantee Subsidy Expense</b>	<b>\$ -</b>	<b>\$ 853</b>	<b>\$ (902)</b>	<b>\$ (5)</b>	<b>\$ (54)</b>	<b>\$ -</b>	<b>\$ 25</b>	<b>\$ (519)</b>	<b>\$ (494)</b>	<b>\$ (548)</b>

**TABLE 9:** Guaranteed Loans Disbursed

Loan Guarantee Programs	FY 2017	
	Principal, Face Value Disbursed	Principal, Guaranteed Disbursed
Farm	\$ 3,640	\$ 3,280
Export	1,745	1,709
Food Aid	-	-
Housing	19,009	17,108
Community Facility	92	81
Electric	-	-
Telecommunications	-	-
Water and Environmental	8	7
Intermediary Relending	-	-
Business and Industry	1,403	1,084
Economic Development	-	-
<b>Total Guaranteed Loans Disbursed</b>	<b>\$ 25,897</b>	<b>\$ 23,269</b>



**TABLE 10: Administrative Expenses**

	FY 2017
Direct Loan Programs	\$ 520
Guaranteed Loan Programs	504
<b>Total Administrative Expenses</b>	<b>\$ 1,024</b>

**TABLE 11: Subsidy Rates for Direct Loans (percentage)**

FY 2017	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Direct Loan Programs					
Farm Ownership	(1.11)	0.14	-	(0.64)	(1.61)
Farm Operating	(3.00)	6.97	-	0.29	4.26
Emergency Disaster	(3.87)	9.27	-	0.20	5.60
Indian Tribe Land Acquisition	(21.54)	-	-	-	(21.54)
Boll Weevil Eradication	(0.52)	-	-	(0.14)	(0.66)
Farm Storage Facility Loan Program	(1.01)	0.02	(0.27)	(0.05)	(1.31)
Sugar Storage Facility Loan Program	(2.22)	0.03	-	(0.01)	(2.20)
Multi-Family Housing Relending Demo	32.41	-	-	(0.03)	32.38
Multi-Family Housing Revitalization Seconds	56.65	0.43	-	(0.06)	57.02
Multi-Family Housing Revitalization Zero	51.14	0.34	-	(0.19)	51.29
Community Facility Loans	(5.65)	3.44	-	(0.34)	(2.55)
Community Facility Relending	(13.85)	8.42	-	1.60	(3.83)
Section 502 Single-Family Housing	1.83	4.71	-	0.23	6.77
Section 515 Multi-Family Housing	30.03	0.66	-	(1.08)	29.61
Section 504 Housing Repair	17.73	(0.03)	-	(3.76)	13.94
Section 514 Farm Labor Housing	29.96	0.26	-	(0.65)	29.57
Single-Family Housing Credit Sales	(9.42)	2.27	-	4.79	(2.36)
Rural Microenterprise Direct Loans	9.72	2.68	-	-	12.40
Intermediary Relending Program	29.09	1.61	-	(1.70)	29.00
Rural Economic Development Loans	14.24	0.02	-	(0.03)	14.23
Water and Waste Disposal Loans	9.40	0.08	-	(5.14)	4.34
FFB Electric Loans	(4.34)	0.02	-	(0.61)	(4.93)
Treasury Telecommunication Loans	0.18	0.40	-	0.32	0.90
FFB Telecommunications Loans	0.03	0.28	-	(2.85)	(2.54)
FFB Guaranteed Underwriting	-	1.45	(5.23)	-	(3.78)
Rural Energy Savings Program	13.59	1.27	-	(0.43)	14.43
Broadband Treasury Loans	0.18	16.59	-	(0.13)	16.64

**TABLE 12: Subsidy Rates for Loan Guarantees (percentage)**

FY 2017	Interest		Fees and Other		Total
	Differential	Defaults	Collections	Other	
Guaranteed Loan Programs					
Farm Ownership—Unsubsidized	-	1.17	(1.24)	-	(0.07)
Farm Operating—Unsubsidized	-	2.34	(1.27)	-	1.07
Conservation—Guaranteed	-	0.98	(1.30)	-	(0.32)
GSM 102	-	0.39	(0.63)	-	(0.24)
Export Guarantee Program—Facilities	-	0.65	(4.61)	-	(3.96)
Community Facility Loan Guarantees	-	3.12	(0.88)	-	2.24
Guaranteed 538 Multi-Family Housing	-	3.99	(7.52)	-	(3.53)
Guaranteed 502 Single-Family Housing	-	3.49	(4.25)	-	(0.76)
Business and Industry Loan Guarantees	-	7.75	(3.91)	-	3.84
Renewable Energy Loan Guarantees	-	5.91	(1.27)	-	4.64
Section 9003 Loan Guarantees	-	24.09	(3.72)	0.44	20.81
Water and Waste Disposal Loans	-	1.35	(0.87)	-	0.48

**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.

(Quantities In Millions)

Commodities:	Unit of Measure	FY 2017	
		Quantity	Value
Corn Meal	Pounds	2	\$ 1
Blended Foods	Pounds	4	2
Dry Edible Beans	Cwt.	-	-
Dry Whole Peas	Cwt.	-	6
Emergency Food Ration Bars	Pounds	-	-
Grain Sorghum	Bushels	-	2
Lentils Dry	Cwt.	-	-
Nonfat Dry Milk	Pounds	-	-
Rice Products	Cwt., Pounds	-	1
Meat	Pounds	-	-
Vegetable Oil	Pounds	21	13
Wheat Products	Bushels, Pounds	-	-
Other	Various	XXXX	10
Total Commodities		XXXX	\$ 35
Allowance for losses			-
Barter Delivery Obligations (BDO)			-
Total Inventory and Related Property, Net			<u>\$ 35</u>

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

FY 2017 Category	Useful Life (Years)	Cost	Accumulated Depreciation	Net Book Value
Land and Land Rights		\$ 70	\$ -	\$ 70
Improvements to Land	10 - 50	757	(733)	24
Construction-in-Progress		47	-	47
Buildings, Improvements and Renovations	15 - 30	3,094	(1,906)	1,188
Other Structures and Facilities	15 - 50	1,844	(1,613)	231
Equipment	5 - 20	1,777	(1,298)	479
Assets Under Capital Lease	3 - 20	34	(28)	6
Leasehold Improvements	10	80	(75)	5
Internal-Use Software	5 - 8	1,185	(955)	230
Internal-Use Software in Development		74	-	74
Total		<u>\$ 8,962</u>	<u>\$ (6,608)</u>	<u>\$ 2,354</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

The Agricultural Research Service (ARS) was established on November 2, 1953. Congress first authorized federally supported agricultural research in the Organic Act of 1862. The statute directed the Commissioner of Agriculture “to acquire and preserve in his department all information he can obtain by means of books and correspondence, and by practical and scientific experiments.” The scope of USDA’s agricultural research has been expanded and extended more than 60 times since the Department was created.

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) supports agricultural research through the acquisition, curation, and dissemination of information needed to solve today’s agricultural challenges. NAL’s content ranges from special collections materials dating from the early 16th century to near-real time observational research data. NAL was created as the departmental library for USDA in 1862 and became a national library in 1990. One of five national libraries of the U.S., it is also a key member of the Agriculture Network Information Collaborative (AgNIC) partnership. In its international role, the NAL serves as the U.S. center for the international agricultural information system.

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

### Conservation Easements

NRCS' 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' 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, farmland, grasslands, 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 through a variety of programs. The specific uses for the land are identified under each program. Landowners are not allowed to withdraw from the program. However, termination or expiration may occur. For the purpose of reporting, all easements where NRCS is listed as a grantee of the easement are included in the agency's stewardship land count. 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

#### FY 17 (In Units)

	<u>Ending Balance</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>17,954</u>
Total	<u><u>18,133</u></u>

## NOTE 11: Other Assets

In FY 2017, other assets included investments in trust for loan asset sales of \$37 million.

	<u>FY 2017</u>
Intragovernmental:	
Advances to Others	<u>\$ 3</u>
Subtotal Intragovernmental	3
With the Public:	
Advances to Others	161
Other Assets	<u>37</u>
Total Other Assets	<u><u>\$ 201</u></u>

## NOTE 12: Liabilities Not Covered By Budgetary Resources

In FY 2017, other intragovernmental liabilities not covered by budgetary resources included accruals for Federal Employee Compensation Act (FECA) of \$153 million, contract disputes claims payable to Treasury's Judgment Fund of \$27 million, unemployment compensation of \$15 million, and custodial of \$11 million.

In FY 2017, other liabilities with the public not covered by budgetary resources included future funded indemnity costs of \$7,748 million, estimated underwriting gain on crop insurance of \$994 million, unfunded leave of \$613 million, contingent liabilities of \$509 million, Payments to States of \$77 million, single family housing escrow of \$41 million, loans paid in advance for multi-family housing of \$24 million, and clearing accounts of \$7 million.

	FY 2017
Intragovernmental:	
Other	\$ 206
Subtotal Intragovernmental	<u>206</u>
With the Public:	
Accounts Payable	-
Federal employee and veterans' benefits	901
Environmental and disposal liabilities	201
Other	10,013
Subtotal With the Public	<u>11,115</u>
Total liabilities not covered by budgetary resources	11,321
Total liabilities covered by budgetary resources	153,032
Total Liabilities	<u><u>\$ 164,353</u></u>

## NOTE 13: Debt

FY 2017	Ending Balance
Intragovernmental	
Debt to the Treasury	\$ 72,598
Debt to the Federal Financing Bank	45,433
Total Intragovernmental	<u>118,031</u>
Agency Debt:	
Held by the Public	<u>-</u>
Total Debt	<u><u>\$ 118,031</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 2017, 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 2017, 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 \$156 million. These estimates will change as new sites are discovered, remedy standards change, and new technology is introduced.

In FY 2017, ARS estimated the liability for cleanup of the Beltsville Agricultural Research Center (BARC) to be \$21 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 2017, the Department estimated its liability for asbestos-related

cleanup of real property to be \$157 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 2017, other liabilities with related budgetary obligations with the public include Agricultural Risk Coverage of \$3,779 million; Price Loss Coverage of \$3,349 million; Grants, Subsidies, and Contributions of \$3,205 million; Conservation Reserve Program of \$1,743 million; underwriting gains on crop insurance of \$2,583 million; indemnity payments not yet disbursed of \$158 million; and other accrued liabilities of \$1,011 million.

In FY 2017, other liabilities without related budgetary obligations with the public include estimated underwriting gains on crop insurance of \$994 million, Payments to States of \$77 million, single family housing escrow of \$41 million, loans paid in advance for multi-family housing of \$24 million, and other accrued liabilities of \$4 million.



FY 2017	<u>Non-Current</u>	<u>Current</u>	<u>Total</u>
<b>Intragovernmental:</b>			
Other Liabilities With Related Budgetary Obligations	\$ -	\$ 4	\$ 4
Employer Contributions and Payroll Taxes	-	83	83
Unfunded FECA Liability	82	72	154
Other Unfunded Employment Related Liability	-	15	15
Liability for Advances and Prepayments	-	39	39
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	10	10
Liability for Clearing Accounts	-	(84)	(84)
Custodial Liability	-	62	62
Liability for Non-entity Assets Not Reported on the Statement of Custodial Activities	-	10,326	10,326
Other Liabilities Without Related Budgetary Obligations	27	-	27
<b>Subtotal Intragovernmental</b>	<b>109</b>	<b>10,527</b>	<b>10,636</b>
<b>With the Public:</b>			
Other Liabilities With Related Budgetary Obligations	-	15,828	15,828
Accrued Funded Payroll and Leave	-	348	348
Unfunded Leave	-	613	613
Liability for Advances and Prepayments	-	145	145
Other Deferred Credits	-	715	715
Liability for Nonfiduciary Deposit Funds and Undeposited Collections	-	417	417
Liability for Clearing Accounts	-	(7)	(7)
Actuarial Liability for Federal Insurance and Guarantee Programs	-	7,748	7,748
Contingent Liabilities	-	509	509
Capital Lease Liability	5	2	7
Other Liabilities Without Related Budgetary Obligations	1,018	122	1,140
<b>Subtotal With the Public</b>	<b>1,023</b>	<b>26,440</b>	<b>27,463</b>
<b>Total Other Liabilities</b>	<b>\$ 1,132</b>	<b>\$ 36,967</b>	<b>\$ 38,099</b>

## NOTE 16: Leases

### CAPITAL LEASES

USDA enters into leasing agreements through leasing authority delegated by the General Services Administration (GSA). USDA acquires use of various general facilities (buildings and plant material centers), equipment, and land with renewal options that range from 0 to 10 years and which are located mainly in urban areas. The portfolio includes leases with escalation clauses based on the Consumer Price Index (CPI), and amortization periods with a range of 8 to 25 years.

### OPERATING LEASES

USDA enters into leasing agreements through leasing authority delegated by GSA. USDA leases various land, buildings and equipment.

Major non-cancelable operating leases consists primarily of office space, most with renewal options that range from 1 to 25 years with escalation clauses based on the CPI, and lease periods with a range of 1 to 30 years.

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 \$63 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 2017

## Capital Leases:

Summary of Assets Under Capital Leases	
Land and Building	\$ 34
Machinery and Equipment	-
Accumulated Amortization	(28)

## Future Payments Due:

	Land & Buildings
Fiscal Year	
2018	6
2019	5
2020	4
2021	3
2022	3
After 5 Years	<u>1</u>
Total Future Lease Payments	22
Less: Imputed Interest	11
Less: Executory Costs	4
Less: Lease Renewal Options	-
Net Capital Lease Liability	<u><u>7</u></u>

Lease liabilities covered by budgetary resources	7
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## Operating Leases:

## Future Payments Due:

	Land & Buildings	Machinery & Equipment	Other	Totals
Fiscal Year				
2018	127	-	-	127
2019	108	-	-	108
2020	87	-	-	87
2021	75	-	-	75
2022	62	-	-	62
After 5 Years	<u>214</u>	-	-	<u>214</u>
Total Future Lease Payments	<u><u>\$ 673</u></u>	<u><u>\$ -</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 673</u></u>

## 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, \$509 million has been accrued in the financial statements as of September 30, 2017.

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 \$43 million to \$131 million as of September 30, 2017.

Commitments to extend loan guarantees are estimated to be \$5,624 million in FY 2017.

## 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.

### 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
- Receipts for Construction of Administrative Improvements- Taos, New Mexico, Land Conveyance
- 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
- Timber Salvage Sales
- Expenses, Brush Disposal

- 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

#### National Agricultural Statistics Service

- Miscellaneous Contributed Funds

#### Economic Research Service

- Miscellaneous Contributed Funds

#### Office of the Secretary

- Gifts and Bequests

#### Office of Communications

- Gifts and Bequests

#### Office of General Counsel

- Gifts and Bequests

#### Office of the Inspector General

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

	AMS	AMS	APHIS	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	State, Private, and International Forestry, Land and Water Conservation Fund	Recreation Fee Demonstration Program
<b>Balance Sheet As of September 30, 2017</b>								
Fund Balance with Treasury	\$ 546	\$ 83	\$ 224	\$ 230	\$ 50	\$ 109	\$ 139	\$ 93
Investments	-	-	-	-	-	-	-	-
Other Assets	2	17	146	13	42	2	4	4
Total Assets	<u>548</u>	<u>100</u>	<u>370</u>	<u>243</u>	<u>92</u>	<u>111</u>	<u>143</u>	<u>97</u>
Other Liabilities	29	56	74	74	-	54	-	3
Total Liabilities	<u>29</u>	<u>56</u>	<u>74</u>	<u>74</u>	<u>-</u>	<u>54</u>	<u>-</u>	<u>3</u>
Unexpended Appropriations	-	-	-	-	-	-	-	-
Cumulative Results of Operations	519	44	296	169	92	57	143	94
Total Liabilities and Net Position	<u>548</u>	<u>100</u>	<u>370</u>	<u>243</u>	<u>92</u>	<u>111</u>	<u>143</u>	<u>97</u>

	FS	FS	FS	FS	FS	NIFA		
	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
<b>Balance Sheet As of September 30, 2017</b>								
Fund Balance with Treasury	\$ 108	\$ 192	\$ 92	\$ 29	\$ 40	\$ 16	\$ 314	\$ 2,265
Investments	-	-	-	-	-	210	8	218
Other Assets	8	2	-	52	15	-	16	323
Total Assets	<u>116</u>	<u>194</u>	<u>92</u>	<u>81</u>	<u>55</u>	<u>226</u>	<u>338</u>	<u>2,806</u>
Other Liabilities	-	1	17	-	3	-	69	380
Total Liabilities	<u>-</u>	<u>1</u>	<u>17</u>	<u>-</u>	<u>3</u>	<u>-</u>	<u>69</u>	<u>380</u>
Unexpended Appropriations	-	-	-	-	-	155	1	156
Cumulative Results of Operations	116	193	75	81	52	71	268	2,270
Total Liabilities and Net Position	<u>116</u>	<u>194</u>	<u>92</u>	<u>81</u>	<u>55</u>	<u>226</u>	<u>338</u>	<u>2,806</u>



# Required Supplementary Stewardship Information

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## Stewardship Investments (Unaudited)

	FY 2017 Expense
<b>Non-Federal Physical Property:</b>	
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	\$ 21
Special Supplemental Nutrition Program	6
National Institute of Foods and Agriculture	
Extension 1890 Facilities Program	20
Total Non-Federal Property	<u>\$ 47</u>
<b>Human Capital:</b>	
National Institute of Foods and Agriculture	
Higher Education and Extension Programs	\$ 564
Food and Nutrition Service	
Supplemental Nutrition Assistance Program	83
Agricultural Research Service	
National Agricultural Library	25
Risk Management Agency	
Risk Management Education	10
Total Human Capital	<u>\$ 682</u>

	FY 2017 <u>Expense</u>
<b>Research and Development:</b>	
<b>Basic Research:</b>	
Agricultural Research Service	
Human Nutrition	\$ 43
Product Quality/Value Added	51
Livestock Production	44
Crop Production	112
Food Safety	56
Livestock Protection	47
Crop Protection	99
Environmental Stewardship	108
National Institute of Foods and Agriculture	
Land-grant University System	809
Forest Service	62
Total Basic Research	<u>\$ 1,431</u>
<b>Applied Research:</b>	
Agricultural Research Service	
Human Nutrition	\$ 35
Product Quality/Value Added	40
Livestock Production	36
Crop Production	90
Food Safety	45
Livestock Protection	38
Crop Protection	78
Environmental Stewardship	86
National Institute of Foods and Agriculture	
Land-grant University System	300
Forest Service	244
Economic Research Service	
Economic and Social Science	86
National Agricultural Statistics Service	
Statistical	5
Total Applied Research	<u>\$ 1,083</u>
<b>Development:</b>	
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	20
Environmental Stewardship	22
National Institute of Foods and Agriculture	
Land-grant University System	510
Forest Service	3
National Agricultural Statistics Service	
Statistical	4
Total Development	<u>\$ 629</u>
Total Research and Development	<u>\$ 3,143</u>

## NON-FEDERAL PHYSICAL PROPERTY

### FOOD AND NUTRITION SERVICE (FNS)

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 (NIFA)

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

## HUMAN CAPITAL

### NATIONAL INSTITUTE OF FOOD AND AGRICULTURE

The higher education programs include graduate fellowship grants, competitive challenge grants, secondary/2-year 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' 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 369,576 work registrants subject to the 3-month SNAP participant limit and 947,487 work registrants not subject to the limit in either job-search, job training, job-workfare, education, or work experience.

### AGRICULTURAL RESEARCH SERVICE (ARS)

The National Agricultural Library (NAL) provides services directly to the staff of USDA and to the public, primarily via its website, <https://www.nal.usda.gov>. As the world's leading agricultural library, NAL has expertise in information and knowledge management, and a wide variety of subject areas, including nutrition and food safety, animal welfare, invasive species, lifecycle assessment, and long-term agroecosystem research.

### 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 2017, 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 130,173 in fiscal year 2017. In addition to reaching producers, some training sessions helped those who work with producers (such as lenders, agricultural educators, and other agricultural professionals) to better understand those areas of risk management with which they may be unfamiliar. Total RME obligations incurred by FCIC were approximately \$10 million in fiscal year 2017.

## 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.

### 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.

### 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.

### 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.

### 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.

### National Agricultural Library

The library provides services directly to the staff of USDA and to the public, primarily via the NAL website. NAL is the premier library for collecting, managing, and disseminating agriculture information. It delivered about 57 million page views and almost 1.5 million searches in FY 2017.

### Buildings and Facilities

ARS has over 100 laboratories, primarily located throughout the United States. ARS' facilities are designed to meet the needs of its scientists and support personnel to accomplish the agency's mission.

### **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 2017 accomplishments include the following:

- 46 new interagency agreements and contracts
- 23 interagency agreements and contracts continued
- 1,809 articles published in journals
- 206 articles published in all other publications
- 5 patents granted

### 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)

NASS conducts research to improve the statistical methods and related technologies used to produce U.S. agriculture statistics. The research agenda has two primary areas of emphasis: the National Agriculture 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 exploring approaches to reducing respondent burden and model-based estimates. The use of previously reported, remotely sensed, and administrative data have the potential to substantially reduce respondent burden, but can also introduce bias. Assessing the best ways to use these data and continue to produce precise statistics is a major effort. Models 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 370,000 miles of roads, of which 65,000 miles are for passenger vehicles; over 159,000 miles of trails for motorized and non-motorized use; nearly 13,340 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 379,000 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, 224 buildings, and about 221 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

Policies for ranking and prioritizing DM&R activities for most assets, except bridges, are based on condition surveys performed on a 5 year revolving schedule. Bridge class assessments occur on a 2-year revolving schedule. To-date, surveys of all administrative buildings, dams, bridges, roads open to passenger cars, and recreation sites have been accomplished. The agency's DM&R for NFS passenger car roads is determined annually from random sample surveys providing a moderate level of confidence in the accuracy of the data reported. 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; 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.

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.

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 2017  
Ending Balance

Asset Category

General PP&E	\$	5,342
Heritage Assets		<u>150</u>
Total	\$	<u><u>5,492</u></u>

## Statement of Budgetary Resources (Unaudited)

FY 2017

	FSA		CCC		FAS	RMA	FNS	FSIS	AMS	APHIS	GIPSA
	Non-Budgetary Financing		Non-Budgetary Financing								
	Budgetary	Accounts	Budgetary	Accounts	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary
<b>Budgetary Resources:</b>											
Unobligated balance, brought forward, October 1:	\$ 429	\$ 861	\$ 550	\$ 143	\$ 312	\$ 578	\$ 39,105	\$ 100	\$ 141	\$ 599	\$ 39
Adjustment to unobligated balance brought forward, October 1 (+ or -) (Note 21)	-	-	72	-	-	-	-	-	-	-	-
Unobligated balance brought forward, October 1, as adjusted	429	861	622	143	312	578	39,105	100	141	599	39
Recoveries of prior year unpaid obligations	74	114	3,891	7	32	2	1,759	22	13	63	2
Other changes in unobligated balance (+ or -)	(31)	(744)	109	(34)	(8)	-	(8,005)	(6)	(3)	(11)	-
Unobligated balance from prior year budget authority, net	472	231	4,622	116	336	580	32,859	116	151	651	41
Appropriations (discretionary and mandatory)	2,017	-	1,958	-	402	5,171	107,466	1,046	1,197	1,320	43
Borrowing authority (discretionary and mandatory)	-	2,466	14,451	275	-	-	-	-	-	-	-
Spending authority from offsetting collections (discretionary and mandatory)	367	1,023	20	145	(1)	3,675	59	220	114	207	55
Total budgetary resources	<u>2,856</u>	<u>3,720</u>	<u>21,051</u>	<u>536</u>	<u>737</u>	<u>9,426</u>	<u>140,384</u>	<u>1,382</u>	<u>1,462</u>	<u>2,178</u>	<u>139</u>
<b>Status of Budgetary Resources:</b>											
New obligations and upward adjustments (total) (Note 24)	2,340	3,043	20,299	350	616	8,846	100,988	1,291	1,262	1,478	97
Unobligated balance, end of year:	-	-	-	-	-	-	-	-	-	-	-
Apportioned, unexpired accounts	368	458	190	48	92	577	6,851	70	132	581	33
Exempt from apportionment, unexpired accounts	-	-	83	3	-	-	-	-	1	-	-
Unapportioned, unexpired accounts	72	219	478	135	(18)	-	8,889	-	54	6	5
Unexpired unobligated balance, end of year	440	677	751	186	74	577	15,740	70	187	587	38
Expired unobligated balance, end of year	76	-	1	-	47	3	23,656	21	13	113	4
Unobligated balance, end of year (total)	516	677	752	186	121	580	39,396	91	200	700	42
Total budgetary resources	<u>2,856</u>	<u>3,720</u>	<u>21,051</u>	<u>536</u>	<u>737</u>	<u>9,426</u>	<u>140,384</u>	<u>1,382</u>	<u>1,462</u>	<u>2,178</u>	<u>139</u>
<b>Change in Obligated Balances:</b>											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	392	484	23,869	125	732	3,415	9,173	154	647	487	12
Adjustments to unpaid obligations, start of year (+ or -) (Note 21)	-	-	8,554	-	-	-	-	-	-	-	-
New obligations and upward adjustments	2,340	3,043	20,299	350	616	8,846	100,988	1,291	1,262	1,478	97
Outlays (gross)(-)	(2,274)	(2,914)	(19,893)	(308)	(481)	(7,970)	(98,816)	(1,273)	(1,252)	(1,449)	(93)
Recoveries of prior year unpaid obligations (-)	(74)	(114)	(3,891)	(7)	(32)	(2)	(1,759)	(22)	(13)	(63)	(2)
Unpaid obligations, end of year	384	499	28,938	160	835	4,289	9,586	150	644	453	14
Uncollected payments:											
Uncollected payments, Federal sources, brought forward, October 1 (-)	(55)	(10)	(136)	(14)	(279)	-	(2)	(46)	(15)	(232)	(7)
Change in uncollected payments, Federal sources (+ or -)	7	(3)	14	13	131	-	(2)	-	(2)	(4)	1
Uncollected payments, Federal sources, end of year (-)	(48)	(13)	(122)	(1)	(148)	-	(4)	(46)	(17)	(236)	(6)
Memorandum (non-add) entries:											
Obligated balance, start of year (+ or -)	337	474	32,287	111	453	3,415	9,171	108	632	255	5
Obligated balance, end of year (+ or -)	<u>336</u>	<u>486</u>	<u>28,816</u>	<u>159</u>	<u>687</u>	<u>4,289</u>	<u>9,582</u>	<u>104</u>	<u>627</u>	<u>217</u>	<u>8</u>
<b>Budget Authority and Outlays, Net</b>											
Budget authority, gross (discretionary and mandatory)	2,384	3,489	16,429	420	401	8,846	107,525	1,266	1,311	1,527	98
Actual offsetting collections (-) (discretionary and mandatory)	(430)	(2,068)	(7,819)	(383)	(132)	(3,677)	(59)	(219)	(112)	(204)	(56)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	7	(3)	14	13	131	-	(2)	-	(2)	(4)	1
Recoveries of prior year paid obligations (discretionary and mandatory)	1	-	136	-	1	-	1	-	-	-	-
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	<u>1,962</u>	<u>1,418</u>	<u>8,760</u>	<u>50</u>	<u>401</u>	<u>5,169</u>	<u>107,465</u>	<u>1,047</u>	<u>1,197</u>	<u>1,319</u>	<u>43</u>
Outlays, gross (discretionary and mandatory)	2,274	2,914	19,893	308	481	7,970	98,816	1,273	1,252	1,449	93
Actual offsetting collections (discretionary and mandatory) (-)	(430)	(2,068)	(7,819)	(383)	(132)	(3,677)	(59)	(219)	(112)	(204)	(56)
Outlays, net (discretionary and mandatory)	<u>1,844</u>	<u>846</u>	<u>12,074</u>	<u>(75)</u>	<u>349</u>	<u>4,293</u>	<u>98,757</u>	<u>1,054</u>	<u>1,140</u>	<u>1,245</u>	<u>37</u>
Distributed offsetting receipts (-)	-	(318)	5	(48)	(3)	-	5	(14)	(160)	(11)	-
Agency outlays, net (discretionary and mandatory)	<u>\$ 1,844</u>	<u>\$ 528</u>	<u>\$ 12,079</u>	<u>\$ (123)</u>	<u>\$ 346</u>	<u>\$ 4,293</u>	<u>\$ 98,762</u>	<u>\$ 1,040</u>	<u>\$ 980</u>	<u>\$ 1,234</u>	<u>\$ 37</u>

FY 2017	FS	NRCS	ARS	NIFA	ERS	NASS	RD		DO	TOTAL	
							Non-Budgetary Financing Accounts			Non-Budgetary Financing Accounts	
	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Budgetary	Accounts	Budgetary	Budgetary	Accounts
<b>Budgetary Resources:</b>											
Unobligated balance, brought forward, October 1:	\$ 1,948	\$ 4,611	\$ 342	\$ 520	\$ 2	\$ 1	\$ 6,908	\$ 14,415	\$ 238	\$ 56,423	\$ 15,419
Adjustment to unobligated balance brought forward, October 1 (+ or -) (Note 21)	-	-	-	-	-	-	-	-	-	72	-
Unobligated balance brought forward, October 1, as adjusted	1,948	4,611	342	520	2	1	6,908	14,415	238	56,495	15,419
Recoveries of prior year unpaid obligations	318	286	38	29	2	13	165	959	14	6,723	1,080
Other changes in unobligated balance (+ or -)	(145)	(15)	(10)	(8)	(1)	-	(328)	(5,367)	(4)	(8,466)	(6,145)
Unobligated balance from prior year budget authority, net	2,121	4,882	370	541	3	14	6,745	10,007	248	54,752	10,354
Appropriations (discretionary and mandatory)	6,224	4,521	1,298	1,517	88	171	5,311	-	438	140,188	-
Borrowing authority (discretionary and mandatory)	-	-	-	-	-	-	-	12,717	-	14,451	15,458
Spending authority from offsetting collections (discretionary and mandatory)	734	34	126	32	3	22	2,865	7,805	1,126	9,658	8,973
Total budgetary resources	<u>9,079</u>	<u>9,437</u>	<u>1,794</u>	<u>2,090</u>	<u>94</u>	<u>207</u>	<u>14,921</u>	<u>30,529</u>	<u>1,812</u>	<u>219,049</u>	<u>34,785</u>
<b>Status of Budgetary Resources:</b>											
New obligations and upward adjustments (total) (Note 24)	7,787	4,839	1,513	1,503	91	207	7,114	22,912	1,472	161,743	26,305
Unobligated balance, end of year:	-	-	-	-	-	-	-	-	-	-	-
Apportioned, unexpired accounts	1,029	1,774	263	653	-	-	6,945	7,174	292	19,850	7,680
Exempt from apportionment, unexpired accounts	-	-	-	-	-	-	-	-	-	84	3
Unapportioned, unexpired accounts	257	236	1	(86)	-	-	744	443	15	10,653	797
Unexpired unobligated balance, end of year	1,286	2,010	264	567	-	-	7,689	7,617	307	30,587	8,480
Expired unobligated balance, end of year	6	2,588	17	20	3	-	118	-	33	26,719	-
Unobligated balance, end of year (total)	1,292	4,598	281	587	3	-	7,807	7,617	340	57,306	8,480
Total budgetary resources	<u>9,079</u>	<u>9,437</u>	<u>1,794</u>	<u>2,090</u>	<u>94</u>	<u>207</u>	<u>14,921</u>	<u>30,529</u>	<u>1,812</u>	<u>219,049</u>	<u>34,785</u>
<b>Change in Obligated Balances:</b>											
Unpaid obligations:											
Unpaid obligations, brought forward, October 1	2,539	4,600	468	1,999	36	46	3,927	21,113	438	52,934	21,722
Adjustments to unpaid obligations, start of year (+ or -) (Note 21)	-	-	-	-	-	-	-	-	-	8,554	-
New obligations and upward adjustments	7,787	4,839	1,513	1,503	91	207	7,114	22,912	1,472	161,743	26,305
Outlays (gross)(-)	(7,104)	(3,833)	(1,314)	(1,346)	(88)	(205)	(6,686)	(19,656)	(1,406)	(155,483)	(22,878)
Recoveries of prior year unpaid obligations (-)	(318)	(286)	(38)	(29)	(2)	(13)	(165)	(959)	(14)	(6,723)	(1,080)
Unpaid obligations, end of year	2,904	5,320	629	2,127	37	35	4,190	23,410	490	61,025	24,069
Uncollected payments:											
Uncollected payments, Federal sources, brought forward, October 1 (-)	(415)	(166)	(148)	(58)	(13)	(2)	(27)	(534)	(285)	(1,886)	(558)
Change in uncollected payments, Federal sources (+ or -)	5	36	6	6	3	-	(2)	(64)	(41)	158	(54)
Uncollected payments, Federal sources, end of year (-)	(410)	(130)	(142)	(52)	(10)	(2)	(29)	(598)	(326)	(1,728)	(612)
Memorandum (non-add) entries:											
Obligated balance, start of year (+ or -)	2,124	4,434	320	1,941	23	44	3,900	20,579	153	59,602	21,164
Obligated balance, end of year (+ or -)	2,494	5,190	487	2,075	27	33	4,161	22,812	164	59,297	23,457
<b>Budget Authority and Outlays, Net</b>											
Budget authority, gross (discretionary and mandatory)	6,958	4,555	1,424	1,549	91	193	8,176	20,522	1,564	164,297	24,431
Actual offsetting collections (-) (discretionary and mandatory)	(739)	(70)	(134)	(40)	(6)	(22)	(3,446)	(10,875)	(1,084)	(18,249)	(13,326)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)	5	36	6	6	3	-	(2)	(64)	(41)	158	(54)
Recoveries of prior year paid obligations (discretionary and mandatory)	-	1	2	2	-	-	2	-	-	146	-
Anticipated offsetting collections (+ or -) (discretionary and mandatory)	-	-	-	-	-	-	-	-	-	-	-
Budget authority, net (discretionary and mandatory)	6,224	4,522	1,298	1,517	88	171	4,730	9,583	439	146,352	11,051
Outlays, gross (discretionary and mandatory)	7,104	3,833	1,314	1,346	88	205	6,686	19,656	1,406	155,483	22,878
Actual offsetting collections (discretionary and mandatory) (-)	(739)	(70)	(134)	(40)	(6)	(22)	(3,446)	(10,875)	(1,084)	(18,249)	(13,326)
Outlays, net (discretionary and mandatory)	6,365	3,763	1,180	1,306	82	183	3,240	8,781	322	137,234	9,552
Distributed offsetting receipts (-)	(568)	(5)	(27)	(7)	-	-	-	(8,512)	(3)	(788)	(8,878)
Agency outlays, net (discretionary and mandatory)	<u>\$ 5,797</u>	<u>\$ 3,758</u>	<u>\$ 1,153</u>	<u>\$ 1,299</u>	<u>\$ 82</u>	<u>\$ 183</u>	<u>\$ 3,240</u>	<u>\$ 269</u>	<u>\$ 319</u>	<u>\$ 136,446</u>	<u>\$ 674</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 \$8,361 million as of September 30, 2017.

## Section III: Other Information

### Unaudited Financial Statements

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## Consolidated Statement of Net Cost

For the Year Ended September 30, 2017 (\$ in Millions)

	<u>2017</u>
<b>Rural Development:</b>	
Gross Costs	\$ 6,531
Less: Earned Revenue	<u>4,045</u>
Net Costs	2,486
<b>Food Safety:</b>	
Gross Costs	1,290
Less: Earned Revenue	<u>233</u>
Net Costs	1,057
<b>Marketing and Regulatory Programs:</b>	
Gross Costs	2,709
Less: Earned Revenue	<u>1,155</u>
Net Costs	1,554
<b>Natural Resources and Environment:</b>	
Gross Costs	6,999
Less: Earned Revenue	<u>648</u>
Net Costs	6,351
<b>Food, Nutrition, and Consumer Services:</b>	
Gross Costs	99,000
Less: Earned Revenue	<u>58</u>
Net Costs	98,942
<b>Farm and Foreign Agricultural Services:</b>	
Gross Costs	26,664
Less: Earned Revenue	<u>2,785</u>
Net Costs	23,879
<b>Trade and Foreign Agricultural Affairs:</b>	
Gross Costs	463
Less: Earned Revenue	<u>91</u>
Net Costs	372
<b>Research, Education, and Economics:</b>	
Gross Costs	3,034
Less: Earned Revenue	<u>158</u>
Net Costs	2,876
<b>Departmental Offices:</b>	
Gross Costs	1,317
Less: Earned Revenue	<u>260</u>
Net Costs	1,057
<b>Total Gross Costs</b>	<b>148,007</b>
<b>Less: Total Earned Revenue</b>	<b><u>9,433</u></b>
<b>Net Cost of Operations (Note 19)</b>	<b><u>\$ 138,574</u></b>

*The accompanying notes are an integral part of these statements.*

## Consolidated Statement of Changes in Net Position

For the Year Ended September 30, 2017 (\$ in Millions)

	<b>Funds From Dedicated Collections (Note 18)</b>	<b>All Other Funds</b>	<b>Eliminations</b>	<b>Consolidated Total</b>
<b>Cumulative Results of Operations:</b>				
Beginning Balances	\$ 2,715	\$ (2,723)	\$ -	\$ (8)
<b>Budgetary Financing Sources:</b>				
Other Adjustments	-	(430)	-	(430)
Appropriations Used	-	135,406	-	135,406
Non-exchange Revenue	-	6	-	6
Donations and Forfeitures of Cash and Equivalents	1	1	-	2
Transfers In (Out) without Reimbursement	11	9,210	776	9,997
<b>Other Financing Sources (Non-Exchange):</b>				
Transfers In (Out) without Reimbursement	-	775	(776)	(1)
Imputed Financing	40	3,211	(2,462)	789
Other	27	(1,955)	-	(1,928)
<b>Total Financing Sources</b>	<u>79</u>	<u>146,224</u>	<u>(2,462)</u>	<u>143,841</u>
<b>Net Cost of Operations</b>	<u>(524)</u>	<u>(140,512)</u>	<u>2,462</u>	<u>(138,574)</u>
<b>Net Change</b>	<u>(445)</u>	<u>5,712</u>	<u>-</u>	<u>5,267</u>
<b>Cumulative Results of Operations</b>	<u>2,270</u>	<u>2,989</u>	<u>-</u>	<u>5,259</u>
<b>Unexpended Appropriations:</b>				
Beginning Balances	144	53,788	-	53,932
<b>Budgetary Financing Sources:</b>				
Appropriations Received	12	152,979	-	152,991
Appropriations Transferred In (Out)	-	351	-	351
Other Adjustments	-	(15,765)	-	(15,765)
Appropriations Used	-	(135,406)	-	(135,406)
<b>Total Budgetary Financing Sources</b>	<u>12</u>	<u>2,159</u>	<u>-</u>	<u>2,171</u>
<b>Unexpended Appropriations</b>	<u>156</u>	<u>55,947</u>	<u>-</u>	<u>56,103</u>
<b>Net Position</b>	<u>\$ 2,426</u>	<u>\$ 58,936</u>	<u>\$ -</u>	<u>\$ 61,362</u>

*The accompanying notes are an integral part of these statements.*

## Combined Statement of Budgetary Resources

For the Year Ended September 30, 2017 (\$ in Millions)

	2017	
	Budgetary	Non-Budgetary Credit Reform Financing Accounts
<b>Budgetary Resources:</b>		
Unobligated balance, brought forward, October 1:	\$ 56,423	\$ 15,419
Adjustment to unobligated balance brought forward, October 1 (+ or -) (Note 21)	72	-
Unobligated balance brought forward, October 1, as adjusted	56,495	15,419
Recoveries of prior year unpaid obligations	6,723	1,080
Other changes in unobligated balance (+ or -)	(8,466)	(6,145)
Unobligated balance from prior year budget authority, net	54,752	10,354
Appropriations (discretionary and mandatory)	140,188	-
Borrowing authority (discretionary and mandatory)	14,451	15,458
Spending authority from offsetting collections (discretionary and mandatory)	9,658	8,973
Total budgetary resources	<u>219,049</u>	<u>34,785</u>
<b>Status of Budgetary Resources:</b>		
New obligations and upward adjustments (total) (Note 24)	161,743	26,305
Unobligated balance, end of year:		
Apportioned, unexpired accounts	19,850	7,680
Exempt from apportionment, unexpired accounts	84	3
Unapportioned, unexpired accounts	10,653	797
Unexpired unobligated balance, end of year	<u>30,587</u>	<u>8,480</u>
Expired unobligated balance, end of year	26,719	-
Unobligated balance, end of year (total)	<u>57,306</u>	<u>8,480</u>
Total budgetary resources	<u>219,049</u>	<u>34,785</u>
<b>Change in Obligated Balance:</b>		
Unpaid obligations:		
Unpaid obligations, brought forward, October 1	52,934	21,722
Adjustment to obligated balance, start of year (net)(+ or -) (Note 21)	8,554	-
New obligations and upward adjustments	161,743	26,305
Outlays (gross) (-)	(155,483)	(22,878)
Recoveries of prior year unpaid obligations (-)	(6,723)	(1,080)
Unpaid obligations, end of year	61,025	24,069
Uncollected payments:		
Uncollected customer payments from Federal sources, brought forward, October 1 (-)	(1,886)	(558)
Change in uncollected customer payments from Federal sources (+ or -)	158	(54)
Uncollected payments, Federal sources, end of year (-)	(1,728)	(612)
Memorandum (non-add) entries:		
Obligated balance, start of year (+ or -)	59,602	21,164
Obligated balance, end of year (+ or -)	<u>59,297</u>	<u>23,457</u>
<b>Budget Authority and Outlays, Net:</b>		
Budget authority, gross (discretionary and mandatory)	164,297	24,431
Actual offsetting collections (discretionary and mandatory) (-)	(18,249)	(13,326)
Change in uncollected customer payments from Federal sources (discretionary and mandatory)(+ or -)	158	(54)
Recoveries of prior year paid obligations (discretionary and mandatory)	146	-
Anticipated offsetting collections (discretionary and mandatory) (+ or -)	-	-
Budget authority, net (discretionary and mandatory)	<u>146,352</u>	<u>11,051</u>
Outlays, gross (discretionary and mandatory)	155,483	22,878
Actual offsetting collections (discretionary and mandatory) (-)	(18,249)	(13,326)
Outlays, net (discretionary and mandatory)	137,234	9,552
Distributed offsetting receipts (-)	(788)	(8,878)
Agency outlays, net (discretionary and mandatory)	<u>\$ 136,446</u>	<u>\$ 674</u>

*The accompanying notes are an integral part of these statements.*

# Unaudited Notes to Financial Statements

## NOTE 3: Fund Balance with Treasury

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.

Status of Fund Balance with Treasury:

Unobligated Balance:

Available	27,617
Unavailable	38,261
Obligated Balance not yet Disbursed	82,595
Borrowing Authority not yet Converted to Fund Balance	(48,470)
Authority Granted Prior to Credit Reform for Rental Assistance Grants	(41)
Non-Budgetary Fund Balance with Treasury	21,610
Total	<u>\$ 121,572</u>

## NOTE 7: Direct Loans and Guarantees, Non-Federal Borrowers

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

	<u>FY 2017</u>
Beginning balance of the subsidy cost allowance	\$ 4,824
Add: Subsidy expense for direct loans disbursed during the year by component	
Interest rate differential costs	(196)
Default costs (net of recoveries)	188
Fees and other collections	(15)
Other subsidy costs	(52)
Total subsidy expense prior to adjustments and reestimates	<u>(75)</u>
Adjustments	
Loan modifications	3
Fees received	65
Loans written off	(609)
Subsidy allowance amortization	(206)
Other	74
Total subsidy cost allowance before reestimates	<u>4,076</u>
Add or subtract subsidy reestimates by component	
Interest rate reestimate	101
Technical/default reestimate	207
Total reestimates	<u>308</u>
Ending balance of the subsidy cost allowance	<u>\$ 4,384</u>

**TABLE 7: Schedule for Reconciling Loan Guarantee Liability**

	<u>FY 2017</u>
Beginning balance of the loan guarantee liability	\$ 1,529
Add: Subsidy expense for guaranteed loans disbursed during the year by component	
Interest supplement costs	-
Default costs (net of recoveries)	853
Fees and other collections	(902)
Other subsidy costs	<u>(5)</u>
Total of the above subsidy expense components	<u>(54)</u>
Adjustments	
Loan guarantee modifications	-
Fees received	643
Interest supplements paid	(9)
Foreclosed property and loans acquired	51
Claim payments to lenders	(794)
Interest accumulation on the liability balance	29
Other	<u>(107)</u>
Ending balance of the subsidy cost allowance before reestimates	<u>1,288</u>
Add or subtract subsidy reestimates by component:	
Interest rate reestimate	25
Technical/default reestimate	<u>(519)</u>
Total of the above reestimate components	<u>(494)</u>
Ending balance of the loan guarantee liability	<u>\$ 794</u>

## NOTE 8: Inventory and Related Property, Net

(Quantities In Millions)

Commodities:	Unit of Measure	FY 2017		Acquisitions		Collateral Acquired		Donations		Other		FY 2017	
		Beginning Inventory	Ending Inventory	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value	Quantity	Value
Corn Meal	Pounds	6	\$ 1	81	\$ 13	-	\$ -	(85)	\$ (13)	-	\$ -	2	\$ 1
Blended Foods	Pounds	27	9	96	31	-	-	(119)	(36)	-	(2)	4	2
Dry Edible Beans	Cwt.	-	3	-	3	-	-	-	(6)	-	-	-	-
Dry Whole Peas	Cwt.	-	5	3	70	-	-	(3)	(69)	-	-	-	6
Emergency Food Ration Bars	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Grain Sorghum	Bushels	-	-	15	69	-	-	(15)	(68)	-	1	-	2
Lentils Dry	Cwt.	-	-	-	14	-	-	-	(14)	-	-	-	-
Nonfat Dry Milk	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Rice Products	Cwt., Pounds	-	1	2	47	-	-	(2)	(47)	-	-	-	1
Meat	Pounds	-	-	-	-	-	-	-	-	-	-	-	-
Vegetable Oil	Pounds	10	6	196	98	-	-	(185)	(92)	-	1	21	13
Wheat Products	Bushels, Pounds	-	-	49	192	-	-	(30)	(135)	(19)	(57)	-	-
Other	Various	XXXX	-	XXXX	34	XXXX	-	XXXX	(24)	XXXX	-	XXXX	10
Total Commodities		XXXX	\$ 25	XXXX	\$ 571	XXXX	\$ -	XXXX	\$ (504)	XXXX	\$ (57)	XXXX	\$ 35
Allowance for losses													-
Barter Delivery Obligations (BDO)													-
Total Inventory and Related Property, Net													<u>\$ 35</u>

## NOTE 10: Stewardship PP&E

FY 17 (In Units)

	Ending Balance	Additions	Withdrawals	Beginning Balance
Heritage Assets				
National Forests	154	-	-	154
National Grasslands	20	-	-	20
Other Sites	175	2	(2)	175
Research Centers	34	-	-	34
Library Collections	1	-	-	1
Total	<u>384</u>	<u>2</u>	<u>(2)</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	17,954	282	-	17,672
Total	<u>18,133</u>	<u>282</u>	<u>-</u>	<u>17,851</u>

## NOTE 13: Debt

FY 2017	Beginning Balance	Net Borrowing	Ending Balance
Intragovernmental			
Debt to the Treasury	\$ 78,239	\$ (5,641)	\$ 72,598
Debt to the Federal Financing Bank	43,363	2,070	45,433
Total Intragovernmental	121,602	(3,571)	118,031
Agency Debt:			
Held by the Public	-	-	-
Total Debt	\$ 121,602	\$ (3,571)	\$ 118,031

## NOTE 18: Funds from Dedicated Collections

	AMS	AMS	APHIS	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	State, Private, and International Forestry, Land and Water Conservation Fund	Recreation Fee Demonstration Program
<b>Statement of Net Cost For the Period Ended September 30, 2017</b>								
Gross program costs	805	197	226	110	46	73	44	79
Less Earned Revenue	7	158	702	107	-	52	-	101
Net Cost of Operations	798	39	(476)	3	46	21	44	(22)
<b>Statement of Changes in Net Position For the period Ended September 30, 2017</b>								
Net Position Beginning of Period	514	53	264	311	109	78	153	102
Other Financing Sources	803	30	(444)	(139)	29	-	34	(30)
Net Cost of Operations	(798)	(39)	476	(3)	(46)	(21)	(44)	22
Change in Net Position	5	(9)	32	(142)	(17)	(21)	(10)	(8)
Net Position End of Period	\$ 519	\$ 44	\$ 296	\$ 169	\$ 92	\$ 57	\$ 143	\$ 94

	FS	FS	FS	FS	FS	NIFA		
	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
<b>Statement of Net Cost For the Period Ended September 30, 2017</b>								
Gross program costs	2	43	10	10	28	6	266	1,945
Less Earned Revenue	-	38	15	-	31	5	205	1,421
Net Cost of Operations	<u>2</u>	<u>5</u>	<u>(5)</u>	<u>10</u>	<u>(3)</u>	<u>1</u>	<u>61</u>	<u>524</u>
<b>Statement of Changes in Net Position For the period Ended September 30, 2017</b>								
Net Position Beginning of Period	108	376	52	91	49	215	384	2,859
Other Financing Sources	10	(178)	18	-	-	12	(54)	91
Net Cost of Operations	(2)	(5)	5	(10)	3	(1)	(61)	(524)
Change in Net Position	<u>8</u>	<u>(183)</u>	<u>23</u>	<u>(10)</u>	<u>3</u>	<u>11</u>	<u>(115)</u>	<u>(433)</u>
Net Position End of Period	<u>\$ 116</u>	<u>\$ 193</u>	<u>\$ 75</u>	<u>\$ 81</u>	<u>\$ 52</u>	<u>\$ 226</u>	<u>\$ 269</u>	<u>\$ 2,426</u>



## NOTE 19: Sub-Organization Program Costs/Program Costs by Segment

FY 2017

	FSA		CCC		NRCS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Rural Development:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Natural Resources and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Farm and Foreign Agricultural Services:						
Gross Costs	924	1,364	1,577	11,812	601	3,312
Less: Earned Revenue	109	267	29	238	44	20
Net Costs	815	1,097	1,548	11,574	557	3,292
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Research, Education, and Economics:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Departmental Offices:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	924	1,364	1,577	11,812	601	3,312
<b>Less: Total Earned Revenue</b>	109	267	29	238	44	20
<b>Net Cost of Operations</b>	<u>\$ 815</u>	<u>\$ 1,097</u>	<u>\$ 1,548</u>	<u>\$ 11,574</u>	<u>\$ 557</u>	<u>\$ 3,292</u>

FY 2017

	RMA		FNS		FSIS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Rural Development:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	-	-	-	-	393	960
Less: Earned Revenue	-	-	-	-	1	233
Net Costs	-	-	-	-	392	727
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Natural Resources and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	956	98,897	-	-
Less: Earned Revenue	-	-	1	57	-	-
Net Costs	-	-	955	98,840	-	-
Farm and Foreign Agricultural Services:						
Gross Costs	76	8,832	-	-	-	-
Less: Earned Revenue	-	2,125	-	-	-	-
Net Costs	76	6,707	-	-	-	-
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Research, Education, and Economics:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Departmental Offices:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	76	8,832	956	98,897	393	960
<b>Less: Total Earned Revenue</b>	-	2,125	1	57	1	233
<b>Net Cost of Operations</b>	<u>\$ 76</u>	<u>\$ 6,707</u>	<u>\$ 955</u>	<u>\$ 98,840</u>	<u>\$ 392</u>	<u>\$ 727</u>

FY 2017

	AMS		APHIS		GIPSA	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
<b>Rural Development:</b>						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Food Safety:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Marketing and Regulatory Programs:</b>						
Gross Costs	185	1,039	394	1,110	36	67
Less: Earned Revenue	10	221	52	844	1	54
Net Costs	175	818	342	266	35	13
<b>Natural Resources and Environment:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Food, Nutrition, and Consumer Services:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Farm and Foreign Agricultural Services:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Trade and Foreign Agricultural Affairs:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Research, Education, and Economics:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Departmental Offices:</b>						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	185	1,039	394	1,110	36	67
<b>Less: Total Earned Revenue</b>	10	221	52	844	1	54
<b>Net Cost of Operations</b>	\$ 175	\$ 818	\$ 342	\$ 266	\$ 35	\$ 13

FY 2017

	FS		FAS		ARS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Rural Development:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Natural Resources and Environment:						
Gross Costs	1,389	5,838	-	-	-	-
Less: Earned Revenue	168	492	-	-	-	-
Net Costs	1,221	5,346	-	-	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Farm and Foreign Agricultural Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	97	396	-	-
Less: Earned Revenue	-	-	139	-	-	-
Net Costs	-	-	(42)	396	-	-
Research, Education, and Economics:						
Gross Costs	-	-	-	-	299	1,182
Less: Earned Revenue	-	-	-	-	95	76
Net Costs	-	-	-	-	204	1,106
Departmental Offices:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	<b>1,389</b>	<b>5,838</b>	<b>97</b>	<b>396</b>	<b>299</b>	<b>1,182</b>
<b>Less: Total Earned Revenue</b>	<b>168</b>	<b>492</b>	<b>139</b>	<b>-</b>	<b>95</b>	<b>76</b>
<b>Net Cost of Operations</b>	<b>\$ 1,221</b>	<b>\$ 5,346</b>	<b>\$ (42)</b>	<b>\$ 396</b>	<b>\$ 204</b>	<b>\$ 1,106</b>

FY 2017

	NIFA		ERS		NASS	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
Rural Development:						
Gross Costs	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food Safety:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Marketing and Regulatory Programs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Natural Resources and Environment:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Food, Nutrition, and Consumer Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Farm and Foreign Agricultural Services:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Trade and Foreign Agricultural Affairs:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
Research, Education, and Economics:						
Gross Costs	58	1,293	34	58	63	157
Less: Earned Revenue	36	7	6	-	20	3
Net Costs	22	1,286	28	58	43	154
Departmental Offices:						
Gross Costs	-	-	-	-	-	-
Less: Earned Revenue	-	-	-	-	-	-
Net Costs	-	-	-	-	-	-
<b>Total Gross Costs</b>	<b>58</b>	<b>1,293</b>	<b>34</b>	<b>58</b>	<b>63</b>	<b>157</b>
<b>Less: Total Earned Revenue</b>	<b>36</b>	<b>7</b>	<b>6</b>	<b>-</b>	<b>20</b>	<b>3</b>
<b>Net Cost of Operations</b>	<b>\$ 22</b>	<b>\$ 1,286</b>	<b>\$ 28</b>	<b>\$ 58</b>	<b>\$ 43</b>	<b>\$ 154</b>

FY 2017

	RD		DO		TOTAL	
	Intragovernmental	With the Public	Intragovernmental	With the Public	Intragovernmental	With the Public
<b>Rural Development:</b>						
Gross Costs	\$ 4,041	\$ 2,590	\$ -	\$ -	\$ 4,041	\$ 2,590
Less: Earned Revenue	574	3,483	-	-	574	3,483
Net Costs	3,467	(893)	-	-	3,467	(893)
<b>Food Safety:</b>						
Gross Costs	-	-	-	-	393	960
Less: Earned Revenue	-	-	-	-	1	233
Net Costs	-	-	-	-	392	727
<b>Marketing and Regulatory Programs:</b>						
Gross Costs	-	-	-	-	615	2,216
Less: Earned Revenue	-	-	-	-	63	1,119
Net Costs	-	-	-	-	552	1,097
<b>Natural Resources and Environment:</b>						
Gross Costs	-	-	-	-	1,389	5,838
Less: Earned Revenue	-	-	-	-	168	492
Net Costs	-	-	-	-	1,221	5,346
<b>Food, Nutrition, and Consumer Services:</b>						
Gross Costs	-	-	-	-	956	98,897
Less: Earned Revenue	-	-	-	-	1	57
Net Costs	-	-	-	-	955	98,840
<b>Farm and Foreign Agricultural Services:</b>						
Gross Costs	-	-	-	-	3,178	25,320
Less: Earned Revenue	-	-	-	-	182	2,650
Net Costs	-	-	-	-	2,996	22,670
<b>Trade and Foreign Agricultural Affairs:</b>						
Gross Costs	-	-	-	-	97	396
Less: Earned Revenue	-	-	-	-	139	-
Net Costs	-	-	-	-	(42)	396
<b>Research, Education, and Economics:</b>						
Gross Costs	-	-	-	-	454	2,690
Less: Earned Revenue	-	-	-	-	157	86
Net Costs	-	-	-	-	297	2,604
<b>Departmental Offices:</b>						
Gross Costs	-	-	395	995	395	995
Less: Earned Revenue	-	-	966	12	966	12
Net Costs	-	-	(571)	983	(571)	983
<b>Total Gross Costs</b>	4,041	2,590	395	995	11,518	139,902
<b>Less: Total Earned Revenue</b>	574	3,483	966	12	2,251	8,132
<b>Net Cost of Operations</b>	\$ 3,467	\$ (893)	\$ (571)	\$ 983	\$ 9,267	\$ 131,770

FY 2017	<u>Intradepartmental Eliminations</u>	<u>GRAND TOTAL</u>
<b>Rural Development:</b>		
Gross Costs	\$ (100)	\$ 6,531
Less: Earned Revenue	<u>(12)</u>	<u>4,045</u>
Net Costs	(88)	2,486
<b>Food Safety:</b>		
Gross Costs	(63)	1,290
Less: Earned Revenue	<u>(1)</u>	<u>233</u>
Net Costs	(62)	1,057
<b>Marketing and Regulatory Programs:</b>		
Gross Costs	(122)	2,709
Less: Earned Revenue	<u>(27)</u>	<u>1,155</u>
Net Costs	(95)	1,554
<b>Natural Resources and Environment:</b>		
Gross Costs	(228)	6,999
Less: Earned Revenue	<u>(12)</u>	<u>648</u>
Net Costs	(216)	6,351
<b>Food, Nutrition, and Consumer Services:</b>		
Gross Costs	(853)	99,000
Less: Earned Revenue	<u>-</u>	<u>58</u>
Net Costs	(853)	98,942
<b>Farm and Foreign Agricultural Services:</b>		
Gross Costs	(1,834)	26,664
Less: Earned Revenue	<u>(47)</u>	<u>2,785</u>
Net Costs	(1,787)	23,879
<b>Trade and Foreign Agricultural Affairs:</b>		
Gross Costs	(30)	463
Less: Earned Revenue	<u>(48)</u>	<u>91</u>
Net Costs	18	372
<b>Research, Education, and Economics:</b>		
Gross Costs	(110)	3,034
Less: Earned Revenue	<u>(85)</u>	<u>158</u>
Net Costs	(25)	2,876
<b>Departmental Offices:</b>		
Gross Costs	(73)	1,317
Less: Earned Revenue	<u>(718)</u>	<u>260</u>
Net Costs	645	1,057
<b>Total Gross Costs</b>	(3,413)	148,007
<b>Less: Total Earned Revenue</b>	<u>(950)</u>	<u>9,433</u>
<b>Net Cost of Operations</b>	<u>\$ (2,463)</u>	<u>\$ 138,574</u>

## NOTE 20: Cost of Stewardship PP&E

The acquisition cost of stewardship land in FY 2017 was \$217 million.

## NOTE 21: Adjustments to Unobligated Balance, Brought Forward, October 1, and Obligated Balance, Start of the Year

As a result of weaknesses identified in the FY 2015 independent audit engagement, CCC undertook a clean-up effort related to Undelivered Orders (UDOs), identifying, with program management and third party agencies, appropriate adjustments. CCC management's objective was to achieve sufficient data accuracy to validate open UDO balances. CCC administers 37 programs, and within those programs, 138 program types. Obligations for each program type have differing trigger points and defined processes for evaluating and maintaining valid open obligations. All 37 programs and their corresponding program types were assessed as to materiality and certain attributes that would indicate obligations may be inactive.

As a result of its efforts, CCC increased the unobligated balance brought forward October 1, 2016, \$72 million and recognized \$1.2 billion in reductions (deobligation) to the October 1, 2016 UDO balance, offset by a \$9.7 billion increase in the UDO balance, related to the CRP. Such efforts also identified and corrected processes to identify and estimate obligations, improved internal processes for review and adjustment of obligations, and improved processes dependent on obligations established by third party agencies.

## NOTE 22: 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 23: Available Borrowing Authority, End of Period

Available borrowing authority at September 30, 2017 was \$48,470 million.

### NOTE 24: Apportionment Categories of Obligations Incurred: Direct vs. Reimbursable Obligations

FY 2017

	Direct	Reimbursable	Total
Apportionment by Fiscal Quarter	\$ 43,293	\$ 1,999	\$ 45,292
Apportionment for Special Activities	134,120	699	134,819
Exempt from Apportionment	7,930	7	7,937
Total Obligations Incurred	<u>\$ 185,343</u>	<u>\$ 2,705</u>	<u>\$ 188,048</u>

### NOTE 25: UNDELIVERED ORDERS AT THE END OF THE PERIOD

Budgetary resources obligated for undelivered orders as of September 30, 2017 were \$62,185 million.

## NOTE 26: 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 27: 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 28: Explanation of Differences Between the SBR and the Budget of the U.S. Government

A comparison between the FY 2017 SBR and the FY 2017 actual numbers presented in the FY 2019 Budget cannot be performed as the FY 2019 Budget is not yet available. The FY 2019 Budget is expected to be published in February 2018 and will be available from the U.S. Government Publishing Office.

## NOTE 29: Incidental Custodial Collections

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

Revenue Activity:	FY 2017
Sources of Collections:	
Miscellaneous	\$ 194
Total Cash Collections	194
Accrual Adjustments	2
Total Custodial Revenue	196
Disposition of Collections:	
Transferred to Others:	
Treasury	(178)
States and Counties	-
( Increase )/Decrease in Amounts Yet to be Transferred	(18)
Net Custodial Activity	\$ -

## NOTE 30: 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 period Ended September 30, 2017

	Rural Housing Insurance Fund 2017
Fiduciary net assets, beginning of year	\$ 113
Fiduciary revenues	-
Contributions	432
Investment earnings	-
Gain (Loss) on disposition of investments, net	-
Administrative and other expenses	-
Disbursements to and on behalf of beneficiaries	(429)
Increases/(Decrease) in fiduciary net assets	3
Fiduciary net assets, end of year	\$ 116

### Fiduciary Net Assets For the period Ended September 30, 2017

	Rural Housing Insurance Fund 2017
Fiduciary Assets	
Cash and cash equivalents	\$ 116
Investments	-
Other assets	-
Fiduciary Liabilities	-
Less: Liabilities	-
Total Fiduciary Net Assets	\$ 116

## NOTE 31: 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>2017</u>
<b>Resources Used to Finance Activities:</b>	
Budgetary Resources Obligated -	
Obligations Incurred	\$ 188,048
Less: Spending authority from offsetting collections and recoveries	<u>39,274</u>
Obligations net of offsetting collections and recoveries	148,774
Less: Distributed Offsetting receipts	<u>9,666</u>
Net Obligations	<u>139,108</u>
Other Resources -	
Donations and forfeitures of property	-
Transfers in(out) without reimbursement	(1)
Imputed financing from costs absorbed by others	789
Other	<u>(1,928)</u>
Net other resources used to finance activities	<u>(1,140)</u>
<b>Total resources used to finance activities</b>	<b>137,968</b>
<b>Resources Used to Finance Items not Part of the Net Cost of Operations:</b>	
Change in undelivered orders	(1,027)
Resources that fund expenses recognized in prior periods	(1,961)
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	16,111
Change in Unfilled Customer Orders	11
Decrease in exchange revenue receivable from public	7,318
Other	9,618
Resources that finance the acquisition of assets	(29,513)
Other resources or adjustments to net obligated resources that do not affect net cost of operations	<u>(511)</u>
<b>Total resources used to finance items not part of the net cost of operations</b>	<b>46</b>
<b>Total resources used to finance the net cost of operations</b>	<b>138,014</b>
<b>Components of the Net Cost of Operations that will not Require or Generate Resources in the Current Period:</b>	
Components Requiring or Generating Resources in Future Periods -	
Increase in annual leave liability	(2)
Increase in environmental and disposal liability	4
Upward/Downward reestimates of credit subsidy expense	1,003
Increase in exchange revenue receivable from the public	(1,383)
Other	<u>(1)</u>
Total components of Net Cost of Operations that will require or generate resources in future periods	<u>(379)</u>
Components not Requiring or Generating Resources -	
Depreciation and amortization	393
Revaluation of assets or liabilities	(17)
Other Components not Requiring or Generating Resources:	
Bad Debt Expense	108
Cost of Goods Sold	57
Other	<u>398</u>
Total components of Net Cost of Operations that will not require or generate resources	<u>939</u>
<b>Total components of Net Cost of Operations that will not require or generate resources in the current period</b>	<b>560</b>
<b>Net Cost of Operations</b>	<b><u>\$ 138,574</u></b>

## Response to Management Challenges

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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 provides an annual assessment of the previous year's challenges to determine if they 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.

Based on OIG's review of the challenges cited in fiscal year (FY) 2016, it concluded that these challenge areas continue to be critical for the Department. No challenges have been removed or added to this year's report. Each challenge includes a discussion of the Department's progress in addressing it as well as what remains to be done, if applicable.

The following narratives summarize:

- OIG-recognized management challenges;
- USDA's FY 2017 agency accomplishments; and
- FY 2018 planned actions to address these management challenges.

### **CHALLENGE 1:**

#### **USDA Needs to Improve Oversight and Accountability for its Programs**

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 approximately 300 programs responsible for delivering about \$143 billion in public services annually. Overseeing these programs so every dollar spent accomplishes the intended results poses significant challenges to USDA program managers.

USDA managers are responsible for establishing and maintaining an effective internal control system, ensuring a culture of compliance with those controls, and holding employees accountable for implementing those controls. Managers use internal controls to ensure programs achieve intended results efficiently and effectively; they provide for program integrity and proper stewardship of resources.

#### **OIG DETERMINED THE FOLLOWING**

- Office of Homeland Security and Emergency Coordination (OHSEC) had not adequately overseen and coordinated USDA's efforts to prevent, detect, and respond to agroterrorism;
- OHSEC did not demonstrate that USDA was in compliance with Homeland Security Presidential Directive 9 requirements to defend the agriculture and food system against terrorist attacks, major disasters, and other emergencies;

- USDA needs to take additional steps to improve its agencies' data sharing practices; and
- USDA was not always transferring funds between agencies appropriately, and OIG questioned \$43 million in transfers.

## CORRECTIVE ACTIONS COMPLETED AND PLANNED:

### Office of Homeland Security and Emergency Coordination

OHSEC instituted bi-weekly meetings on general oversight and compliance in order to monitor the progress of audit recommendations. These meetings occurred between the responsible Division Chief, OHSEC Office of the Director, and the Assistant Secretary for Administration. The Assistant Secretary for Administration appointed an independent official to periodically affirm that OHSEC is implementing appropriate internal controls relative to classified information.

The Office of the General Counsel (OGC) rendered an opinion on OHSEC's authorities under statute and regulation. That opinion is crucial in determining the next steps for other audit recommendations and general programmatic implementation.

In FY 2018, OHSEC plans to continue status meetings for all programs to ensure progress in finding remediation and continue the practice of layered oversight. OHSEC also plans to finalize procedures and consolidate multiple data calls into one cohesive collection effort. An independent official appointed by the Assistant Secretary for Administration will conduct a review of the status of internal controls for classified National security information. OHSEC is in the process of developing and implementing a

written procedure on how it oversees and coordinates USDA's agroterrorism prevention, detection, and response activities.

### Farm and Foreign Agricultural Services

The Farm and foreign Agricultural Services (FFAS) is continuing to collect data in order to continually improve the Acreage Crop Reporting Streamlining Initiative (ACRSI) initiative. The ACRSI will outline the FFAS Undersecretary's, Administrators', and the Office of the Chief Information Officer's (OCIO) roles to ensure payments are made in accordance with individual program rules and ensures compliance requirements.

The Farm Service Agency (FSA) / Commodity Credit Corporation (CCC) and the Natural Resources Conservation Service (NRCS) Memorandum of Understanding (MOU) on data sharing has been signed and implemented. In the MOU, the sub-agencies mutually agree to cooperate at all levels to share data which, among many other things, will help ensure consistent implementation of conservation program payment eligibility and limitation requirements. Furthermore, the agencies will meet quarterly to exchange information about the status of information shared under this MOU, provide information about other data collection activities of the respective agencies, and identify potential additional data sharing activities that would be beneficial to streamline application processes for producers.

The MOU is designed to broadly describe a multi-year agreement between the two agencies supporting data share without describing specific datasets. The agreement includes provisions for allowing read-only access to both agencies' data systems including cropping history reports. The agencies' data teams will meet quarterly to refine, improve, and add to the agreement as needed.



NRCS will revise the Program Manual, Part 507 Subpart K and Part 508, to incorporate communication with FSA about inconsistencies that arise with respect to participant-reported information throughout the agreement’s administration. NRCS will clarify the Conservation Stewardship Program Policy Manual for field employee use to determine and document cropping history and prioritize the documentation. The MOU’s information sharing activities will be conducted in compliance with USDA’s non-disclosure obligations for certain information pursuant to Section 1619 of the 2008 Farm Bill.

Office of the Chief Financial Officer

The Office of the Chief Financial Officer (OCFO) issued Departmental Regulation (DR) 2235-001 “Economy Act Agreements” on the preparation of the Economy Act Agreements and the use of that authority. The Department’s financial management system was enhanced to provide Inter-Agency Agreement (IAA) functionality, including identification of the legal authority for the agreement.

**CHALLENGE 2:**  
**Information Technology Security Needs Continuous Improvement**

Despite actions to improve information technology (IT) security, USDA continues to display weaknesses in planning, management, and oversight of its cybersecurity initiatives that affect the Department’s compliance with standards for safeguarding IT systems as directed in the Federal Information Security Modernization Act of 2014 (FISMA).

The degree to which USDA complies with FISMA and other security guidance directly correlates to the security posture of each agency and office. USDA senior management needs to make sure agencies and offices understand how implementation of IT security

directly impacts USDA’s overall security posture. For USDA to attain a security posture that is secure and sustainable, all 35 of its agencies and offices must consistently implement Departmental policy based on a standard methodology. When every agency and office is in compliance with USDA’s policies, USDA as a whole will be compliant with FISMA and, more importantly, have a sustainable security posture.

**OIG DETERMINED THE FOLLOWING:**

The Department faces great challenges in complying with the 2014 FISMA:

- The OCIO has not implemented corrective actions that the Department committed to in response to prior OIG recommendations. Of the 61 recommendations made by OIG in FYs 2009 through 2015, OCIO implemented corrective action for 39 recommendations, but OIG’s testing identified that security weaknesses still exist in 3 closed recommendations; and
- OCIO policies and programs designed to address FISMA requirements have not been completed or fully implemented, and USDA has not fully developed an organizational perspective that includes a comprehensive governance structure and organization-wide risk management strategy.

**CORRECTIVE ACTIONS COMPLETED OR PLANNED:**

Office of the Chief Information Officer

OCIO will continue to work closely with the U.S. Department of Homeland Security (DHS) on the Continuous Diagnostics and Monitoring Program. USDA is entering the operational readiness review and transition to

full operational capability for Phase 1, which is planned to be completed during FY 2018. USDA initiated and will continue to work with DHS on the planning and design phases for Phase 2.

OCIO concurred with OIG's 61 recommendations for improving the overall security of USDA's systems. USDA has responded to and closed 39 of the recommendations. OCIO will continue to work to close the remaining 22 OIG recommendations. In FY 2018, OCIO will continue to mature its compliance oversight and risk management process and provide additional supporting documentation to address the weaknesses identified by OIG as unresolved.

USDA will develop an organization-wide risk management strategy that will give the Department an organizational perspective for risk management that includes a comprehensive governance structure. To eliminate gaps, OCIO will perform a comprehensive review of the cybersecurity and the risk management development policy and approval process. This action will enhance customer service and experience, streamline and/or reduce the process steps, and shorten the time required to develop and approve a cybersecurity policy.

### **CHALLENGE 3:** **USDA Needs to Strengthen Program Performance and Performance Measures**

Designing, developing, and implementing programs that reliably achieve their intended results has been a recurring challenge for the Department. OIG found that agencies do not have adequate reviews or controls in place to supply the metrics necessary to evaluate program performance. In some programs, the

strategy for measuring performance is missing altogether. As a result, some agencies are using inaccurate or unreliable data in program performance reports.

USDA manages approximately 300 programs that provide a variety of services and financial assistance to the American public. This diverse portfolio of programs means that, for the Department to serve as a diligent steward of Federal funds, USDA must have well-designed programs with clear goals and performance measures.

The Government Performance and Results Modernization Act of 2010 set requirements for regular and recurring program performance assessment. In keeping with the law, an agency should have controls 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 allow the Department to fairly evaluate its programs' successes and failures.

#### **OIG DETERMINED THE FOLLOWING:**

- Rural Utilities Service (RUS) did not have the relevant quantitative performance measures needed to assess and monitor the Energy Efficiency and Conservation Loan Program (EECLP) performance, or have a process to obtain appropriate and reliable performance information;
- Rural-Business Cooperative Services (RBS) needs to strengthen internal controls over approving and servicing Rural Energy for America Program (REAP) loans and grants;
- NRCS must continue ongoing, specific, and concerted collaboration with other USDA agencies on a regular basis to identify common information used by agencies in the administration of the Conservation Stewardship Program; and

- Forest Service (FS) needs to identify particular goals and objectives for managing deferred maintenance (DM) so it can successfully reduce the backlog of repairs to buildings and infrastructure on FS land.

## CORRECTIVE ACTIONS COMPLETED OR PLANNED:

### Rural Utility Service

The RUS Electric Program (EP) leadership approved a mechanism to collect the data by an Excel spreadsheet, indicating the key EECLP performance measures. The plan to develop an automated system with an electronic reporting functionality will be implemented as RUS obtains additional funding.

### Rural Business-Cooperative Service

The RBS developed Energy Efficiency Improvement (EEI) performance report templates that allow REAP loan and grant recipients to accurately calculate and report energy savings for irrigation, lighting, grain dryer, and renewable energy and residential projects.

RBS met with their State and field office staffs to provide in-depth training on the use of the new EEI performance report templates. Meeting participants received guidance on system management, data management, servicing, accountability, and performance measure reporting. Training was provided to the REAP loan and grant recipients on using and submitting EEI performance reports.

### Natural Resources Conservation Service

Please refer to Management Challenge 1 for the agency response.

### Forest Service

The FS has reviewed the existing protocols used to calculate and report DM for bridges, roads, buildings, dams and water, and wastewater systems. Recreation sites have developed and adopted national and regional strategies to address DM for facilities, features on recreation sites, and trails managed for public use. Additionally, FS has many existing partnerships that assist with routine maintenance and are included in the various strategies. However, this is not sufficient to significantly reduce the backlog.

FS will develop an investment strategic plan to address the DM backlog. This plan will define the long-term vision with goals and objectives to be achieved over the span of several years. The plan will also prescribe a multi-year program of work, including: development of improved management controls for reporting of DM, infrastructure training, infrastructure data integrity, national prioritization of assets, and the decommissioning of unneeded assets and oversight. The plan will identify implementation strategies consistent with current and projected funding levels and resources. Performance measures will be dependent on and reflect funding realities. In the event of significant new funding, the plan will identify methods and means designed to enable expedited implementation of efforts to achieve DM management objectives.

## **CHALLENGE 4:** **USDA Needs to Strengthen Controls Over Improper Payments and Financial Management**

USDA continues to be non-compliant with Federal requirements for improper payments. Also, USDA needs to address internal control

deficiencies to resolve ongoing problems with financial management and reporting.

The Department's annual financial reports provide the public, Congress, and the President with information about the nearly \$143 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. OIG reviews the Department's financial reports annually, as required by law, to verify accuracy and compliance with Federal rules regarding high-dollar overpayments and improper payments. Improper payments occur when funds go to the wrong or ineligible recipient, the proper recipient receives an incorrect amount of funds or uses funds in an improper manner, or documentation is not available to support a payment. Not all improper payments involve fraud or waste; payment errors are sometimes inadvertent or based on missing documentation. Regardless of origin, improper payments affect the integrity of Federal programs.

### OIG DETERMINED THE FOLLOWING:

USDA did not comply with all requirements set by the Improper Payments Information Act (IPIA) of 2002, as amended, for the sixth consecutive year.

- Discrepancies were found between supporting documentation and information reported in the Agency Financial Report (AFR) due to ongoing internal control weaknesses in the OCFO quality review process;
- CCC demonstrated material weaknesses in its accounting estimates and the maintenance of its accounting records due to continued deficiencies with internal controls; and
- NRCS has material weaknesses in internal control in accounting for obligations and expenses.

### CORRECTIVE ACTIONS COMPLETED OR PLANNED:

#### Office of the Chief Financial Officer

OCFO incorporated recommended formatting changes and updated the Standard Operating Procedures (SOP) for the review of the Improper Payments Appendix of the AFR. These changes will help ensure consistency, accuracy, and completeness of the information.

#### Commodity Credit Corporation

Completed actions to address CCC's financial reporting deficiencies are as follows:

- Designed and implemented policies and procedures to require communication and collaboration between the decentralized groups involved in the review of undelivered orders;
- Developed 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;
- Modified the policies and procedures related to the review of stale obligations by developing detailed, written procedures to facilitate adequate and consistent review across the various groups performing the reviews;
- Designed and implemented processes, procedures, and effective controls to enable the timely preparation of financial

statements and sufficient evidential matter to support accounting transactions;

- Designed and implemented policies, procedures, and controls to accept, track, and monitor agreements entered into with other agencies;
- Conducted a detailed review of the transactions and balances reported in the general ledger to ensure that CCC maintains adequate supporting documentation for transactions and balances reported in the general ledger and that the supporting documentation is readily available; and
- Designed and implemented policies, procedures, and controls to review Unfilled Customer Orders balances to determine whether they should still be open, or whether the funding should be returned to the ordering agency before the period of availability of the funding appropriation ends.

FSA/CCC will evaluate its programs to determine the feasibility of implementing functionality to automatically deobligate undelivered orders. This study will take into consideration technical and programmatic limitations, and develop the conceptual system design. FSA will also continue to implement automated funds control for all obligations and expenditures at the transaction level within the core financial system and implement the necessary compensating controls until such automated controls are fully implemented.

#### Natural Resources Conservation Service

NRCS planned corrective actions for FY 2018 and completed actions for FY 2017 can be found in the FMFIA section of this report.

## **CHALLENGE 5: USDA Needs to Improve Outreach Efforts**

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 these efforts, the Department has stressed the importance of civil rights, highlighting that significant progress needs to be made in working with communities when 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.

In recent years, OIG has completed audits intended to help resolve long standing complaints against USDA. 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's review of the claims administration process for these class actions generally found that the process for resolving these complaints was strong, and appropriate payments were being made to eligible farmers.

OIG also performed audits designed to help the Department improve outreach to socially disadvantaged groups and evaluated the effectiveness of the Department's activities related to providing assistance to beginning farmers and ranchers.

## OIG DETERMINED THE FOLLOWING:

FSA could not demonstrate that it successfully reached out to some targeted audiences, such as specific underserved groups and veterans as a result of OIG's review of the Microloan Program.

## CORRECTIVE ACTIONS COMPLETED OR PLANNED:

### Farm Service Agency

FSA has taken several actions to increase and track its outreach efforts to underserved communities. These efforts include the actions below:

- Implemented the enhancements to the Microloan module of the Direct Loan System;
  - Entered into over 101 cooperative agreements with local, State, and national partners that benefitted all 50 States and territories. The proposals awarded are to conduct outreach, technical, and financial assistance on FSA programs to underserved communities;
  - State offices will conduct informational sessions annually with nonprofits and organizations who have received funding from USDA agencies as part of their outreach strategy to underserved communities;
  - Review State reports of county outreach activities monthly in the Outreach Tracking and Information System (OTIS);
  - Provide quarterly progress reports to the Administrator and State Executive Directors;
  - Continue to evaluate effective means of data collection to enable the agency to better track customer traffic with respect to outreach activities;
- Required each State Executive Director to designate one person to coordinate outreach efforts — including the role of Farm Loan Program outreach efforts; and
  - Required State Outreach Coordinators and State Executive Directors to include measurable outreach goals in the Strategic Outreach Plans that specify targeted outreach efforts for farm loan programs in each county of their state.

FSA continues to evaluate an effective means of data collection that may enable the agency to better track customer traffic with respect to outreach activities. Outreach tracking will be made available through the Bridges To Opportunity (BTO) system (which provides producers a centralized location for farm program information) to eliminate duplicative efforts in more than one system.

## CHALLENGE 6: Food Safety Inspections Need Improved Controls

The Food Safety and Inspection Service (FSIS) has taken action to improve food safety and the humane handling of animals at the plants FSIS inspects. However, OIG found that FSIS continues to face challenges gathering reliable data to ensure safety verification tasks are completed, effective, and consistent. FSIS also continues to face challenges in training, documenting and tracking, overseeing, testing, and verifying that the Nation's commercial supply of meat, poultry, and egg products complies with regulatory requirements.

FSIS inspectors verify that the Nation's commercial supply of meat, poultry and egg products are safe, wholesome, and correctly handled, processed, labeled, and packaged. FSIS has approximately 9,600 employees, which includes inspection personnel stationed

at approximately 6,500 federally inspected establishments. Slaughter and processing facilities are responsible for implementing FSIS’ directives for controlling hazards in food production. To assess the overall effectiveness of the establishments’ food safety systems, inspectors verify whether an establishment is meeting its regulatory requirements and has addressed the relevant food safety hazards for all of its processes, products, and intended uses. To this end, FSIS inspectors must reliably and timely access, input, and use information in its reporting systems.

#### OIG DETERMINED THE FOLLOWING:

- FSIS did not ensure that inspectors follow corrective actions as designed to prevent reported conditions from recurring. FSIS officials either did not effectively monitor or did not hold their staff accountable when these actions did not correct the problems identified;
- FSIS must enhance its methods of verifying labels for undeclared allergens with a more robust approach; and
- FSIS needs to improve how it monitors and documents food safety tasks specific to allergens.

#### CORRECTIVE ACTIONS COMPLETED AND PLANNED:

##### Food Safety and Inspection Service

FSIS will conduct a comprehensive review of its directives and notices. During this review, the allergens-related directives and notices will be reviewed for consistency and assurance that the allergen verification task is a priority 3 level; instructions will be updated, if needed. Also, as part of FSIS’ comprehensive management controls program, FSIS will assess and verify the effectiveness of corrective actions implemented.

#### CHALLENGE 7: FNS Needs to Strengthen SNAP Management Controls

Although FNS has endeavored to improve management controls for the Supplemental Nutrition Assistance Program (SNAP), weaknesses continue to exist in controls over administrative tasks, benefit distribution, and quality control (QC) processes. The potential exists for billions of dollars of taxpayer-funded assistance not to be delivered or used as intended.

As the largest benefit program within USDA and one of the largest in the Federal Government, SNAP presents a unique challenge for the program’s managers. In FY 2016, SNAP provided monthly food assistance for nearly 44 million low-income individuals and disbursed almost \$67 billion in benefits. Given SNAP’s size and significance, fraud, waste, and abuse are critical concerns. OIG’s audit work focuses on improving the efficiency of program administration and maintaining the integrity of Federal funds.

#### OIG DETERMINED THE FOLLOWING:

- FNS needs to improve its QC process regarding how States determine household eligibility, as well as how they calculate and issue benefits for SNAP;
- FNS’ lack of oversight and weaknesses in State and county controls over SNAP administrative costs led to inaccurate program financial reporting and questioned costs;
- FNS needs to strengthen SNAP administration controls to verify the identity of authorized SNAP retailers and take appropriate actions to address incorrect information; and

- FNS has not designed controls to ensure consistent and accurate reporting by retailers in the two information systems used to administer SNAP.

## CORRECTIVE ACTIONS COMPLETED AND PLANNED:

### Food and Nutrition Service

FNS codified procedures by updating to the QC Management Evaluation Guide.

This guide is for use by Federal staff when reviewing State agencies (SA) for compliance with QC policy and consists of two modules: review of QC integrity and review of dropped cases. The guide includes a comprehensive interview template for Federal reviewers to complete with SA staff at all levels and case review sheets for Federal reviewers to complete using documents provided by the State. Following FNS' SOPs for management evaluations, States are issued a report that details observations, findings, and recommendations; and the SA must provide a Corrective Action Plan (CAP) within 60 days.

At the beginning of FY 2017, FNS issued an update to the FNS Handbook 310 "*SNAP Quality Control Handbook*." The updated handbook included updates in the following areas: (1) requirements of verification; (2) the use of "likely conclusion;" (3) reinforcing the reviewers obligation to verify compliance with Employment and Training (E&T) requirements; and 4) addressing review procedures for simplified reporting households and includes specific language clarifying the timelines for reporting and acting on changes.

FNS is awaiting completion of a study titled "*Feasibility of Revising the SNAP Quality Control Review Process*," and the results of this study will determine what FNS would need to do to consider implementing a one-tier QC system.

The FNS Midwest Regional Office (MWRO) sent a memorandum to the Ohio Department of Job and Family Services (ODJFS) instructing them to establish procedures for properly reporting SNAP E&T expenditures in the correct funding category. This task was completed, and a copy of the new written procedures were provided to FNS.

The MWRO also worked with ODJFS to review \$3,575,424 in E&T expenditures, and determined that the movement of funds by ODJFS between certain E&T funding categories was appropriate. Therefore, FNS did not need to establish an account receivable with the State.

FNS continued to work on verifying the identity of owners found on the Death Master List produced by OIG and take corrective actions to correct any misinformation or remove owners that are no longer living. FNS has completed 80 percent of the provided list and continues to work through the remaining entries. Additionally, FNS has undertaken work to review the list of 176 owners with reported birthdates making them under of the age of 18. In cases where this is due to a data entry error, corrections will be made in the Store Tracking and Redemption System (STARS). For cases that are not the result of data entry errors, FNS will contact the listed owner to determine if there are other owners of the store that should be added to STARS. Any store where the sole owner is under the age of 18 will be withdrawn pending a review of the age of majority in that particular State. FNS also provided training in April 2017 reiterating current FNS policy, which states that if a retailer applicant is under 18 years of age, staff must check with the appropriate State to definitively determine the age of majority.

FNS will complete reviews of the 1,819 owners on the Death Master File and implement corrective actions as warranted.



Upon completion of the reviews, FNS will research and determine the procedures necessary to design controls to identify and correct information indicating deceased owners.

The OIG *USDA Management Challenges Report* issued September 8, 2017, may be viewed in its entirety at the following Web site: <https://www.usda.gov/oig/webdocs/MgmtChallenges2017.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 7](#) and [Exhibit 8](#).

**EXHIBIT 7:** Summary of Financial Statement Audit

**AUDIT OPINION:** Unmodified 2017 Consolidated Balance Sheet

**RESTATEMENT:** No

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

**EXHIBIT 8:** 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
<b>TOTAL MATERIAL WEAKNESSES</b>	<b>2</b>					<b>2</b>

**EFFECTIVENESS OF INTERNAL CONTROL OVER OPERATIONS (FMFIA § 2)  
STATEMENT OF ASSURANCE:**

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
<b>TOTAL MATERIAL WEAKNESSES</b>	<b>0</b>					<b>0</b>

**CONFORMANCE WITH FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS (FMFIA § 4)  
STATEMENT OF ASSURANCE: SYSTEMS DO NOT CONFORM TO FINANCIAL MANAGEMENT SYSTEM REQUIREMENTS**

Material Weakness	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Funds Control Management	1					1
<b>TOTAL NON-CONFORMANCES</b>	<b>1</b>					<b>1</b>

**COMPLIANCE WITH FEDERAL FINANCIAL MANAGEMENT IMPROVEMENT ACT (FFMIA)**

Item	Agency	Auditor
1. Federal Financial Management System Requirements	Lack of compliance noted	Lack of compliance noted
2. Applicable Federal 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

# Payment Integrity Management

## WHAT IS PAYMENT INTEGRITY?

Payment integrity means ensuring payments made to people on behalf of government are managed correctly and that appropriate internal controls and checks and balances exist to minimize the likelihood of errors. When payment errors occur, they are referred to as improper payments.

## WHAT ARE IMPROPER PAYMENTS?

The Office of Management and Budget (OMB) Memorandum M-15-02 defines an improper payment as:

*“any payment that should not have been made or that was supposed to be made, but is in an incorrect amount under statutory, contractual, administrative, or other legally applicable requirements.*

*Incorrect amounts are overpayments or underpayments made to eligible recipients (including inappropriate denials of payment or service, any payment that does not account for credit for applicable discounts, payments that are for an incorrect amount, and duplicate payments). An improper payment also includes any payment that was made to an ineligible recipient or for an ineligible good or service, or payments for goods or services not received (except for such payments authorized by law). In addition, when an agency’s review is unable to discern whether a payment was proper as a result of insufficient or lack of documentation, this payment must also be considered an improper payment.”*

## ARE IMPROPER PAYMENTS REQUIRED TO BE REPORTED?

Yes. 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 executive agencies to 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 the potential for significant improper payments, also known as 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. Readers can obtain more detailed information on improper payments and information published in past Agency Financial Reports (AFR) at: [PaymentAccuracy.gov](http://PaymentAccuracy.gov).

## RESULTS FOR FISCAL YEAR 2017

- The U.S. Department of Agriculture (USDA) has 10 high-risk programs as compared to 18 in fiscal year (FY) 2016. With concurrence from the Office of Inspector General (OIG) and OMB, USDA removed the following eight programs from the OMB High-Risk List:
  1. Natural Resources Conservation Service (NRCS) Hurricane Sandy, Emergency Watershed Protection Program;

2. Forest Service (FS) Hurricane Sandy, Emergency Forest Restoration Program;
  3. FS Hurricane Sandy, Capital Improvement and Maintenance;
  4. Farm Service Agency (FSA) Hurricane Sandy, Emergency Conservation Program;
  5. FSA Livestock Indemnity Program;
  6. FSA Supplemental Revenue Assistance Program;
  7. FSA Hurricane Sandy, Emergency Forest Restoration Program; and
  8. Rural Housing Service (RHS) Rental Assistance Program (RAP).
- Four of the ten remaining high-risk programs, appear to be fully compliant with IPERA.
    - FSA Loan Deficiency Payments (LDP)
    - FSA Livestock Forage Disaster Program (LFP)
    - NRCS Farm Security and Rural Investment Act Program (FSRIP)
    - Risk Management Agency (RMA) Federal Crop Insurance Corporation (FCIC)
  - FSA LDP and LFP were non-compliant in FY 2016, but are now considered “Compliant” with IPERA law.
  - Improper payments in FY 2017 were \$3.33 billion, compared to \$3.35 billion in FY 2016.

The same numbers when expressed as a percentage are misleading. USDA’s improper payment percentage for the remaining 10 high-risk programs rose from 8.86 percent in FY 2016 to 9.93 percent in FY 2017. This is because Food and Nutrition Service (FNS) programs with historically higher error rates

now comprise a larger percentage of the total high-risk program outlays in FY 2017.

- USDA’s recovery auditing efforts yielded \$860.08 million:
  - \$0.28 million from the Supplier Credit Recovery Audit program,
  - \$245.25 million from USDA programs’ internal payment recapture audits, and
  - \$614.55 million outside of payment recapture audits.
- In July 2017, USDA’s Rural Development (RD) transmitted Credit Alert Interactive Voice Response System (CAIVRS) data to Treasury’s new CAIVRS database for Do Not Pay (DNP). USDA is one of the six source Federal agencies for this data. This data is used to check the eligibility of loan applicants at the time of award.

## I. RISK ASSESSMENT

USDA’s Office of the Chief Financial Officer (OCFO) conducted a “Risk Assessment Methodology Pilot” intended to reduce burdens on agencies by leveraging existing A-123 Appendix A assessment methods, to meet the A-123 Appendix C risk assessment deliverable. In FY 2017, the following five programs participated in the Appendix A pilot:

1. Animal and Plant Health Inspection Service (APHIS) Salaries and Expenses
2. APHIS Indemnity Program
3. APHIS Buildings and Facilities
4. APHIS Trust Funds
5. APHIS Cooperative Agreements

USDA will analyze the results and lessons learned, to determine if this strategy is

potentially feasible for other USDA programs and activities.

OCFO issued guidance for the A-123 Appendix C risk assessment process and performed extensive reviews of draft risk assessments. The following evaluation criteria are included as part of USDA's risk assessment process:

1. Whether the program or activity reviewed is new to the agency;
2. The complexity of the program or activity reviewed, particularly with respect to determining correct payment amounts;
3. The volume of payments made annually;
4. Whether payments or payment eligibility decisions are made outside of the agency, for example, by a State or local government, or a regional Federal office;
5. Recent major changes in program funding, authorities, practices, or procedures;
6. The level, experience, and quality of training for personnel responsible for making program eligibility determinations or certifying that payments are accurate;
7. Inherent risks of improper payments due to the nature of agency programs or operations;
8. Significant deficiencies in the audit reports of the agency including, but not limited to, the agency's Inspector General or the Government Accountability Office (GAO) audit report findings, or other relevant management findings that might hinder accurate payment certification; and
9. Results from prior improper payment work.

While USDA is cited as having approximately 300 programs, similar programs were grouped together to help identify and report improper payments. This resulted in a USDA program inventory list of 149 programs, for IPERA reporting purposes. Of these 149 programs, ten are considered to be at significant risk of improper payments, and 139 are considered to be low risk. Risk assessments for low-risk programs are completed on a 3-year rotating cycle. During FY 2017, the following 57 programs completed risk assessments and were determined to be low risk:

1. Commodity Credit Corporation (CCC) Marketing Assistance Loan Program
2. CCC Conservation Reserve Program
3. CCC Dairy Domestic Donations
4. CCC Farm Storage Facility Loan
5. CCC Upland Cotton Economic Adjustment Assistance Program
6. CCC Sugar Purchase Program
7. CCC Feedstock Flexibility Program
8. CCC Export Guarantee Program
9. CCC Trade Adjustment Assistance Program
10. CCC Agriculture Risk Coverage and Price Loss Coverage
11. CCC Margin Protection Program for Dairy Producers
12. Foreign Agricultural Service McGovern-Dole Food for Education Grants
13. Farm Service Agency (FSA) Emergency Conservation Program
14. FSA Grassroots Source Water Protection Program
15. FSA Reimbursement Transportation Cost Payment Program
16. FSA Emergency Forest Restoration Program

17. FSA Reforestation Pilot Program
18. Food and Nutrition Service (FNS) Nutrition Assistance — Puerto Rico
19. FNS Summer Food Service Program
20. FNS The Emergency Food Assistance Program
21. FNS Salaries and Benefits
22. FNS Commodity Supplemental Food Program
23. FNS Farmers Market Nutrition Program
24. Forest Service Land Acquisition
25. Natural Resources Conservation Service (NRCS) Soil Surveys
26. NRCS Plant Materials Centers
27. Rural Business Service (RBS)- Cooperative Service Relending Programs
28. Rural Development (RD) Salaries and Expenses
29. Rural Housing Service (RHS) Direct Single Family Housing
30. RHS Guaranteed Community Facility Loans
31. RHS Guaranteed Multi-Family Housing Loans (Section 538 Loans)
32. RHS Housing Loans and Grants — Other
33. RHS Farm Labor Housing Loans (Section 514) and Grants (Section 516)
34. RHS Rural Rental Housing Loans (Section 515 Direct Rural Rental Housing Loans)
35. RHS RD Voucher Program (Section 542)
36. Rural Utilities Service (RUS) Broadband Telecom Loans — Treasury Rate
37. RUS Water and Waste Disposal Systems for Rural Communities — Grants
38. RUS Rural Telecommunications Loans — Treasury Telecom Loan
39. RUS Electric Loan Programs — Direct Treasury Rate
40. RUS Rural Utilities Electric Program — Municipal Rate
41. RUS Community Connect Grants
42. RUS Public Television Digital Transition Grants
43. RUS Rural Energy Savings Program
44. RUS Appalachian Regional Commission Grants — Water & Waste
45. RUS Delta Regional Authority Grants — Water & Waste Projects
46. Agriculture Research Service Buildings and Facilities
47. Departmental Management (DM) Agriculture Buildings and Facilities
48. DM Hazardous Materials Management
49. DM Biobased Markets Program
50. Office of the Secretary Salaries and Expenses
51. Office of Advocacy and Outreach — Outreach for Socially Disadvantage Farmers
52. Office of Civil Rights Salaries and Expenses
53. National Appeals Division Salaries and Expenses
54. Office of Budget and Program Analysis Salaries and Expenses
55. Office of the Chief Economist Salaries and Expenses
56. Office of the Chief Financial Officer Salaries and Expenses
57. Office of the General Counsel Salaries and Expenses

USDA has 10 programs susceptible to significant improper payments (high-risk programs):

Agency Name	Program Name
Food and Nutrition Services (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)
	Child and Adult Care Food Programs (CACFP)
Farm Service Agency/ Commodity Credit Corporation (FSA/CCC)	Loan Deficiency Payments (LDP)
	Livestock Forage Disaster Program (LFP)
	Noninsured Crop Disaster Assistance Program (NAP)
Natural Resources Conservation Service (NRCS)	Farm Security and Rural Investment Act Program (FSRIP)
Risk Management Agency (RMA)	Federal Crop Insurance Corporation (FCIC)

## II. SAMPLING AND ESTIMATION

When programs are susceptible to significant improper payments, USDA is required to conduct an annual sample that complies with OMB Circular A-123, Appendix C. This is accomplished by conducting a standard statistically valid sample or an OMB approved alternative methodology.

The following is a list of USDA's high-risk programs and a brief description of the sampling processes that used a standard statistically valid sample or their justification for utilizing an OMB approved alternative methodology:

### 1. FNS SNAP

- a. The FY 2016 State-reported data provided to FNS did not allow for the

determination of State error rates. The State error rates are used to calculate the national payment error rate each fiscal year. Since USDA was unable to obtain validated State error rates, USDA decided not to report a SNAP payment error rate in the FY 2017 AFR.

- b. Change in sampling process: While there were no changes in the FY 2016 sampling process, SNAP was unable to validate State data; therefore, no U.S.-wide payment error rate was calculated. FNS has taken steps to ensure that States have a better understanding of the review process to ensure that future years can be validated.

### 2. FNS NSLP

- a. 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 2015-2016.

- b. Change in sampling process: None.
- c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

### 3. FNS SBP

- a. 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 2015-2016.
- b. Change in sampling process: None.
- c. Justification: Using the OMB approved alternative methodology is currently the only way to report an improper payment rate for these programs.

### 4. FNS WIC

- a. Estimates of improper payments in 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 2015 through September 2016.

- b. Change in sampling process: None.
- c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

### 5. FNS CACFP

- a. 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 2015 through September 2016. 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.

- b. Change in sampling process: None.
- c. Justification: Using the OMB-approved alternative methodology is currently the only way to report an improper payment rate for these programs.

## 6. FSA/CCC LDP

- 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 percent points.
- b. Change in sampling process: None.

## 7. FSA/ CCC LFP

- 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 percent points.
- b. Change in sampling process: None.

## 8. FSA/CCC NAP

- 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 percent points.
- b. Change in sampling process: None.

## 9. NRCS FSRIP

- 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 percent points.
- b. Change in sampling process: Testing for FY 2017 was done quarterly, rather than at the close of the fiscal year, as was done previously. Farm Bill Salaries, which were classified as technical assistance in prior years as a low-risk program, are now incorporated into the testing population.

## 10.RMA FCIC

- a. Sample resulted in a confidence interval of 95 percent plus or minus 1.45 percent points. Sampling period is for the reinsurance year 2015, which is based on the yearly reinsurance agreements in effect with Approved Insurance Providers (AIP) July 2014 to June 2015.
- b. Change in sampling process: For FY 2017 and beyond, RMA sampled and will continue to sample from all crops and all related insurance types, as compared to sampling one crop and one type of insurance. RMA will continue to develop an estimated improper payment rate applicable to the entire program.

### III. PAYMENT INTEGRITY 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:** Payment Integrity Outlook (\$ in Millions)

Table presents results for all USDA Programs Susceptible to Improper Payments

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY Properly Paid %	CY IP %	CY Properly Paid \$	CY IP \$	CY Overpayment \$	CY % of Overpayments	CY Underpayment \$	CY % of Underpayments	CY +1 Est. Outlays \$	CY + 1 Est. IP %	CY + 1 Est. IP \$
FNS Supplemental Nutrition Assistance Program (SNAP) [Note #1]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FNS National School Lunch Program (NSLP) Total Program [Note #2]	\$11,994.80	15.17%	\$1,819.74	\$12,258.11	84.70%	15.30%	\$10,382.62	\$1,875.49	\$1,372.30	73.17%	\$503.19	26.83%	\$12,414.71	14.08%	\$1,747.99
FNS School Breakfast Program (SBP) Total Program [Note #2]	\$3,959.60	22.48%	\$890.17	\$4,212.55	77.25%	22.75%	\$3,254.19	\$958.36	\$760.08	79.31%	\$198.28	20.69%	\$4,488.13	20.75%	\$931.29
FNS Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) Total Program	\$4,335.00	4.79%	\$207.65	\$3,949.36	95.01%	4.99%	\$3,752.29	\$197.07	\$115.13	58.42%	\$81.94	41.58%	\$3,811.38	3.88%	\$147.88

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY Properly Paid %	CY IP %	CY Properly Paid \$	CY IP \$	CY Overpayment \$	CY % of Overpayments	CY Underpayment \$	CY % of Underpayments	CY +1 Est. Outlays \$	CY + 1 Est. IP %	CY + 1 Est. IP \$
FNS Child and Adult Care Food Program (CACFP) Total Program [Note #3]	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FSA Loan Deficiency Payments (LDP)	\$124.01	3.21%	\$3.98	\$171.72	98.30%	1.70%	\$168.80	\$2.92	\$2.86	97.95%	\$0.06	2.05%	\$229	1.69%	\$3.87
FSA Livestock Forage Disaster Program (LFP)	\$2,581.12	4.74%	\$122.35	\$457.31	96.86%	3.14%	\$442.97	\$14.34	\$11.38	79.36%	\$2.96	20.64%	\$336	3.10%	\$10.42
FSA Livestock Indemnity Program (LIP)	\$54.27	12.87%	\$6.98	OMB concurred that the FSA Livestock Indemnity Program (LIP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: LIP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
FSA Supplemental Revenue Assistance Payments Program (SURE)	\$4.55	11.53%	\$0.52	OMB concurred that the FSA Supplemental Revenue Assistance Payments (SURE) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: SURE is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY Properly Paid %	CY IP %	CY Properly Paid \$	CY IP \$	CY Overpayment \$	CY % of Overpayments	CY Underpayment \$	CY % of Underpayments	CY +1 Est. Outlays \$	CY + 1 Est. IP %	CY + 1 Est. IP \$
FSA Noninsured Crop Disaster Assistance Program (NAP)	\$128.85	5.47%	\$7.05	\$139.60	91.51%	8.49%	\$127.75	\$11.85	\$11.58	97.72%	\$0.27	2.28%	\$154	7.49%	\$11.53
FSA Hurricane Sandy — Emergency Conservation Program (ECP)	\$0.04	0.18%	\$0.0001	OMB concurred that the FSA Hurricane Sandy — Emergency Conservation Program (ECP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: ECP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
FSA Hurricane Sandy — Emergency Forest Restoration Program (EFRP)	\$0.79	1.43%	\$0.01	OMB concurred that the FSA Hurricane Sandy — Emergency Forest Restoration Program (EFRP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: EFRP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C, revised Parts I and H.											
NRCS Farm Security and Rural Investment Act Programs (FSRIP)	\$1,994.14	2.38%	\$47.41	\$2,304.27	98.88%	1.12%	\$2,278.44	\$25.83	\$25.83	100.00%	\$0	0.00%	\$2,637.77	1.11%	\$29.20

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY Properly Paid %	CY IP %	CY Properly Paid \$	CY IP \$	CY Overpayment \$	CY % of Overpayments	CY Underpayment \$	CY % of Underpayments	CY +1 Est. Outlays \$	CY + 1 Est. IP %	CY + 1 Est. IP \$
NRCS Hurricane Sandy —Emergency Watershed Protection Program (EWPP)	\$5.08	0.00%	\$0	OMB concurred that the NRCS Hurricane Sandy — Emergency Watershed Protection Program (EWPP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: EWPP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
RHS Rental Assistance Program (RAP)	\$1,141.39	1.10%	\$12.56	OMB concurred that the RHS Rental Assistance Program (RAP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: RAP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
RMA Federal Crop Insurance Corporation (FCIC) Program Fund [Note #4]	\$11,503.29	2.02%	\$232.37	\$9,162.33	98.04%	1.96%	\$8,982.56	\$179.77	\$167.74	93.31%	\$12.03	6.69%	\$4,158.00	1.95%	\$81.08

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY Properly Paid %	CY IP %	CY Properly Paid \$	CY IP \$	CY Overpayment \$	CY % of Overpayments	CY Underpayment \$	CY % of Underpayments	CY +1 Est. Outlays \$	CY + 1 Est. IP %	CY + 1 Est. IP \$
FS Hurricane Sandy — EFRP	\$0.06	0.00%	\$0	OMB concurred that the FS Hurricane Sandy — Emergency Forest Restoration Program (EFRP) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: EFRP is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
FS Hurricane Sandy — Capital Improvement and Maintenance (CIM)	\$0.58	0.00%	\$0	OMB concurred that the FS Hurricane Sandy — Capital Improvement and Maintenance (CIM) met the requirements for relief from annual reporting, as the improper payments rate reported has been under the reporting threshold* for more than 2 consecutive years: CIM is relieved of annual improper payments reporting, in accordance with the Office of Management and Budget Circular A-123, Appendix C.											
USDA Total [Note #5]	\$37,827.57	8.86%	\$3,350.79	\$32,655.25	90.00%	10.00%	\$29,389.62	\$3,265.63	\$2,466.90	75.54%	\$798.73	24.46%	\$28,228.99	10.50%	\$2,963.26

**Note \*:** Reporting thresholds in OMB Circular A-123 Appendix C, are programs exceeding (1) both 1.5 percent of program outlays and \$10,000,000 of all program or activity payments made during the fiscal year reported or (2) \$100,000,000 (regardless of the improper payment percentage of total program outlays).

- Note #1:** The SNAP error rate with reduction targets and root cause categories will be available in FY 2018.
- Note #2:** Information has not been adjusted for interaction between the different sources of certification error and counting/claiming error.
- Note #3:** CACFP currently tests and reports on the Family Day Care Homes (FDCH) tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting.
- Note #4:** 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 2015 reinsurance year which ran from July 1, 2014, through June 30, 2015. Section II above discusses this in more detail.
- Note #5:** USDA's fiscal year 2018 error rate is estimated to be higher than the fiscal year 2017 error rate because of changing outlays. Programs with higher error rates like NSLP and SBP are estimated to have increasing outlays while eight programs with low error rates have been removed from the high-risk list. These outlay changes cause USDA's weighted average error rate to increase.

**TABLE 13.1** displays supplemental information, providing a breakdown of specific USDA programs to the component reporting level.

**TABLE 13.1:** Program Component Reporting (\$ in Millions)

Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY IP %	CY IP \$	CY Over-payment \$	CY Under-payment \$
<b>FNS NSLP Total Program</b>	<b>11,994.80</b>	<b>15.17%</b>	<b>1,819.74</b>	<b>12,258.11</b>	<b>15.30%</b>	<b>1,875.49</b>	<b>1,372.30</b>	<b>503.19</b>
FNS NSLP Certification Error	11,994.80	9.21%	1,105.19	12,258.11	9.26%	1,135.10	784.23	350.87
FNS NSLP Counting/Claiming Error	11,994.80	5.96%	714.54	12,258.11	6.04%	740.39	588.07	152.32



Program	Previous Year (PY) Outlays \$	PY Improper Payment (IP) %	PY IP \$	Current Year (CY) Outlays \$	CY IP %	CY IP \$	CY Over-payment \$	CY Under-payment \$
<b>FNS SBP Total Program</b>	<b>3,959.60</b>	<b>22.48%</b>	<b>890.17</b>	<b>4,212.55</b>	<b>22.75%</b>	<b>958.36</b>	<b>760.08</b>	<b>198.28</b>
FNS SBP Certification Error	3,959.60	10.39%	411.22	4,212.55	10.59%	446.11	298.89	147.22
FNS SBP Counting/Claiming Error	3,959.60	12.10%	478.95	4,212.55	12.16%	512.25	461.19	51.06
<b>FNS WIC Total Program</b>	<b>4,335.00</b>	<b>4.79%</b>	<b>207.65</b>	<b>3,949.36</b>	<b>4.99%</b>	<b>197.07</b>	<b>115.13</b>	<b>81.94</b>
FNS WIC Certification Error	N/A	2.71%	123.00	3,949.36	2.50%	98.54	98.54	0
FNS WIC Vendor Error	N/A	1.91%	87.00	3,949.36	2.49%	98.53	16.59	81.94
<b>FNS CACFP Total Program [Note #1]</b>	<b>CACFP tests and reports on the FDCH tiering decision component of the payment process.</b>							
FNS CACFP FDCH — Tiering Decisions	910.91	0.54%	4.92	844.64	0.54%	4.56	3.43	1.13
FNS CACFP FDCH — Meal Claims	FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting.							

**Note #1:** CACFP CY+1 estimated outlays are \$888.75 and the CY+1 estimated improper payment dollar amount is \$4.80. The CY+1 error rate is flatlined at 0.54%, as approved by OMB, because CACFP is currently reporting an improper payment rate below the high-risk threshold and continued reduction of improper payments may not be cost effective.

[Table 14](#) provides information on the estimated amount of improper payments made directly by the Government and the amount of improper payments made by recipients of Federal money.

**TABLE 14:** Improper Payment Additional Breakdown (\$ in Millions)

Program	Federal Government	Recipients of Federal Money
FNS SNAP [Note #1]	N/A	N/A
FNS NSLP	0.0	1,875.49
FNS SBP	0.0	958.36
FNS WIC	0.0	197.07
FNS CACFP [Note #1]	N/A	N/A
FSA LDP	2.92	0.0
FSA LFP	14.34	0.0
FSA NAP	11.85	0.0
NRCS FSRIP	25.83	0.0
RMA FCIC	0.0	179.77
<b>Total</b>	<b>54.94</b>	<b>3,210.69</b>

**Note #1:** Since SNAP did not report an error rate for FY 2017, a breakdown of root causes and associated costs is unavailable. The SNAP error rate with reduction targets and root cause categories will be available in FY 2018. Also, CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting. As a result, a breakdown for CACFP is unavailable.

## DISCUSSION OF SUPPLEMENTAL MEASURES

High-priority programs are required to submit supplemental measures. The criteria for determining when a program is high priority are found in OMB Circular A-123, Appendix C. High-priority programs are those programs that report more than the \$750 million threshold in improper payments, did not report an error amount in the current reporting year but previously reported an error amount over the threshold, or have not yet established a program error rate and have measured components that were above the threshold. USDA currently has the following three programs designated as high-priority programs.

### 1. FNS SNAP

- a. FNS SNAP: The Department will not release a SNAP national payment error rate for benefits issued in FY 2016. FNS expects to report to the Department a valid FY 2017 error rate no later than June 30, 2018.

### 2. FNS NSLP

USDA reports two supplemental measures for the NSLP on [PaymentAccuracy.gov](http://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 State each October. This figure summarizes State and school district success in transitioning from traditional applications that exhibit relatively high error rates, to direct certification, with much lower error rates.

- 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 investments in 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](http://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 transitioning from traditional applications that exhibit relatively high error rates, to direct certification, with much lower error rates.
- 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 investments in 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.

## IV. PAYMENT INTEGRITY IMPROVEMENT: IMPROPER PAYMENT ROOT CAUSE CATEGORIES

TABLE 15: Type of Improper Payment (\$ in Millions)

Reason for Improper Payment	FNS SNAP [Note #1]		FNS NSLP [Note #2]		FNS SBP [Note #2]		FNS WIC		
	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments	
Program design or Structural Issue			461.75	300.31	163.93	125.12			
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 and Local Agency			\$910.55	\$202.88	\$596.15	\$73.16	\$115.13	\$81.94
	Other Party								
Medical Necessity									
Insufficient Documentation to Determine									
Other Reason									
<b>TOTAL</b>	<b>N/A</b>	<b>N/A</b>	<b>\$1,372.30</b>	<b>\$503.19</b>	<b>\$760.08</b>	<b>\$198.28</b>	<b>\$115.13</b>	<b>\$81.94</b>	

Reason for Improper Payment	FNS CACFP [Note #2]		FSA LDP		FSA LFP	
	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program design or Structural Issue						
Inability to Authenticate Eligibility					\$2.29	
Failure to Verify	Death Data					
	Financial Data					
	Excluded Party Data					
	Prisoner Data					
	Other Eligibility					
Administrative or Process Error Made By	Federal Agency		\$1.75	\$0.06	\$4.71	\$2.96
	State and Local Agency	\$3.43	\$1.13			
	Other Party					
Medical Necessity						
Insufficient Documentation to Determine			\$1.11		\$4.38	
Other Reason						
<b>TOTAL</b>	<b>\$3.43</b>	<b>\$1.13</b>	<b>\$2.86</b>	<b>\$0.06</b>	<b>\$11.38</b>	<b>\$2.96</b>

Reason for Improper Payment	FSA NAP		NRCS FSRIP		RMA FCIC	
	Over-payments	Under-payments	Over-payments	Under-payments	Over-payments	Under-payments
Program design or Structural Issue						
Inability to Authenticate Eligibility			\$13.27		\$105.04	\$5.57
Failure to Verify	Death Data					
	Financial Data					
	Excluded Party Data					
	Prisoner Data					
	Other Eligibility	\$0.04				
Administrative or Process Error Made By	Federal Agency	\$9.80	\$0.27	\$12.56		
	State and Local Agency					
	Other Party				\$62.70	\$6.46
Medical Necessity						
Insufficient Documentation to Determine	\$1.74					
Other Reason						
<b>TOTAL</b>	<b>\$11.58</b>	<b>\$0.27</b>	<b>\$25.83</b>	<b>\$0.00</b>	<b>\$167.74</b>	<b>\$12.03</b>

**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 2016. USDA is unable to calculate a national error rate due to the unreliability of some State-reported data.

**Note #2:** For NSLP and SBP, improper payments attributed to the root cause, “program design or structural issue” are the estimated value of applicant errors on school meal applications. Applicants for free or reduced price school meal benefits do not provide supporting documentation at the time of application. Although school districts select a sample of approved applications for follow-up verification review, the size of that sample is fixed by statute at 3 percent of approved applications (Sec. 9(b)(3)(D)(iii) of the Richard B. Russell National School Lunch Act).

Improper payments attributed to the root cause, “administrative or process error made by State or local agency” include the estimated value of administrative errors in the application process and in the process of counting and claiming eligible meals for Federal reimbursement.

## V. PAYMENT INTEGRITY IMPROVEMENT: IMPROPER PAYMENT CORRECTIVE ACTIONS

### SPECIAL NOTE TO READER:

In the spring of 2017, USDA agencies analyzed transactions from FY 2016. The results are published in the FY 2017 AFR. Please keep this in mind when narratives cite FY 2016 transactions in this report.

Each program is required to develop a Corrective Action Plan. [Exhibit 9](#) below describes actions taken and planned for each high-risk program that is above the reporting threshold (error rate equal or above 1.5 percent and improper payment amount of \$10 million or more).

OMB Circular A-136, revised on August 15, 2017, Section II.5.5 Payment Integrity; subsection I. Payment Reporting, paragraph e.,

states: “Agencies should also describe the results of actions taken to address the root causes and the planned or actual completion date of the actions taken to address each root cause.” While some of the corrective actions offer an indication of how they will address a root cause, USDA is not equipped with reliable data to accurately quantify how each corrective action may have resulted in payment accuracy improvements. In most cases, a series of corrective actions may have cumulative impacts to improving payment accuracy. The FNS School Lunch Program performs an APEC study every 5 years. The numerous corrective actions implemented for the past several years cannot be evaluated until the next 5-year study is completed in 2018–2019.

In addition to Discussions of Supplemental Measures from section III above, High-Priority Discussions are provided below for USDA’s high-priority programs NSLP, SBP, and FCIC. For clarification regarding SNAP and CACFP, see Note #1 that follows [Exhibit 9](#) below.

### EXHIBIT 9: Program Corrective Action Plans (\$ in Millions)

PROGRAM: FNS SNAP		
Root Cause (See Table 15 above)	→	Administrative or Process Errors Made by: State or Local Agency [Note #1]
Amount Associated with the Root Cause (See Table 15 above)	→	Not Available.
Estimated Completion Date	→	September 2018

#### SNAP Corrective Actions:

The law requires that States with a high error rate for 2 or more subsequent years pay a financial liability to SNAP. States have the option to invest 50 percent of this financial liability back into the SNAP program and hold the remaining 50 percent in abeyance, which must be paid if the State’s error rate does not improve in the upcoming year. The 50 percent invested back into the program is called new investment. States must target their new investment money towards the issues that caused the State’s error rate. Each State conducts a root cause analysis to determine the causes for their errors as part of the new investment plan. New investments are completely State funded



**PROGRAM: FNS SNAP**

and not eligible for Federal matching. In the past, States have used their new investment funds to undertake a document scanning project to ensure client documents are more easily accessible, training to help eligibility workers better understand and follow SNAP rules, and a rewrite of the State’s policy manual so that it is easier for workers to read, access, and understand.

Business Process Reengineering (BPR) is the analysis and redesign of a process or workflow in order to achieve greater efficiency. When States apply BPR to their SNAP certification process, the resulting savings in staff time create an opportunity to channel savings into activities that improve customer service, application processing timelines, payment accuracy, and negative errors. FNS is currently facilitating BPR in three States. The Process and Technology Improvement Grants (PTIGs), provide grantees with funding to improve the quality and efficiency of operations and processes in SNAP offices. Grantees often combine BPR initiatives with modernization efforts to improve the accuracy and efficiency of the certification process so that eligible SNAP participants receive the correct amount of benefits they are entitled to thus reducing the amount of improper payments. Each year FNS awards a total of \$5 million dollars in PTIG grants to States.

**Note #1:** Since SNAP did not report an error rate for FY 2017, this breakdown is unavailable. The SNAP error rate, with reduction targets and root cause categories, will be available in FY 2018. Also, CACFP currently tests and reports on the FDCH tiering decision component of the payment process. FNS continues to evaluate the measurement processes for the CACFP meal claim component. FNS has not set a date for measurement and reporting.

**PROGRAM: FNS NSLP**

**Root Cause** (See Table 15 above) → Program Design or Structural Issue

**Amount Associated with the Root Cause** (See Table 15 above) → \$762.06 (millions)

**Estimated Completion Date** → September 2018

**NSLP Corrective Actions:**

- Release an annual updated school meal application form and a Web-based application with evidence-based features to address household error.
- Continue a trial to reduce household nonresponse rates in the verification process.
- Continued expansion of the Community Eligibility Provision to reduce application-based error.
- Update the State agency Administrative Review (AR) guidance for State agencies and school districts.
- Conduct a national collection of information at the School Food Authority and site levels on the AR form for analysis.
- Conduct a demonstration in seven States to evaluate direct certification for free and reduced price meals using Medicaid data.

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**PROGRAM: FNS NSLP**


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- Lead model requirements training for State and local entities.
  - Conduct a data study to establish best practices in collection, reporting, and monitoring of program data at State and local levels. Host the third national technology training for State agencies and technology vendors.
  - Provide technical assistance to improve direct certification of children through the use of Food Distribution Program on Indian Reservations data.
  - Invest in State technology systems to reduce administrative error through AR and Training Grants.
  - Provide ongoing training, technical assistance, and peer-to-peer mentorship of school food service professionals through the FNS "Team Up for School Nutrition Success Initiative."
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**PROGRAM: FNS NSLP**


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<b>Root Cause</b> (See Table 15 above)	➔	Administrative or Process Errors Made by: State or Local Agency
<b>Amount Associated with the Root Cause</b> (See Table 15 above)	➔	\$1,113.43 (millions)
<b>Estimated Completion Date</b>	➔	September 2018

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**NSLP Corrective Actions:**

- Release an annual updated school meal application form and a Web-based application with evidence-based features to address household error.
  - Continue a trial to reduce household nonresponse rates in the verification process.
  - Continued expansion of the Community Eligibility Provision among eligible schools to reduce application-based error.
  - Update the State agency Administrative Review (AR) guidance for State agencies and school districts.
  - Conduct a national collection of information at the School Food Authority (SFA) and site levels on the AR form for analysis.
  - Conduct a demonstration in seven States to evaluate direct certification for free and reduced price meals using Medicaid data.
  - Lead model requirements training for State and local entities.
  - Conduct a data study to establish best practices in collection, reporting, and monitoring of program data at State and local levels. Host the third national technology training for State agencies and technology vendors.
  - Provide technical assistance to improve direct certification of children through the use of Food Distribution Program on Indian Reservations data.
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**PROGRAM: FNS NSLP**


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- Invest in State technology systems to reduce administrative error through AR and Training Grants.
- Provide ongoing training, technical assistance, and peer-to-peer mentorship of school food service professionals through the FNS "Team Up for School Nutrition Success Initiative."

**High-Priority Discussions:**

The FNS activities summarized in the corrective action plan were guided by FNS research findings. 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 determines whether the meals served are reimbursable, and (4) when meal counts are aggregated and submitted for reimbursement.

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 ARs 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 are included below:

- The agency's considerable efforts to improve direct certification performance and the adoption of Community Eligibility Provision (CEP). APEC-II finds that both of these are associated with significantly less certification error than the traditional application process.
  - FNS redesigned the 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 both the State and site levels to provide better information about where and how errors occur and the characteristics that could contribute to program errors and improper payments. Collecting this data will 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 for the recently developed 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 recently released 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.
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PROGRAM: FNS SBP		
Root Cause (See Table 15 above)	➔	Program Design or Structural Issue
Amount Associated with the Root Cause (See Table 15 above)	➔	\$289.05 (millions)
Estimated Completion Date	➔	September 2018

#### SBP Corrective Actions:

- Release an annual updated school meal application form and a Web-based application with evidence-based features to address household error.
- Continue a trial to reduce household nonresponse rates in the verification process.
- Continue the expansion of the Community Eligibility Provision among eligible schools to reduce application-based error.
- Update the State agency Administrative Review (AR) guidance for State agencies and school districts.
- Conduct a national collection of information at the SFA and site levels on the AR form for analysis.
- Conduct a demonstration in seven States to evaluate direct certification for free and reduced price meals using Medicaid data.
- Conduct training of the model requirements for State and local entities.
- Conduct a data study to establish best practices in collection, reporting, and monitoring of program data at State and local levels.
- Host the third national technology training for State agencies and tech vendors.
- Provide technical assistance to improve direct certification of children through the use of the Food Distribution Program on Indian Reservations data.
- Provide ongoing investment in State technology systems to reduce administrative error through AR and Training Grants.
- Provide ongoing training, technical assistance, and peer-to-peer mentorship of school food service professionals through the FNS "Team Up for School Nutrition Success Initiative."

PROGRAM: FNS SBP	
Root Cause (See Table 15 above)	→ Administrative or Process Errors Made by: State or Local Agency
Amount Associated with the Root Cause (See Table 15 above)	→ \$669.31 (millions)
Estimated Completion Date	→ September 2018

**SBP Corrective Actions:**

- Release an annual updated school meal application form and a Web-based application with evidence-based features to address household error.
- Continue a trial to reduce household nonresponse rates in the verification process.
- Continue the expansion of the Community Eligibility Provision among eligible schools to reduce application-based error.
- Update the State agency Administrative Review (AR) guidance for State agencies and school districts.
- Conduct a national collection of information at the SFA and site levels on the AR form for analysis.
- Conduct a demonstration in seven States to evaluate direct certification for free and reduced price meals using Medicaid data.
- Conduct training of the model requirements for State and local entities.
- Conduct a data study to establish best practices in collection, reporting, and monitoring of program data at State and local levels.
- Host the third national technology training for State agencies and tech vendors.
- Provide technical assistance to improve direct certification of children through the use of the Food Distribution Program on Indian Reservations data.
- Provide ongoing investment in State technology systems to reduce administrative error through AR and Training Grants.
- Provide ongoing training, technical assistance, and peer-to-peer mentorship of school food service professionals through the FNS "Team Up for School Nutrition Success Initiative."

**High-Priority Discussions:**

The FNS activities summarized in the corrective action plan were guided by FNS research findings. 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 determines whether the meals served are reimbursable, and (4) when meal counts are aggregated and submitted for reimbursement.

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

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**PROGRAM: FNS SBP**


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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 are included below:

- The agency’s considerable efforts to improve direct certification performance and the adoption of Community Eligibility Provision (CEP). APEC-II finds that both of these are associated with significantly less certification error than the traditional application process.
  - FNS redesigned the 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 both the State and site levels to provide better information about where and how errors occur and the characteristics that could contribute to program errors and improper payments. Collecting this data will 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 for the recently developed 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 recently released 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.
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**PROGRAM: FNS WIC**


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<b>Root Cause</b> (See Table 15 above)	→	Administrative or Process Errors Made by: State or Local Agency
<b>Amount Associated with the Root Cause</b> (See Table 15 above)	→	\$197.07 (millions)
<b>Estimated Completion Date</b>	→	September 2018

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**WIC Corrective Actions:**

FNS’ two most recently completed target area management evaluation (ME) cycles covered areas where improper payments are most likely to occur: Vendor Management and Certification and Eligibility. After completing a target area cycle, FNS assesses the results and works to efficiently resolve all issues through corrective actions, technical assistance, and the sharing of best practices.

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**PROGRAM: FNS WIC**

As follow-up to the Vendor MEs, FNS provided targeted, risk-based technical assistance to several State agencies; has provided numerous trainings on key topics; has developed several tools for State agency use; and released a comprehensive Vendor Management Handbook in FY 2017.

As follow-up to the Certification and Eligibility MEs, FNS provided several webinars on key topics, released two policy memorandums to provide clarification to State agencies, and plans to release and train State agencies on a Certification and Eligibility Handbook in FY 2018.

**PROGRAM: FNS CACFP**

<b>Root Cause</b> (See Table 15 above)	➔	Administrative or Process Errors Made by: State or Local Agency [Note #1]
<b>Amount Associated with the Root Cause</b> (See Table 15 above)	➔	\$4.56 (millions)
<b>Estimated Completion Date</b>	➔	September 2018

**CACFP Corrective Actions:**

- Released updated guidance on the At-Risk Afterschool Meals Program.
- Released the CACFP Meal Benefit Income Eligibility Application to reduce error in the income eligibility applications.
- Released updated policy memorandums to minimize meal counting and claiming errors.
- FNS plans to release Child Nutrition Technology Innovation grants by March 2018.
- Conduct an ongoing study to measure and monitor error in CACFP sponsor-tiering determinations.
- Conduct a field study to take a comprehensive measure of erroneous payments in child care centers and center sponsors.
- Conduct a field study to identify a reliable method to measure meal-claiming error in CACFP day care homes.

PROGRAM: FSA LFP		
Root Cause (See Table 15 above)	➔	Inability to Authenticate
Amount Associated with the Root Cause (See Table 15 above)	➔	\$2.29 (millions)
Estimated Completion Date	➔	September 2017

#### LFP Corrective Actions:

FSA has determined that 16 percent of error is associated with documentation not existing to support livestock producers owning or leasing grazing land, and it was not on file prior to the application being approved.

The LFP program manager notified State and field staff to review acceptable documentation requirements to support that grazing land is owned or leased, and that the documentation is on file before the application is approved.

PROGRAM: FSA LFP		
Root Cause (See Table 15 above)	➔	Administrative or Process Errors Made by: Federal Agency
Amount Associated with the Root Cause (See Table 15 above)	➔	\$7.67 (millions)
Estimated Completion Date	➔	September 2017

#### LFP Corrective Actions:

FSA has determined that 53 percent of the error is associated with program software inadequacies.

During the summer of 2017, FSA had written software system requirements, that once contracted, will enable LFP application software to interface with Crop Application Reporting Software and resolve this issue. In the interim, the LFP program managers notified State and field staff to double-check acreages until the software interface is installed.



PROGRAM: FSA LFP		
Root Cause (See Table 15 above)	➔	Insufficient Documentation to Determine
Amount Associated with the Root Cause (See Table 15 above)	➔	\$4.38 (millions)
Estimated Completion Date	➔	September 2017

**LFP Corrective Actions:**

FSA has determined that 31 percent of error is associated with payments being made with incomplete or improperly filed farm operating plans, acreage reports, highly-erodible land conservation, and wetland conservation certifications.

The LFP program manager notified State and field staff to review acceptable documentation requirements for such forms.

PROGRAM: FSA NAP		
Root Cause (See Table 15 above)	➔	Administrative or Process Errors Made by: Federal Agency
Amount Associated with the Root Cause (See Table 15 above)	➔	\$10.07 (millions)
Estimated Completion Date	➔	July 2017

**NAP Corrective Actions:**

Full automation, beginning with Application for Coverage, Acreage reports, Summary of Coverage, Notice of Loss and Application for Payment, has been developed and tested and will be released soon.

On May 24, 2017, Notice NAP-189 was posted, emphasizing the responsibility of the County Office to maintain signatures and dates in the approved yield software because other NAP applications check against these dates.

These two automated procedures should reduce administrative and process errors.

PROGRAM: FSA NAP		
Root Cause (See Table 15 above)	➔	Insufficient Documentation to Determine
Amount Associated with the Root Cause (See Table 15 above)	➔	\$1.74 (millions)
Estimated Completion Date	➔	July 2017

**NAP Corrective Actions:**

Flags in automation will prevent or warn user that required documentation is missing.

Notice NAP-188, issued May 1, 2017, initiated a review of NAP payments for improper payments and created State NAP review teams which analyzed selected payments for errors and corrected errors found within 30 days. The Notice identified prior year discrepancies to ensure thorough reviews.

These actions should reduce errors in this category.

PROGRAM: FSA NAP		
Root Cause (See Table 15 above)	➔	Failure to Verify: Other Eligibility Data
Amount Associated with the Root Cause (See Table 15 above)	➔	\$0.04 (millions)
Estimated Completion Date	➔	July 2017

**NAP Corrective Actions:**

Automation of the process will require eligibility to be entered and complete. When an entry is incomplete, it will be auto-flagged for follow up action.

Notice NAP-188, issued May 1, 2017, initiated a review of NAP payments for improper payments and created State NAP review teams, which analyzed selected payments for errors and corrected errors found within 30 days. The Notice identified prior-year discrepancies to ensure thorough reviews.

These actions should reduce errors in this category.

**PROGRAM: RMA FCIC**

**Root Cause** (See Table 15 above) → Administrative or Process Errors Made by: Other Party

**Amount Associated with the Root Cause** (See Table 15 above) → \$69.16 (millions)

**Estimated Completion Date** → July 2018

**FCIC Corrective Actions:**

Conduct outreach to applicable Approved Insurance Providers (AIP) to incorporate acreage data verification into agent and adjuster training or notifications. The Regional Compliance Offices (RCOs) will review the AIP’s procedures and controls in place to reduce the amount of administrative errors.

**PROGRAM: RMA FCIC**

**Root Cause** (See Table 15 above) → Inability to Authenticate Eligibility

**Amount Associated with the Root Cause** (See Table 15 above) → \$110.61 (millions)

**Estimated Completion Date** → March 2018

**FCIC Corrective Actions:**

Issue informational memorandum reminding producers about record retention requirements outlined in the Common Crop Insurance Basic Provisions, Section 21. The RCOs will review the AIP’s procedures and controls in place to reduce the amount of errors related to records retention.

## 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;
- Encouraging managers to 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 SNAP	FNS NSLP	FNS SBP	FNS WIC	FNS CACFP	FSA/CCC LFP	FSA/CCC NAP	RMA FCIC
Control Environment	3	3	3	3	3	4	4	3
Risk Assessment	3	3	3	3	3	3	3	3
Control Activities	3	3	3	3	3	3	3	3
Information and Communication	3	3	3	3	3	4	4	3
Monitoring	3	3	3	3	3	4	4	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)

For items 1-3 below, 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 2005.

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.
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.
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.

### Farm Service Agency (FSA)

The following steps were completed by September 2016 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 2016–18 Strategic Plan. Goal #4, Objectives 4.1 and 4.2, 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 following all administrative steps in doing so. Employees will be evaluated on program delivery, and their compliance

with regulations, policies, and procedures through their performance plans.

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, in accordance with USDA's effort to develop comprehensive internal controls, quality assurance processes and systems, and compliance with the IPIA, incorporates 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 in RMA's Strategic Plan is to reduce the improper payment rate from 5.23 percent in 2013 to 4.9 percent by 2018. RMA exceeded their strategic targets and the actual improper payment rate was 1.96 percent, in FY 2017. This is outstanding.
2. RMA incorporated standards in the FY 2017 annual performance plans to ensure compliance personnel conduct 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 Regional Compliance Offices (RCOs) conducted Improper Payments Elimination and Recovery Improvement Act of 2012 reviews between March 2016–May 2017 using statistical sampling and data mining reports.

## AGENCY INFORMATION SYSTEMS AND OTHER INFRASTRUCTURE

### 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 between FNS, State agencies, program sponsors, and program sites; each transaction represents a risk for improper payment. Because requirements vary significantly for each different type of program sponsor and site, a full and rigorous assessment of the rate of improper payments is extremely complex.

FNS 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 is expected to be completed by September 30, 2020.

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 2017 Budget requests an increase in funding for the following program integrity line items to establish and maintain effective internal controls to reduce improper payments as follows:
  - a. Child Nutrition (CN) Training and Technical Assistance
  - b. CN Payment Accuracy

CN Training and Technical Assistance — an increase of \$21 million was requested (\$13,137,000 enacted for FY 2016). Effective and continual training and technical assistance are necessary to help States properly administer the CN 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 \$585,000 was requested (\$10,562 million enacted for FY 2016). 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 2017 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.

Administrative Reviews — \$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.

#### FSA

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

#### RMA

One of RMA's primary tools for assessing approved insurance providers' (AIPs) compliance with all crop insurance program requirements is the AIP Performance Review (APR). RMA completed a pilot APR of three AIPs, which evaluated their internal controls to identify and address program vulnerabilities.

Discretionary Funding — Salaries and Expenses (S&E) — Discretionary funds for the Federal crop insurance programs cover most of Federal salaries and related expenses to manage the program. The 2017 Budget request included about \$67 million in direct discretionary appropriations for these costs, \$8 million below FY 2016. In addition, Section 11021 of the Agricultural Act of 2014 mandated 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.

## BARRIERS

### 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.

The mandated goal of simplifying 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, 775 Family Day Care Home (FDCH) sponsoring organizations, and approximately 108,400 FDCH providers through which CACFP benefits are distributed. Many of these organizations 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.

Current legislation, while it does include some changes requested by the Administration to improve accountability, measures, limits USDA's ability to act in this area due to concerns about potential barriers to participation. The mandated goal of simplifying 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:

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 the burden on schools. Many schools consider the program burdensome now. Adding burden could discourage schools from participating, decreasing access for some low-income children;
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 (e.g. Title I, State and local education funding). 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.

### 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”.

### RMA

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

## RECAPTURE OF IMPROPER PAYMENTS REPORTING

USDA is required to conduct payment recapture auditing on all programs with over \$1 million in annual expenditures, or provide justification that a payment recapture audit program would not be cost effective, per OMB Circular A-123 Appendix C. To determine which programs meet the \$1 million payment recapture auditing requirement, USDA utilized FY 2016 actual outlay information. The following results highlight the payment recapture activities completed in FY 2017:

1. USDA recaptured approximately \$0.28 million from its Supplier Credit Recovery Audit contractor (0.03 percent of USDA’s total identified overpayments), \$245.25 million from USDA programs’ internal payment recapture audits (28.26 percent of USDA’s total identified overpayments), and \$614.55 million outside of payment recapture audits (70.81 percent of USDA’s total identified overpayments). Results shown in [Table 17](#).
2. USDA distributed \$243.97 million in recovered funds in accordance with IPERA as shown in [Table 18](#).
3. Sixty programs participated in the Supplier Credit Recovery Audit, and 43 programs developed internal payment recapture plans, which were approved by 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 Part I Section D. 5 and 6, 40 programs submitted a cost-effective waiver to

OMB. A detailed list of programs categorized by recovery auditing activity is as follows:

Supplier Credit Recovery Audit Programs

1. Agricultural Marketing Service (AMS) Commodity Purchase Programs
2. AMS Grants Programs
3. AMS Salaries and Expenses
4. Animal and Plant Health Inspection Service (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. Commodity Credit Corporation (CCC) Export 416 Ocean Transportation [Note #8]
10. CCC Food for Progress Program [Note #1]
11. Office of Civil Rights (CR) Salaries and Expenses
12. Departmental Management (DM) Agriculture Buildings and Facilities
13. DM Biobased Markets Program
14. DM Hazardous Materials Management
15. Foreign Agricultural Service (FAS) McGovern-Dole Food for Education Grants
16. Farm and Foreign Agricultural Services (FFAS)
17. Food and Nutrition Service (FNS) Child and Adult Care Food Program
18. FNS Commodity Supplemental 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 Salaries and Benefits
23. FNS Summer Food Service Program
24. Food Safety and Inspection Salaries and Expenses
25. Farm Service Agency (FSA) Public Law 480
26. Forest Service (FS) Capital Improvement and Maintenance
27. FS Forest and Rangeland Research
28. FS Permanent Appropriations
29. FS Trust Funds
30. FS Hurricane Sandy — Emergency Forest Restoration Program [Note #8]
31. FS Land Acquisition
32. FS Management of National Forest Lands for Subsistence Uses
33. FS National Forest System
34. FS Range Betterment Fund
35. FS State and Private Forestry
36. FS Stewardship Contracting Product Sales
37. FS Wildland Fire Management
38. FS Wildland Fire Management — Suppression
39. FS Working Capital Fund
40. Grain Inspection Packers and Stockyards Administration
41. National Appeals Division (NAD) Salaries and Expenses

42. Natural Resources Conservation Service (NRCS) Conservation Technical Assistance (non-Farm Bill)
43. NRCS Farm Security and Rural Investment Act Program (FSRIP)
44. NRCS Hurricane Sandy, Emergency Watershed Protection Program
45. NRCS Plant Materials Centers
46. NRCS Snow Survey and Water Supply Forecasting
47. NRCS Soil Surveys
48. NRCS Watershed Programs
49. Office of Advocacy and Outreach for Socially Disadvantaged Farmers
50. Office of Budget and Program Analysis Salaries and Expenses
51. Office of the Chief Economist Salaries and Expenses
52. Office of Chief Financial Officer (OCFO) Salaries and Expenses
53. Office of the Chief Information Officer (OCIO) Salaries and Expenses
54. Office of the General Counsel (OGC) Salaries and Expenses
55. Office of Inspector General (OIG) Salaries and Expenses
56. Office of the Secretary Salaries and Expenses
57. Rural Development (RD) Salaries and Expenses
58. Rural Housing Service (RHS) Voucher Program (Section 542) [Note #1]
59. Rural Utilities Service (RUS) Water and Waste Disposal Systems for Rural Communities- Loans [Note #2]
60. Research, Education, and Economics (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
  - a. CCC Administrative Contracts
  - b. CCC Agriculture Risk Coverage and Price Loss Coverage
  - c. CCC Agricultural Wool Apparel Manufacturers Trust Funds
  - d. CCC Biomass Crop Assistance Program
  - e. CCC Conservation Reserve Program
  - f. CCC Cotton Transition Assistance Program
  - g. CCC Dairy Indemnity
  - h. CCC Emergency Assistance for Livestock, Honeybees, and Farm Raised Fish Program
  - i. CCC Emergency Forestry Conservation Reserve
  - j. CCC Export Guarantee Program Level [Note #8]
  - k. CCC Farm Storage Facility Loan
  - l. CCC Food for Progress Program [Note #1]
  - m. CCC Hazardous Waste Activities
  - n. CCC Hurricane Sandy — Emergency Forest Restoration Program
  - o. CCC Livestock Forage Disaster Program
  - p. CCC Livestock Indemnity Program
  - q. CCC Loan Deficiency Payments

- r. CCC Margin Protection Program for Dairy Producers
  - s. CCC Marketing Assistance Loan Program
  - t. CCC Marketing Programs
  - u. CCC Noninsured Crop Disaster Assistance Program
  - v. CCC Pima Agriculture Cotton Trust Fund
  - w. CCC Supplemental Revenue Assistance Payments Program [Note #8]
  - x. CCC Tobacco Transition Payment Program [Note #8]
  - y. CCC Tree Assistance Program
  - z. CCC Upland Cotton Economic Adjustment Assistance Program
  - aa. FSA Agricultural Credit Insurance Fund- Program Account
  - bb. FSA Emergency Conservation Program
  - cc. FSA Emergency Forest Restoration Program
  - dd. FSA Grassroots Source Water Protection Program
  - ee. FSA Reimbursement Transportation Cost Payment Program
  - ff. FSA State Mediation Grants
3. National Institute of Food and Agriculture (NIFA) Internal Program
- 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
  - d. RHS Voucher Program (Section 542) [Note #1]
  - e. RUS Appalachia Regional Commission Grants — Water & Waste
5. Risk Management Agency (RMA)
- a. Federal Crop Insurance Corporation
- Programs and Activities with Approved Cost Effective Waivers [Note #3]
- 1. FNS America Samoa
  - 2. FNS Commonwealth of the Northern Mariana Islands
  - 3. FNS Farmers Market Nutrition Program
  - 4. FNS Nutrition Assistance-Puerto Rico
  - 5. FNS School Breakfast Program
  - 6. FNS Senior Farmers Market Nutrition Program
  - 7. FNS Special Milk Program
  - 8. FNS Supplemental Nutrition Assistance Program
  - 9. FNS Special Supplemental Nutrition Program for Women, Infants, and Children
  - 10. Food Safety and Inspection Service (FSIS) Cooperative State Food Safety and Inspection
  - 11. Rural Business-Cooperative Service (RBS) Grant Programs

12. RBS Guaranteed Loan Programs
  13. RBS Relending Programs
  14. RBS Payment Programs
  15. RHS Community Program Grants
  16. RHS Farm Labor Housing Loans (Section 514) Farm Labor Housing Grants (Section 516)
  17. RHS Direct Community Facility Loans
  18. RHS Housing Loans and Grants — Other
  19. RHS Guaranteed Community Facility Loans
  20. RHS Guaranteed Multi-Family Housing (MFH) Loans (Section 538 Loans)
  21. RHS MFH Preservation & Revitalization Demo Program: 514/516 Loans/Grants & 515 Loans
  22. RHS Rural Community Development Initiative Grants
  23. RHS Rural Rental Housing Loans (Section 515 Direct Rural Rental Housing Loans)
  24. RUS Broadband Telecom Loans — Treasury Rate
  25. RUS Community Connect Grants
  26. RUS Congressional Earmarked Funds
  27. RUS Electric Loan Programs (Catalog of Federal Domestic Assistance [CFDA] 10.850)- Direct Treasury Rate [Note #8]
  28. RUS Electric Loan Programs (CFDA 10.850) — FFB Guaranteed
  29. RUS Grants- Other Electric — Telecom. WEP
  30. RUS Public Television Digital Transition Grants
  31. RUS Revolving Loan Fund Program
  32. RUS Rural Telecommunications Hardship Loans — Direct Telecom Loans
  33. RUS Rural Telecommunications Loans — Federal Financing Bank (FFB) Telecom Loans
  34. RUS Rural Telecommunications Loans — Treasury Telecom Loans
  35. RUS Rural Utilities Electric Program — Direct 5 percent
  36. RUS Rural Utilities Electric Program — Municipal Rate [Note #8]
  37. RUS Water and Waste Disposal Systems Loans and Grants Section 306C
  38. RUS Water and Waste Disposal Systems for Rural Communities — Grant
  39. RUS Water and Waste Disposal Systems for Rural Communities — Loans [Note #2]
  40. RUS Water and Waste Guaranteed Loans
- Programs and Activities with Less Than One Million in FY 2016 Expenditures
1. CCC Dairy Domestic Donations
  2. CCC Export 416 Ocean Transportation [Note #8]
  3. CCC Export Guarantee Program Level [Note #8]
  4. CCC Feedstock Flexibility Program
  5. CCC Supplemental Revenue Assistance Payments Program [Note #8]
  6. CCC Sugar Purchase Program
  7. CCC Tobacco Transition Payment Program [Note #8]
  8. CCC Trade Adjustment Assistance Program
  9. FSA Hurricane Sandy — Emergency Conservation Program
  10. FSA Reforestation Pilot Program

11. FS Hurricane Sandy — Capital Improvement and Maintenance
12. FS Hurricane Sandy — Emergency Forest Restoration Program
13. RUS Delta Regional Authority Grants — Water & Waste Projects
14. RUS Electric Loan Programs (CFDA 10.850) — Direct Treasury Rate [Note #8]
15. RUS Rural Energy Savings Program
16. RUS Rural Utilities Electric Program —Municipal Rate [Note #8]

Overpayment Recaptures with and without Recapture Audit Programs

USDA had mechanisms in place to collect overpayments, even prior to the establishment of official payment recapture audits. For the FY 2017 AFR Recapture reporting period [Note #4], USDA recovered \$614.55 million out of the identified \$616.58 million through methods outside of Recapture Audit Programs (see [Table 17.1](#) for additional breakout). The following table provides detailed information regarding the recoveries collected through official payment recapture audits.

**TABLE 17:** Overpayment Recaptures with Recapture Audit Programs (\$ in Millions)

Overpayments Recaptured through Payment Recapture Audits (\$in Millions) [Note #4]																						
Program or Activity	Contracts					Grants					Loans					Other					Total	
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured
Supplier Credit Recovery Audit Program [Note #5]	\$0.28	\$0.28	100%	100%	100%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.28	\$0.28
APHIS Internal Program	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.18	\$0.18	100%	100%	100%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.18	\$0.18
FSA/CCC Internal Program [Note #9]	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$155.15	\$157.41	101.46%	96.00%	97.00%	\$65.08	\$60.67	93.22%	94.00%	95.00%	\$220.23	\$218.08

Overpayments Recaptured through Payment Recapture Audits (\$in Millions) [Note #4]																						
Program or Activity	Contracts					Grants					Loans					Other					Total	
	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured	CY Recapture Rate	CY + 1 Recapture Rate Target	CY + 2 Recapture Rate Target	Amount Identified	Amount Recaptured
NIFA Internal Program	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$19.69	\$11.10	56.37%	58.00%	60.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$19.69	\$11.10
RD Internal Programs	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$2.44	\$1.97	80.74%	0.00%	0.00%	\$3.89	\$3.76	96.66%	91.00%	92.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$6.33	\$5.73
RMA-Federal Crop Insurance Corporation [Note #6]	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$0.00	\$0.00	0.00%	0.00%	0.00%	\$4.59	\$10.16	221.35%	100%	100%	\$4.59	\$10.16
<b>TOTAL</b>	<b>\$0.28</b>	<b>\$0.28</b>	<b>100.00%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>\$22.31</b>	<b>\$13.25</b>	<b>59.39%</b>	<b>58.00%</b>	<b>60.00%</b>	<b>\$159.04</b>	<b>\$161.17</b>	<b>101.34%</b>	<b>96.00%</b>	<b>97.00%</b>	<b>\$69.67</b>	<b>\$70.83</b>	<b>101.66%</b>	<b>100.00%</b>	<b>100.00%</b>	<b>\$251.30</b>	<b>\$245.53</b>



**TABLE 17.1:** Overpayment Recaptures Outside of Recapture Audit Programs (\$ in Millions)  
[NOTE #4]

Program or Activity	Amount Identified	Amount Recaptured	Recapture Rate
AMS	\$0.05	\$0.05	100.00%
APHIS	\$0.20	\$0.20	100.00%
DA	\$0.00	\$0.00	N/A
FAS	\$0.01	\$0.01	100.00%
FNS	\$558.80	\$558.80	100.00%
FS	\$2.27	\$2.15	94.71%
FSA	\$45.09	\$47.28	104.86%
FSIS	\$0.00	\$0.00	N/A
GIPSA	\$0.00	\$0.00	N/A
NAD/OCR/OAO	\$0.00	\$0.00	N/A
NRCS	\$3.81	\$0.78	20.47%
OCFO/OBPA/OCIO	\$0.00	\$0.00	N/A
OGC	\$0.00	\$0.00	N/A
OIG	\$0.60	\$0.00	0.00%
OSEC/OCE	\$0.00	\$0.00	N/A
RBS	\$0.00	\$0.11	N/A
REE	\$4.55	\$4.71	103.52%
RHS	\$1.20	\$0.46	38.33%
RMA	\$0.00	\$0.00	N/A
RUS	\$0.00	\$0.00	N/A
<b>Total</b>	<b>\$616.58</b>	<b>614.55</b>	<b>99.67%</b>

**TABLE 18:** Disposition of Funds Recaptured Through Payment Recapture Audit Programs (\$ in Millions)

Program or Activity	Amount Recovered	Type of Payment	Agency Expenses to Administer the Program	Payment Recapture Auditor Fees	Financial Management Improvement Activities	Original Purpose	To OIG	Returned to Treasury	Other	Justification for "Other" Amounts
Supplier Credit Recovery Audit Program [Note #5]	\$0.28	Contracts	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.28	Funds in "Other" Column have not been distributed
APHIS Internal Program	\$0.18	Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$0.18	\$0.00	N/A
FSA CCC Internal Program	\$218.08	Loans Other	\$0.00	\$0.00	\$0.00	\$0.36	\$0.00	\$217.72	\$0.00	N/A
NIFA Internal Program	\$11.10	Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$11.10	\$0.00	N/A
RD Internal Program	\$5.73	Loans Grants	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00	\$4.45	\$1.28	Funds in "Other" Column have not been distributed
RMA-Federal Crop Insurance Corporation	10.16	Other	\$0.00	\$0.00	\$0.00	\$10.16	\$0.00	\$0.00	\$0.00	N/A
<b>Total</b>	<b>\$245.53</b>	<b>N/A</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$10.52</b>	<b>\$0.00</b>	<b>\$233.45</b>	<b>\$1.56</b>	<b>See justifications above.</b>

**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	Justification for amounts determined not to be collectable
Supplier Credit Recovery Audit Program	N/A	\$0.00	\$0.00	\$0.00	0.00	N/A
APHIS Internal Program	N/A	\$0.00	\$0.00	\$0.00	\$0.00	N/A
FSA/CCC Internal Program	Loans/ Other	\$6.26	\$1.60	\$0.00	\$0.07	Write offs due to finality rule, relief granted, deceased debtor, and small balances.
NIFA Internal Program	N/A	\$0.00	\$0.00	\$0.00	\$0.00	N/A
RD Internal Program	Loans Grants	\$1.35	\$0.84	\$4.50	\$0.00	N/A
RMA-Federal Crop Insurance Corporation	Other	\$0.97	\$0.35	\$4.64	\$0.00	N/A
<b>TOTAL [Note #7]</b>	<b>N/A</b>	<b>\$8.58</b>	<b>\$2.79</b>	<b>\$9.14</b>	<b>\$0.07</b>	<b>See justification above.</b>

**Note #1:** The Food for Progress Program and RD Voucher Program (Section 542) are participating in both the Supplier Credit Recovery Audit Program and in their respective agencies’ Internal Program.

**Note #2:** The RUS Water and Waste Disposal Systems for Rural Communities — Loans is participating in the Supplier Credit Recovery Audit Program and is covered under RD’s waiver (waiver mentioned in Note #3).

**Note #3:** OMB was notified of FNS’ determination in October 2016. FNS determined that they would be unable to conduct an official payment recapture audit on its programs because States make payments to FNS program recipients. RD’s and FSIS’ justifications were provided in the FY 2016 AFR.

- Note #4:** The FY 2017 AFR Recapture Reporting Period consists of 4th Qtr FY 2016, 1st Qtr FY 2017, 2nd Qtr FY 2017, and 3rd Qtr FY 2017.
- Note #5:** The Supplier Credit Recovery Audit's reporting timeframe is August 1, 2016, through July 31, 2017.
- Note #6:** RMA Recapture Rate percentages are occasionally greater than 100 percent; because the amount collected sometimes include amounts identified in previous years.
- Note #7:** USDA has a total of \$20.51 million dollars in amounts outstanding (i.e., 8.10 percent of the overpayments identified through payment recapture audits). USDA has a total of \$0.07 million dollars in amounts determined to not be collectable (i.e. 0.03 percent of the overpayments identified through payment recapture audits).
- Note #8:** These programs or activities had less than \$1 million in FY 2016 expenditures. Outlay, levels can vary year to year, which is why some of these programs are currently conducting recovery auditing despite being under the \$1 million IPERA threshold.
- Note #9:** [Table 17](#) FSA CCC Internal Programs Loans Receivables Identified (\$155.15) includes all receivables established in FY 2017. Collections (\$157.41) and included all collection, made in FY 2017, which includes collection made on establishments from prior years.

## ADDITIONAL COMMENTS: COMPLIANCE WITH IPERA REQUIREMENTS

The Office of Inspector General (OIG) conducts a compliance review of the Improper Payments Elimination and Recovery Act (IPERA) requirements annually. Compliance reviews evaluate adherence to 6 primary IPERA Requirements:

1. Published an Agency Financial Report (AFR) or Performance and Accountability Report (PAR) for the most recent fiscal year and posted that report and any accompanying materials required by the Office of Management and Budget (OMB) on the agency Web site;
2. Conducted a program-specific risk assessment for each program or activity that conforms with Section 3321 note of Title 31 U.S.C. (if required);
3. Published improper payment estimates for all programs and activities identified as susceptible to significant improper payments under its risk assessment (if required);
4. Published programmatic corrective action plans in the AFR or PAR (if required);
5. Published, and is meeting, annual reduction targets for each program assessed to be at risk and estimated for improper payments (if required and applicable); and
6. Reported 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 AFR or PAR.

OIG's USDA IPERA Compliance Review for FY 2016, dated May 2017, found that USDA agencies did not fully comply with three of six IPERA requirements. It appears that

USDA will be non-compliant with three of the six IPERA requirements for FY 2017. They are:

1. Failure to publish IP estimates for all high-risk programs: FNS SNAP and CACFP.
2. Failure to publish and meet annual reduction targets: FSA NAP; and FNS NSLP, SBP, and WIC.
3. Failure to achieve an IP rate under 10 percent: FNS NSLP and SBP.

OIG will conduct the FY 2017 USDA's IPERA Compliance Review and publish a report in FY 2018.

Programs that are non-compliant with IPERA for one fiscal year must submit a plan to the Senate Committee on Homeland Security and Governmental Affairs, the House Committee on Oversight and Government Reform, and the OMB, describing the actions that the agency will take to become compliant. For programs that are non-compliant for 2 consecutive fiscal years, the Director of OMB will review the program and determine if additional funding would help the agency come to compliance. If the Director of OMB determines that additional funding would help the agency become compliant, the agency shall obligate an amount of additional funding determined by the Director of OMB to intensify compliance efforts. For programs that are non-compliant for 3 consecutive fiscal years, the agency will submit to Congress a reauthorization proposal for each discretionary program or proposed statutory changes necessary to bring the program into compliance.

Information on the findings, accomplishments, and planned actions are included in Section 1: Management's Discussion and Analysis, Compliance with Laws and Regulations.

### Status of USDA Programs Non-compliant with IPERA

The following program is projected to be non-compliant with IPERA for one year:

The Farm Service Agency (FSA) Non-insured Crop Assistance Program (NAP) was not in compliance because the actual results exceeded error rate targets.

The following program is projected to be non-compliant with IPERA for 3 years:

Food and Nutrition Service (FNS) Supplemental Nutrition Assistance Program (SNAP).

SNAP was not in compliance in FY 2015 because the actual results exceeded error rate targets, and in FY 2016 and FY 2017, due to not publishing an improper error rate.

The following programs are projected to be non-compliant with IPERA for 4 or more years:

- FNS National School Lunch Program (NSLP) because the error rate was over 10 percent;
- FNS National School Breakfast Program (SBP) because the error rate was over 10 percent;
- FNS Special Supplemental Nutrition Program; Women, Infants, and Children (WIC) was not compliant because the actual results exceeded error rate targets; and
- FNS Child and Adult Care Food Program (CACFP) was considered not in compliance, because an improper payment rate was not published.

## VI. 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 2017 by onboarding new users within Rural Development (RD), the Risk Management Agency (RMA), and the National Finance Center. 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, the Commodity Credit Corporation (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.
2. The General Services Administration's System for Award Management (SAM) database is checked at pre-award for most contracts, grants, cooperative agreements and insurance programs. All USDA payments made through Treasury are checked against this database on a post payment basis.
3. The Credit Alert System or Credit Alert Interactive Voice Response System of the Department of Housing and Urban Development (CAIVRS) is used by USDA loan programs at time of award. RD signed a memorandum of understanding with Treasury and updated its system of records notice. RD began transmitting its CAIVRS data to Treasury in June 2017.

4. RD is using the Debt Check Database of the Treasury (Debt Check) for the majority of pre-award verifications.
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 the food and nutrition programs are required to use prisoner data when making awards.

USDA's use of these databases is through Treasury's DNP portal and directly from the database providers. Pre-award checks for contracts and grants are still performed directly through the SAM system rather than through the DNP portal by most USDA agencies. However, RD utilizes the DNP portal for single searches for pre-award checks. USDA has not been able to complete the computer matching agreements needed to convert these eligibility verification checks to the DNP portal. The primary reason for this is USDA's extensive use of system interfaces in their business processes. 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 their partner banks verify eligibility through an automated interface with the U.S. Department of Housing and Urban Development CAIVRS system. Currently, the DNP portal only offers CAIVRS through online single search.

USDA uses two databases not listed in the Improper Payments Elimination and Recovery Improvement Act (IPERIA) to further prevent improper payments.

1. The Federal Awardee Performance and Integrity Information System (FAPIIS) is used before making some high-dollar awards.
2. FNS' system of disqualified recipients is used to check SNAP program participants.

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 USDA's long-term business partners as ownership changes. Utilizing Treasury's post-payment adjudication process allowed the Natural Resources Conservation Service (NRCS) to detect a payment to a deceased individual. The payment itself was legitimate; however, it needed to be made to the estate rather than to the deceased individual.

# Fraud Reduction Report

## OVERVIEW

As required by Office of Management and Budget (OMB) Circular No. A-123, the U.S. Department of Agriculture (USDA) is in the process of implementing a Departmental-Level Enterprise Risk Management (ERM) program that effectively identifies risks; assesses, analyzes, and prioritizes those risks; and formulates and documents the risks. To date, a number of USDA agencies have implemented ERM. The implementation of ERM has helped agencies to better identify risk and vulnerabilities and appropriately take action to reduce and prevent fraud. As the Department continues to implement the requirement of OMB Circular A-123, the Department will use agency best practices to identify and minimize risks and vulnerabilities to prevent fraud. Outlined below are specific actions the Department is taking to integrate fraud risk prevention and monitoring into the management of internal controls.

## RISK ASSESSMENT:

The A-123 Appendix A, Assessment of Internal Control over Financial Reporting, annual risk assessment incorporates specific internal and external fraud risk questions in the “Inherent Risk Considerations” section. The questions allow the respondent to rate the risk of the agency’s process as either highly susceptible, susceptible, or not susceptible to fraud. The overall risk rating is dependent on the agency’s responses, tallied along with other risk responses to determine the level and frequency of testing.

Additionally, as a requirement of the Statement on Auditing Standards (SAS)

No. 122, Clarification and Recodification, specifically Audit (AU) Section 240, Consideration of Fraud in a Financial Statement Audit, the Office of the Chief Financial Officer (OCFO) disseminates and consolidates responses to a fraud questionnaire among USDA’s financial community.

## TECHNOLOGY:

The A-123 Appendix A annual assessment includes 15 automated, continuously monitored financial controls. The controls are configured in the USDA financial system to detect potential fraud/misuse. Configuration changes are immediately reported as exceptions to responsible control owners and first line supervisors, and the Internal Controls Division has the ability to run real-time system reports to further monitor exceptions. An oversight workflow is established where the OCFO’s Internal Audit and Compliance Group is responsible for assigning remediation tasks to correct any exception issues. Reports are available to be communicated to the USDA agencies at any time.

## ENTITY LEVEL CONTROLS:

USDA agencies and staff offices are required to complete an annual Entity Level Control (ELC) assessment. The ELC assessment was recently updated to comply with the most current Government Accountability Office (GAO) — Standards for Internal Control in the Federal Government (“Green Book”). The assessment includes GAO Principle 8, which assesses fraud risk. Attributes include: types of fraud, fraud risk factors, and



responses to fraud risks. Objectives include: identifying fraud risks based on fraud risk factors; assessing identified fraud risks for significance; and properly responding to identified fraud risks.

### ACCESS CONTROLS:

The USDA consolidated financial systems' access controls are managed through the Governance Risk and Compliance (GRC) Access Control module. Access controls are configured such that conflicting accounting roles are prohibited, unless there is an immediate need that is fully documented, mitigated, and supported by compensating controls. There is a standard process for the review and approval of mitigating controls to ensure that control strategies are properly documented and carried out by the requesting agency.

### SEGREGATION OF DUTY (SOD):

USDA's consolidated financial system is configured such that conflicting roles are prohibited, which ensures proper segregation of duty (SOD). Those who initiate a transaction in the financial system are not allowed to also approve that same transaction. There are also financially significant, agency specific SOD controls that are documented and tested annually during the A-123, Appendix A assessment. The strict prohibition of conflicting roles reduces the risk of fraud.

### ADDITIONAL FRAUD RISK INTEGRATION EFFORTS:

OCFO has awarded a support contract to Grant Thornton to assist us in identifying more specific fraud risk control objectives to be assessed annually for those business processes at highest risk for fraud, as they relate to financial reporting.

#### Agency Transactional Control Objectives to Reduce Fraud Risk:

\*Subset of full A-123, Appendix A Control Library

Process	Objective	Risk
Accounts Receivable	Invoices are complete, accurate, and appropriately represent the fees due/services provided.	Invoices generated are not complete and accurate, and do not appropriately represent the fees due/services provided.
Awards Contracts	Contracts are awarded to eligible vendors (includes Do Not Pay verification).	Contracts are awarded to inactive vendors or vendor record not found in the financial system (includes Do Not Pay verification).
Charge Card Issuance	Employees assigned as Approving Officials for purchase card transactions are authorized.	Employees assigned as Approving Officials for purchase card transactions are not authorized.

Process	Objective	Risk
<b>Collections</b>	Cash receipts are protected before they are deposited.	Cash receipts are not protected before they are deposited, which may result in fraudulent activity.
<b>Credit Extension</b>	Direct loan obligations recorded in the general ledger are valid, pertain to the purpose of the appropriation, and are supported by documentation.	Direct loan obligations recorded in the general ledger are not valid, do not pertain to the purpose of the appropriation, and are not supported by documentation.
<b>Daily Escrow Processing</b>	Loss Claims are paid to valid insurance companies in compliance with collateral arrangements included in reinsurance agreement.	Loss Claims may be paid without appropriate risk coverage for Agency.
<b>Disbursements</b>	Disbursements are valid and supported by sufficient and relevant documentation.	Disbursements are not valid and supported by sufficient and relevant documentation.
<b>Grant Awards and Modifications</b>	Grants are awarded to eligible recipients (includes Do Not Pay verification).	Grants are awarded to ineligible recipients (includes Do Not Pay verification).
<b>Loss Claims</b>	Loss Claims are for valid policy reinsurance year.	Unauthorized or incomplete Loss Claims may be paid.
<b>Monitoring — Charge Card Cycle</b>	Duties are adequately segregated.	Users are able to perform incompatible duties.
<b>Monitoring — Fleet Card</b>	Fleet card transactions adhere to Federal laws and regulations within the terms of the fleet card agreement.	Fleet card transactions do not adhere to Federal laws and regulations within the terms of the fleet card agreement.
<b>Monitoring — Purchase Card</b>	Purchase card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Purchase card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.
<b>Monitoring — Travel Card</b>	Travel card transactions adhere to Federal laws and regulations within the terms of the purchase card agreement.	Travel card transactions do not adhere to Federal laws and regulations within the terms of the purchase card agreement.

Process	Objective	Risk
<b>Payments — Farm Support</b>	Recorded obligations and payments for the Commodity Credit Corporation (CCC) farm support programs are valid (made to only eligible farms/producers) and are approved/ authorized by management.	Recorded obligations and payments for CCC farm support programs are not valid (made to ineligible farms/producers) and/or are not approved/authorized by management.
<b>Payroll Processing</b>	Amounts recorded in the general ledger for payroll are accurate, valid, and properly supported by sufficient and relevant documentation.	Amounts recorded in the general ledger for payroll are not accurate, valid, and properly supported by sufficient and relevant documentation.
<b>Relocation Allowance</b>	Claims for relocation expenses are timely reviewed for completeness and accuracy in accordance to agency directives and Federal Travel Regulation (FTR) requirements.	Claims for relocation expenses are not timely reviewed for completeness and accuracy in accordance with agency directives and FTR requirements.

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

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## BACKGROUND

The Inspector General Act Amendments of 1988 (Public Law [P.L.] 100-504), require that each agency head submit semi-annual reports to Congress on the actions taken in response to the 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 (AFR).

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

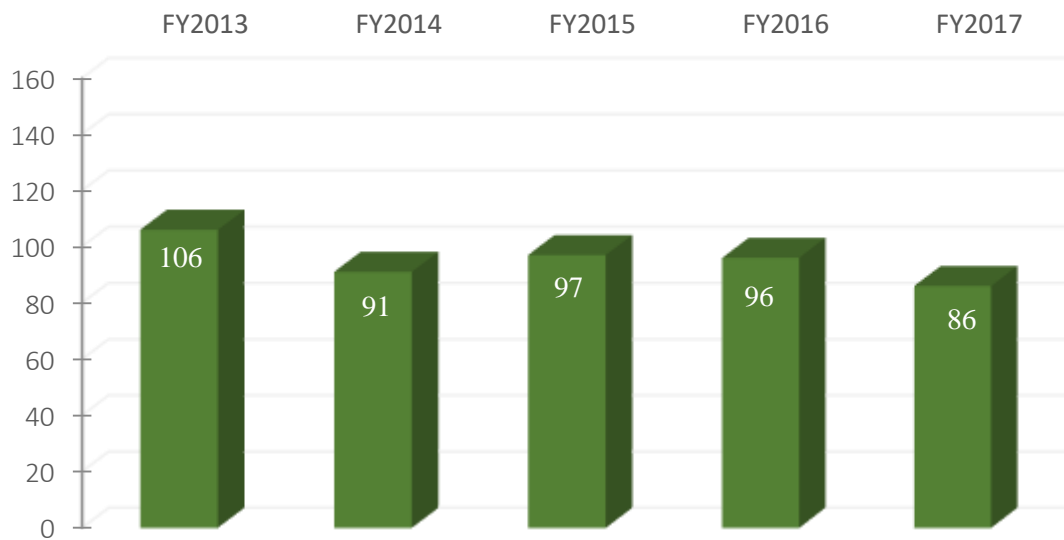
corrective actions and submit closure documentation, OCFO reviews the submitted documentation for sufficiency and determines if final action can be completed.

## FISCAL YEAR RESULTS (as of June 30, 2017)

USDA agencies closed 32\* audits during fiscal year (FY) 2017. As of June 30, 2017, OIG and USDA agencies reached management decisions on 20 audits. As shown in the following exhibit, the Department's inventory of open audits decreased in FY 2017 by 10 percent from 96 to 86.

*\*This number includes one interim audit report issued by the Office of the Inspector General during the period. Interim reports are issued to agencies to identify and remediate deficiencies in a short period of time.*

**EXHIBIT 10: Open Audit Inventory**



**Note:** The FY 2016 ending balance was revised from 87 to 96 to include: (1) ten audits transmitted from the OIG during the period August 1, 2016, to September 30, 2016, and (2) one audit that was included in the FY 2016 balance in error. These adjustments are also reflected in the beginning balances for audits with disallowed costs (DC) and/or Funds to be Put to Better Use (FTBU) shown in [Exhibit 12](#) and [Exhibit 14](#).

**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 11](#) 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 1 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 11:** 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	Actions that management has taken to address the audit findings and recommendations.
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"> <li>▪ Reductions in outlays or other savings;</li> <li>▪ Deobligation of funds from programs or operations, or the withdrawal of subsidy costs on loans, guarantees, or bonds; and</li> <li>▪ Implementation of recommended improvements for grants or contracts, or unnecessary expenditures noted in pre-award reviews of contracts or grant agreements.</li> </ul>
Management Decision	Agreement between management and OIG on corrective action needed to address audit findings and recommendations.

## BEGINNING AND ENDING INVENTORY FOR AUDITS WITH DISALLOWED COSTS AND FUNDS TO BE PUT TO BETTER USE

Of the 32 audits that achieved final action during the fiscal year, 5 contained DC. The number of DC audits remaining in the inventory at the end of the fiscal year is 24, with a monetary value of \$48,089,948. See [Exhibit 12](#) below.

**EXHIBIT 12:** Inventory of Audits with Disallowed Costs

Audits with Disallowed Costs (DC)	# of Audits	Amount (\$)
Beginning of the Period (October 1, 2016)	26	\$103,962,217
Plus: New Management Decisions	3	\$3,589,368
Total Audits Pending Collection of DC	29	\$107,551,585
Less: Adjustments (see <a href="#">Exhibit 13</a> )		(\$50,743,105)
Revised Subtotal		\$56,808,480
Less: Final Actions (Recoveries)	5	\$8,718,532
Audits with DC Requiring Final Action at the End of the Period (June 30, 2017)	24	\$48,089,948

*[Exhibit 12](#) and [Exhibit 14](#) 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 12](#) and [Exhibit 14](#) does not equal the total resolved audit inventory balance in [Exhibit 10](#). The Beginning balance in [Exhibit 12](#) was*

*adjusted to include four audits with DC that were transmitted from OIG during the period August 1 to September 30, 2016.*

As shown in [Exhibit 12](#) above, for DC audits that achieved final action in FY 2017, OIG and management agreed to collect \$59,461,637 (\$50,743,105 + \$8,718,532). Adjustments were made totaling \$50,743,105 (85 percent of the total) for the following reasons: (1) Appeals; (2) Agency Discovery; (3) Documentation; (4) Legal Decision; (5) Other Changes; (6) Payment Owed/Made; and (7) Write-off. Management recovered the remaining \$8,718,532.

**EXHIBIT 13: Distribution of Adjustments to Disallowed Cost**

Category	Amount (\$)
Appeals	\$158,487
Agency Discovery	\$18,863
Documentation	\$3,710,383
Legal Decision	\$119,104
Other Changes	\$3,100,000
Payment Owed/Made	\$43,516,842
Write-off	\$119,426
<b>Total</b>	<b>\$50,743,105</b>

Final action occurred on seven audits that involved FTBU amounts. The number of FTBU audits remaining in the inventory to date is eight, with a monetary value of \$184,328,911 (see [Exhibit 14](#)).

**EXHIBIT 14: Inventory of Audits with Funds to Be Put to Better Use (FTBU)**

\*Includes a Natural Resource Conservation Service (NRCS) audit report (10601-0004-KC) with FTBU associated with recommendations not identified in the audit report.

Audits with FTBU	# of Audits	Amount (\$)
Beginning of the Period (October 1, 2016)	14	\$756,509,456
Plus: New Management Decisions	1	\$111,399,656
Total Audits Pending	15*	\$867,909,112
Less: Final Actions	7*	\$683,580,201
Audits with FTBU Requiring Final Action at the End of the Period (June 30, 2017)	8	\$184,328,911
Disposition of FTBU:		
FTBU Implemented		\$683,580,201
FTBU Not Implemented		\$0
Total FTBU Amounts for Final Action Audits		\$683,580,201

*The Beginning balance in [Exhibit 14](#) was adjusted to include one audit with FTBU that was transmitted from OIG during the period August 1 to September 30, 2016.*

The number of audits open one or more years without final action in FY 2017 increased from 62 to 65 audits, or a 5-percent increase. The 65 audits include 18 audits that reached one year past the management decision date during FY 2017. USDA agencies continue to pursue remediation and/or compensating controls to address many of the underlying issues identified in these older audits.

**EXHIBIT 15:** Increase in the Number of Audits Open One or More Years Past the Management Decision Date (MDD)

Audits 1 Year or More Past MDD	# of Audits
Beginning of the period	62**
Less: Audits closed	15
Subtotal FY 2017 audits 1 year or more past MDD	47
Plus: Audits that reached 1 year past MDD during FY 2017	18
Ending balance as of September 30, 2017	65

\*\*The beginning balance was adjusted to include six audits that turned one year past the management decision date during the period August 1 to September 30, 2016.

Agencies have completed planned corrective actions, with the exception of associated DC, on 11 audits (see [Exhibit 16](#) below).

**EXHIBIT 16:** Distribution of Audits Open 1 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	\$0	\$0	53	\$2,221,300	\$7,259,731	11	\$42,279,280	\$65,690,453



## MANAGEMENT’S REPORT ON AUDIT FOLLOW UP

Audits without final action 1 year or more past MDD, and behind schedule (excluding collections) are listed individually in [Exhibit 17](#). The audits are categorized by agency and reason why final action has not occurred. More detailed information on audits on schedule, and audits under collection, is available from OCFO.

### EXHIBIT 17: 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		Reason Pending
				DC (\$)	FTBU (\$)	
01601-0002-32	07/15/2013	03/31/2018	National Organic Program — Organic Milk Operations	\$0	\$0	Issuance of Policy Guidance and/or Legislation
<b>AMS Subtotal (1)</b>				<b>\$0</b>	<b>\$0</b>	

#### ANIMAL AND PLANT HEALTH INSPECTION SERVICE (APHIS)

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
33601-0001-41	12/09/2014	03/30/2018	Oversight of Research Facilities	\$0	\$420,299	Issuance of Policy Guidance and/or Legislation
50601-0001-32	09/22/2015	10/31/2017	Controls Over APHIS’ Introduction of Genetically Engineered Organism	\$0	\$0	Pending Administrative Action
50601-0004-31	03/30/2016	10/31/2017	USDA’s Response to Antibiotic Resistance	\$0	\$0	Pending Administrative Action
50601-0008-TE	01/28/2005	03/30/2018	Controls over APHIS’ Issuance of Genetically Engineered Organisms Release Permits	\$0	\$0	Issuance of Policy Guidance and/or Legislation
<b>APHIS Subtotal (4)</b>				<b>\$0</b>	<b>\$420,299</b>	

**AGRICULTURAL RESEARCH SERVICE (ARS)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
50601-0001-12	03/23/2016	12/31/2017	Research, Education, and Economics Compliance with Contractor Past Performance Reporting Requirements	\$0	\$0	Pending Administrative Action
50601-0006-TE	03/04/2004	12/31/2017	ARS' Controls Over Plant Variety Protection and Germplasm Storage	\$0	\$0	Issuance of Policy Guidance and Legislation
50601-0010-AT	03/8/2004	12/31/2017	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
<b>ARS Subtotal (3)</b>				<b>\$0</b>	<b>\$0</b>	

**COMMODITY CREDIT CORPORATION (CCC)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
06401-0005-11	02/12/2016	09/30/2018	CCC's Financial Statements for FY 2015 and 2014	\$0	\$0	Issuance of Policy Guidance and/or Legislation
06401-0020-FM	11/09/2005	09/30/2018	CCC's Financial Statements for FY 2005 and 2004	\$0	\$0	Pending Administrative Action
<b>CCC Subtotal (2)</b>				<b>\$0</b>	<b>\$0</b>	

**FOREIGN AGRICULTURAL SERVICE (FAS)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
07601-0001-22	03/31/2014	12/31/2017	Private Voluntary Organization Grant Fund Accountability	\$242,676	\$8,481	Pending administrative Action
50601-0001-22	03/28/2013	6/30/2018	Effectiveness of FAS' Recent Efforts to Implement Measurable Strategies Aligned to the Department's Trade Promotion and Policy Goals	\$0	\$0	Issuance of Policy Guidance and/or Legislation
50601-0002-16	02/06/2014	6/30/2018	Section 632(a) Transfer of Funds from USAID to USDA for Afghanistan	\$0	\$0	Issuance of Policy Guidance and/or Legislation
<b>FAS Subtotal (3)</b>				<b>\$242,676</b>	<b>\$8,481</b>	

**FOOD AND NUTRITION SERVICE (FNS)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
27002-0011-13	09/28/2012	12/31/2017	Analysis of FNS' Supplemental Nutrition Assistance Program Fraud Prevention and Detection Efforts	\$0	\$0	Pending Administrative Action
27004-0001-22	09/25/2014	12/31/2017	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
27099-0049-TE	09/04/2007	6/30/2018	Disaster Food Stamp Program for Hurricanes Katrina and Rita in Louisiana, Mississippi, and Texas	\$0	\$0	Issuance of Policy Guidance and/or Legislation

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
27601-0001-10	07/26/2016	11/30/2017	Compliance with SNAP Certification of Eligible Households Requirements	\$0	\$0	IT System Implementation and/or Enhancement
27601-0001-23	01/03/2013	10/31/2017	National School Lunch Program-Food Service Management Company Contracts	\$0	\$0	Pending Administrative Action
27601-0001-31	07/31/2013	6/30/2018	Controls for Authorizing Supplemental Nutrition Assistance Program Retailers	\$0	\$6,700,000	Issuance of Policy Guidance and/or Legislation
27601-0002-31	09/29/2016	10/15/2017	FNS Controls over SNAP Benefits for Able-Bodied Adults Without Dependents	\$0	\$0	Pending Administrative Action
27601-0002-41	09/23/2015	6/30/2018	FNS Quality Control Process for SNAP Error Rate	\$0	\$0	Pending Administrative Action
27601-0003-10	09/27/2016	10/31/2017	New Mexico SNAP Determination of Eligibility	\$9,784	\$0	Pending Administrative Action
27601-0006-10	09/13/2016	10/31/2017	Missouri's Compliance with SNAP Certification of Eligible Households Requirements	\$0	\$0	Pending Administrative Action
50601-0014-AT	08/16/2010	10/31/2017	Effectiveness and Enforcement of Suspension and Debarment Regulations	\$0	\$0	Pending Administrative Action
<b>FNS Subtotal (11)</b>				<b>\$9,784</b>	<b>\$6,700,000</b>	

**FARM SERVICE AGENCY (FSA)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
03501-0001-12	05/26/2015	12/31/2017	Review of Farm Service Agency's Initiative to Modernize and Innovate the Delivery of Agricultural Systems (MIDAS)	\$0	\$0	IT System Implementation and/or Enhancements
03601-0001-22	07/31/2014	09/30/2018	Compliance Activities	\$0	\$0	Issuance of Policy Guidance and/or Legislation
03601-0002-22	07/31/2014	12/30/2017	Economic Adjustment Assistance to Users of Upland Cotton	\$1,518,068	\$0	Pending Administrative Action
03601-0018-CH	08/10/2010	12/30/2017	Farm Loan Security	\$0	\$0	IT System Implementation and/or Enhancements
03702-0001-32	12/10/2014	10/01/2018	Farm Service Agency Livestock Forage Program	\$208,374	\$0	IT System Implementation and/or Enhancements
<b>FSA Subtotal (5)</b>				<b>\$1,726,442</b>	<b>\$0</b>	

**FOOD SAFETY AND INSPECTION SERVICE (FSIS)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
24601-0001-23	08/18/2015	12/31/2018	Implementation of the Public Health Information System for Domestic Inspection	\$0	\$0	Issuance of Policy and/or guidance
24601-0004-31	07/29/2015	09/30/2017	FSIS Ground Turkey Inspection and Safety Protocols	\$0	\$0	Issuance of Policy and/or guidance
50601-0006-HY	07/15/2009	6/30/2018	Assessment of USDA's Controls to Ensure Compliance with Beef Export Requirements	\$0	\$0	IT System Implementation and/or Enhancements
<b>FSIS Subtotal (3)</b>				<b>\$0</b>	<b>\$0</b>	

**NATURAL RESOURCES CONSERVATION SERVICE (NRCS)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
10601-0002-31	07/30/2014	11/30/2017	NRCS Conservation Easement Compliance	\$0	\$0	Issuance of Policy and/or Guidance
50024-0009-11	05/13/2016	09/30/2017	USDA Fiscal Year 2015 Compliance with Improper Payments Requirements	\$0	\$0	Pending Administrative Action
<b>NRCS Subtotal (2)</b>				<b>\$0</b>	<b>\$0</b>	

**OFFICE OF THE CHIEF INFORMATION OFFICER (OCIO)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
50501-0001-IT	08/15/2011	06/30/2018	USDA’s Management and Security Over Wireless Handheld Devices	\$0	\$0	Pending Administrative Action
50501-0002-12	11/15/2011	09/30/2018	Fiscal Year 2011 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and/or Guidance
50501-0002-IT	11/15/2010	06/30/2018	USDA FY 2010 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and/or Guidance
50501-0015-FM	11/18/2009	01/01/2018	OCIO FY 2009 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and or Guidance
50501-0003-12	11/15/2012	09/30/2019	USDA, Office of the Chief Information Officer, Fiscal Year 2012 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and/or Guidance
50501-0004-12	11/26/2013	06/30/2018	USDA, Office of the Chief Information Officer, Fiscal Year 2013 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and/or Guidance
50501-0005-12	09/26/2014	09/30/2017	CIGIE Cloud Computing Initiative — Status of cloud — computing Environment Within The USDA	\$0	\$0	Pending Administrative Action
50501-0006-12	11/12/2014	06/30/2018	USDA, Office of The Chief Financial Officer, Fiscal Year 2014 Federal Information Security Management Act	\$0	\$0	Issuance of Policy and/or Guidance

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
50501-0008-12	11/07/2015	09/30/2018	Office of the Chief Information Officer, FY 2015 Federal Information Security Modernization Act	\$0	\$0	Issuance of Policy and/or Guidance
88401-0001-12	08/02/2012	06/30/2018	OCIO's FY's 2010 and 2011 Funding Received for Security Enhancements	\$0	\$0	Pending Administrative Action
88501-0002-12	07/17/2014	09/30/2017	Management and Security over USDA's Universal Telecommunications Network	\$120,635	\$0	Pending Administrative Action
<b>OCIO Subtotal (11)</b>				<b>\$120,635</b>	<b>\$0</b>	

**RURAL DEVELOPMENT (RD)**

Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
04601-0001-31	07/18/2014	10/31/2017	Single Family Housing Direct Loan Servicing and Payment Subsidy Recapture	\$34,338	\$0	Pending Administrative Action
04601-0018-CH	09/27/2012	12/31/2017	Rural Rental Housing Program Maintenance Costs and Inspection Procedures	\$0	\$0	Issuance of Policy Guidance and/or Legislation
340001-0001-21	08/08/2016	09/30/2017	Rural Energy for America Program	\$2,906	\$0	Pending Administrative Action
34601-0006-AT	06/25/2010	09/30/2017	Rural Business-Cooperative Service's Intermediary Relending Program	\$0	\$0	Pending Administrative Action



Audits	Date Issued	Revised Completion Date	Audit Title	Monetary Amount		Reason Pending
				DC (\$)	FTBU (\$)	
04901-0001-13	09/24/2015	09/30/2017	Review of Rural Rental Housing's Tenant and Owner Data Using Data Analytics	\$27,719	\$0	IT System Implementation and/or Enhancements
85401-0005-11	11/12/2015	9/30/2018	Rural Development Financial Statement for FY 2015 and 2014	\$0	\$0	Pending Administrative Action
04601-0002-31	03/28/2016	09/30/2017	Rural Development Single Family Housing Direct Loan Program Credit Reporting	\$0	\$130,951	Pending Administrative Action
50601-0002-21	03/31/2016	09/30/2017	Hispanic and Women Farmers and Ranchers Claim Resolution Process	\$0	\$0	Pending Administrative Action
34601-0001-31	03/25/2014	09/30/2017	Rural Business — Cooperative Service Grant Programs — Duplication	\$56,800	\$0	Pending Administrative action
<b>RD Subtotal (9)</b>				<b>\$121,763</b>	<b>\$130,951</b>	
<b>Total Number Audits (53)</b>			<b>Total</b>	<b>\$2,221,300</b>	<b>\$7,259,731</b>	

## Reduce the Footprint

The USDA successfully implemented the OMB policy “Reduce the Footprint” formally known as “Freeze the Footprint” as an initiative to maintain its office and warehouse square footage baselines at the FY 2012 levels, through 2015. Beginning in FY 2016, the policy shifted to an emphasis on disposal of excess real property held by the Federal Government, thus making the overall Federal real estate asset portfolio more efficient. CFO Act entities are required to define annual targets to reduce their total square footage of domestic office and warehouse inventories in comparison to the revised FY 2015 “Reduce the Footprint” baseline, as compiled by the General Services Administration (GSA).

### EXHIBIT 18: REDUCE THE FOOTPRINT BASELINE COMPARISON

Square Footage (SF) (In Millions)

Fiscal Year 2015 Baseline	2016	Change (2015–2016)
32.62	32.20	-1.31%

### EXHIBIT 19: Reporting of Operations and Maintenance Costs—Owned Facilities and Structures

Operations and Maintenance (O&M) Costs (In Millions)

Fiscal Year 2015 Baseline	2016	Change (2015–2016)
\$602.30	\$603.24	+\$0.16

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 2012, Departments have been projecting their five-year office and warehouse requirements. The Department has set forth processes and procedures to manage space needs at or below the FY 2015 baseline, represented in the figures above.

USDA continues to support footprint reductions by identifying opportunities for disposal, consolidation, and increased utilization of real property. The Department

issued an updated AGPMR Advisory ([No 16-01](#)) “Space Utilization Rate Policy,” clarifying 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 § 3.91. On October XX, 2017, the Department published in the Federal Register (insert citation) a notice providing the revised listing of penalties. The table below briefly describes the penalty, under which authority, and anticipated current penalty amount.

### EXHIBIT 20: Civil Monetary Penalties

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Improper recordkeeping first time offense; pesticides	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136i-1(d)	4/7/2010	\$905
Improper recordkeeping subsequent offense; pesticides	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136i-1(d)	4/7/2010	\$1,759
Violation of the unfair conduct rule	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499b(5)	4/7/2010	\$4,928
Willful violation of the licensing requirements	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499c(a)	4/7/2010	\$1,573 plus \$393 per day for as long as offense occurs.
Unwillful violation of the licensing requirements	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499c(a)	4/7/2010	\$393 for each non-willful offense
Violative transaction	Perishable Agricultural Commodities Act, codified at 7 U.S.C. 499h(e)	4/7/2010	\$3,145
Violation	Export Apple Act, 7 U.S.C. 586	4/7/2010	\$144-\$14,372
Violation	Export Grape and Plum Act, codified at 7 U.S.C. 596	4/7/2010	\$275-\$27,500

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$808-\$16,169
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	\$1,232-\$12,319
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	\$1,232
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	\$1,425-\$14,253

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$1,425-\$14,253
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	\$11,119
Failure to remit any assessment or for a violation of a program regarding wheat and wheat foods research	Wheat and Wheat Foods Research and Nutrition Education, 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	\$1,294-12,941
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	\$1,294
Violation of an order	Dairy Promotion Program, codified at 7 U.S.C. 4510(b)	4/7/2010	\$2,393
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	\$737-\$7,370
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	\$737
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	\$2,224

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$1,112
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	\$1,112-\$11,119
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	\$1,112
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	\$1,811-\$18,107
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	\$1,811
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	\$880-\$8,797
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	\$880
Failure to pay, collect, or remit any assessment or fee, or for a violation of a program	Lime Research, Promotion, and Consumer Information Act of 1990, codified at 7 U.S.C. 6207(c)(1)	4/7/2010	\$880-\$8,797

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$880
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	\$1,811
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	\$9,054
Failure to pay, collect, or remit any assessment or fee, or for an unwillful 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	\$880-\$8,797
Failure to pay, collect, or remit any assessment or fee, or for a willful 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	\$17,593-\$175,931
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	\$9,054
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	\$17,593
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	\$803-\$8,295

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$8,295
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	\$1,617
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	\$808
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	\$1,527–\$15,270 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	\$1,527-\$15,270 for each day the violation occurs
Violation of an order or regulation issued under the Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(c)(1)(A)(i)	Canola and Rapeseed Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7448(c)(1)(A)(i)	4/7/2010	\$1,527 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	\$7,635 for each day the violation occurs



Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of an order or regulation issued under the National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(c)(1)	National Kiwifruit Research, Promotion, and Consumer Information Act, codified at 7 U.S.C. 7468(c)(1)	4/7/2010	\$764-\$7,635
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	\$764 for each day the violation occurs
Violation of an order or regulation under the Popcorn Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 7487(a)	Popcorn Promotion, Research, and Consumer Information Act, codified at 7 U.S.C. 7487(a)	4/7/2010	\$1,527 for each violation
Certain violations	Egg Products Inspection Act, codified at 21 U.S.C. 1041(c)(1)(A)	4/7/2010	\$8,797 for each violation
Violation of an order or regulation issued under the Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(c)(1)(A)(i)	Hass Avocado Promotion, Research, and Information Act of 2000, codified at 7 U.S.C. 7807(c)(1)(A)(i)	4/7/2010	\$1,389-\$13,893 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	\$13,893 for each offense
Violation of certain provisions of the Livestock Mandatory Reporting Act of 1999, codified at 7 U.S.C. 1636b(a)(1)	Livestock Mandatory Reporting Act of 1999, codified a 7 U.S.C. 1636b(a)(1)	4/7/2010	\$14,372 for each violation

Penalty (Name of Penalty)	Authority (Statute)	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	\$14,372 for each violation
Failure to obey an order of the Secretary issued pursuant to the Dairy Product Mandatory Reporting program, codified at 7 U.S.C. 1637b(c)(4)(D)(iii)	Dairy Product Mandatory Reporting program, codified at 7 U.S.C. 1637b(c)(4)(D)(iii)	4/7/2010	\$13,893 for each offense
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	Country of Origin Labeling Program, 7 U.S.C. 1638b(b)(2)	4/7/2010	\$1,116 for each violation
Violations of the Dairy Research Program, codified at 7 U.S.C. 4535 and 4510(b)	Dairy Research Program, codified at 7 U.S.C. 4535 and 4510(b)	4/7/2010	\$2,393 for each violation
Violation of the imported seed provisions of the Federal Seed Act, codified at 7 U.S.C. 1596(b)	Federal Seed Act, codified at 7 U.S.C. 1596(b)	4/7/2010	\$94-\$1,875
Violation of the Animal Welfare Act, codified at 7 U.S.C. 2149(b)	Animal Welfare Act, codified at 7 U.S.C. 2149(b)	4/7/2010	\$11,162, and knowing failure to obey a cease and desist order has a civil penalty of \$1,674
Any person that causes harm to, or interferes with, an animal used for the purposes of official inspection by the Department	Civil Penalties (Department of Agriculture), 7 U.S.C. 2279e(a)	4/7/2010	\$13,893

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Penalty for a violation of the Swine Health Protection Act, codified at 7 U.S.C. 3805(a)	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	\$69,463/individual (except that the civil penalty may not exceed \$1,389 in the case of an initial violation of the PPA by an individual moving regulated articles not for monetary gain), \$347,133/any other person, \$558,078 violations adjudicated in a single proceeding if not a willful violation, \$1,116,156 violations adjudicated in a single proceeding if 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.

Penalty (Name of Penalty)	Authority (Statute)	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	\$66,666 in the case of any individual (except that the civil penalty may not exceed \$1,333 in the case of an initial violation of the AHPA by an individual moving regulated articles not for monetary gain), \$333,328 in the case of any other person for each violation, \$558,078 for all violations adjudicated in a single proceeding if the violations do not include a willful violation, \$1,116,156 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's 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	\$333,328 in the case of an individual and \$666,656 in the case of any other person.

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of the Horse Protection Act, codified at 15 U.S.C. 1825(b)(1)	Horse Protection Act, codified at 15 U.S.C. 1825(b)(1)	4/7/2010	\$5,500
Failure to obey Horse Protection Act disqualification, codified at 15 U.S.C. 1825(c)	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 (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)	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	\$50,277
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, as set forth at 16 U.S.C. 1540(a)	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)	4/7/2010	\$24,133

Penalty (Name of Penalty)	Authority (Statute)	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, as set forth at 16 U.S.C. 1540(a)	Endangered Species Act of 1973, as set forth at 16 U.S.C. 1540(a)	4/7/2010	\$1,801
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	28 Hour Law, 49 U.S.C. 80502(d)	4/7/2010	\$162-\$808
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	\$111,606
Trafficking in food coupons	Food and Nutrition Act of 2008 (Act), codified at 7 U.S.C. 2021(b)(3)(B)	4/7/2010	\$40,221-\$72,428
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	\$36,214-\$72,428

Penalty (Name of Penalty)	Authority (Statute)	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	Child Nutrition Act of 1966, as amended by Sec. 204 of the Child Nutrition Act of 1992, P.L. 1102-512., 42 U.S.C. 1786(h)(8)(H)(i)	4/7/2010	\$170,472,030
Vendor convicted of trafficking in food instruments	Child Nutrition Act of 1966, as amended by Sec. 203 (p)(1) of the William F Goodling Child Nutrition Reauthorization Act of 1998, P.L. 105-336., 42 U.S.C. 1786(o)(1)(A) and 42 U.S.C. 1786(o)(4)(B)	4/7/2010	\$14,740–\$58,958
Vendor convicted of selling firearms, ammunition, explosives, or controlled substances in exchange for food instruments	Child Nutrition Act of 1966, as amended by Sec. 203 (p)(1) of the William F Goodling Child Nutrition Reauthorization Act of 1998, P.L. 105-336., 2 U.S.C. 1786(o)(1)(B) and 42 U.S.C. 1786(o)(4)(B)	4/7/2010	\$14,740–\$58,958
Certain violations under the Egg Products Inspection Act	Egg Products Inspection Act, codified at 21 U.S.C. 1041(c)(1)(A)	4/7/2010	\$8,797 for each violation
Failure to timely file certain reports, codified at 21 U.S.C. 467d	Poultry Products Inspection Act, 21 U.S.C. 467d	4/7/2010	\$275 per day for each day the report is not filed

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Failure to timely file certain reports, codified at 21 U.S.C. 677	Federal Meat Inspection Act, 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	Egg Products Inspection Act, 21 U.S.C. 1051	4/7/2010	\$275 per day for each day the report is not filed
Willful disregard of the prohibition against the export of unprocessed timber originating from Federal lands	Forest Resources Conservation & Shortage Relief Act of 1990, as amended, 16 U.S.C. 620d(c)(1)(A)	4/7/2010	\$905,353
Violation in disregard of the Forest Resources Conservation and Shortage Relief Act or the regulations that implement such Act	Forest Resources Conservation & Shortage Relief Act of 1990, as amended, 16 U.S.C. 620d(c)(2)(A)(i)	4/7/2010	\$135,803
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	\$90,535
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	\$905,353
Violation involving protections of caves	Federal Cave Resources Protection Act of 1988; P.L. 100-691; 102 Stat. 4546, 16 U.S.C. 4307(a)(2)	4/7/2010	\$19,787
Packer or swine contractor violation	The Packers and Stockyards Act, 1921, as amended, 7 U.S.C. 193(b)	4/7/2010	\$27,500



Penalty (Name of Penalty)	Authority (Statute)	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	\$1,875
Livestock market agency or dealer failure to register	Packers and Stockyards Act of 1921, 7 U.S.C. 203	4/7/2010	\$94 each day the violation continues
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	\$1,876
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 each day the violation continues
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	\$2,393
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 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	\$11,744
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	\$11,744
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	\$192,459/individual and \$1,924,589 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	\$34,731

Penalty (Name of Penalty)	Authority (Statute)	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	\$69,463
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	\$34,731
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	\$15,270
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	\$15,270
Filing a false acreage report that exceeds tolerance	Federal Agriculture Improvement and Reform Act of 1996, Section 156, codified at 7 U.S.C. 7272(g)(5)	4/7/2010	\$15,270 for each violation

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
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	\$11,162
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	\$10,958
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	\$10,958
Violation of 7 U.S.C. 87b regarding grain inspection	Grain Standards Act, 7 U.S.C. 86c	4/7/2010	\$268,750
Violation of Act by registrant	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(1)	4/7/2010	\$8,797
Violation of Act by private applicator with delivery	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(2)	4/7/2010	\$1,759
Violation of Act by private applicator without delivery first offense	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(2)	4/7/2010	\$880

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
Violation of Act by private applicator without delivery subsequent offense	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(2)	4/7/2010	\$1,759
Improper Record Keeping, First Offense	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(2)	4/7/2010	\$905
Improper Record Keeping, Subsequent Offense	Federal Insecticide, Fungicide, and Rodenticide Act, 7 U.S.C. 136l(a)(2)	4/7/2010	\$1,759
Violation of any of the slaughter horse transportation regulations in 9 CFR part 88	Commercial Transportation of Equine for Slaughter Act, 7 U.S.C. 1901 note	4/7/2010	\$7,635
Harming or interfering with any animal used by USDA or DHS for inspections	7 U.S.C. 2279e(a)	4/7/2010	\$13,893
An initial violation of the Act or its accompanying regulations, or any forgery, counterfeiting, or unauthorized use, alteration, destruction, or defacing of any certificate, permit, or other document provided for in the Act by an individual moving regulated articles not for monetary gain	Plant Protection Act, 7 U.S.C. 7734(b)(1)	4/7/2010	\$1,389

Penalty (Name of Penalty)	Authority (Statute)	Date of Current Adjustment	Anticipated Current Penalty Level (\$ Amount)
An initial violation of the Act or its accompanying regulations (except those provisions and regulations governing veterinary accreditation), or any forgery, counterfeiting, or unauthorized use, alteration, destruction, or defacing of any certificate, permit, or other document provided for in the Act by an individual moving regulated articles not for monetary gain	Animal Health Protection Act, 7 U.S.C. 8313(b)(1)	4/7/2010	\$1,333
	Federal Trade Commission Act, 15 U.S.C. 50	4/7/2010	\$94
Failure of any person, partnership, or corporation to file any required annual or special report within the time required and to continue said failure for 30 days after notice of default	Federal Trade Commission Act, 15 U.S.C. 50	4/7/2010	\$2,393

## Grant Oversight & New Efficiency (GONE) Act

CATEGORY	2-3 YEARS	>3-5 YEARS	>5 YEARS
Number of Grants/Cooperative Agreements with Zero Dollar Balances	176	226	306
Number of Grants/Cooperative Agreements with Undisbursed Balances	255	1284	280
Total Amount of Undisbursed Balances	\$ 21,096,732	\$ 16,593,495	\$ 5,661,935

### CHALLENGES

Many of the Cooperator’s payments are processed through Federal Trading Partner (FTP) Payment Management Systems (PMS). The Cooperators do not provide timely Cash Transaction Reports, or complete drawdowns in PMS. These delays prevent the United States Department of Agriculture (USDA) from reconciling the Department’s Core Financial System, which is required before closeout can transpire. Furthermore, grantees are failing to submit the required financial report (revised Federal Financial Report, SF-425) when the grant account statements do not reconcile. Additionally, USDA has had staffing changes, due to retirements and reassignments, which result in delays to approve and review final performance reports. Priorities have been in processing new agreements which limits the amount of time the staff has to devote to agreement closeout.

### CORRECTIVE ACTIONS

Authorized Departmental Officers are working closely with Cooperators to insure that they are submitting reports in a timely manner and completing drawdowns. The Department has begun using Interns and Contractors to assist in the closeout process of agreements. Agency Awards Management Divisions (AMD) are notifying and working closely with Program Division Directors on attempts to obtain approvals to closeout agreements. In one USDA agency, if a grantee fails to provide a revised SF-425 within 160 days after the award end date, at the request of the AMD specialist, the awards will be administratively closed according to closeout policies and procedures. Another agency recognizes that closing out these agreements is a priority, and the Budget and Financial Management community is working with the grants and agreements specialists to obtain regular status updates on the efforts being made to close out grants and cooperative agreements.

# Abbreviations & Acronyms

## A

AARC—Alternative Agricultural Research and Commercialization Corporation	AGPMR—Agriculture Property Management Regulation
ACRSI—Acreage Crop Reporting Streamlining Initiative	AMS—Agricultural Marketing Service
ADA—Antideficiency Act	APEC—Access, Participation, Eligibility, and Certification
AGA—Association of Government Accountants	APHIS—Animal and Plant Health Inspection Service
AgNIC—Agriculture Network Information Collaborative	APR—Annual Performance Report
AIP—Approved Insurance Providers	AQI—Agricultural Quarantine Inspection
AR—Administrative Review	AR—Administrative Review
AFR—Agency Financial Report	ARS—Agricultural Research Service
	ASOC—Agriculture Security Operations Center
	AU—Audit

## B

BARC—Beltsville Agricultural Research Center	BPM—Business Portfolio Manual
BDO—Barter Delivery Obligation	BPR—Business Process Reengineering
BOC—Budget Object Classification	BSF—Budget Status of Funds

## C

C&A—Certification and Accreditation	CDM—Continuous Diagnostics and Monitoring
CACFP—Child and Adult Care Food Program	CED—County Executive Director
CAIVRS—Credit Alert Interactive Voice Response System	CEP—Community Eligibility Provision
CAP—Corrective Action Plan	CFR—Code of Federal Regulations
CAP—Cross Agency Priority	CIM—Capital Improvement and Maintenance
CBO—Certificates of Beneficial Ownership	CIO—Chief Information Officer
CCC—Commodity Credit Corporation	CIP—Continuous Improvement Plan
CCE—Commodity Certificate Exchange	CN—Child Nutrition
CDC—Centers for Disease and Control Prevention	CNPP—Center for Nutrition Policy and Promotion
	CoC—Cushion of Credit



COF—County Office  
 COF—County Operated Facility  
 COOP—Continuity of Operations  
 CORE—Core Accounting System  
 COTS—Commercial Off the Shelf

CRM—Certified Reference Material  
 CRP—Conservation Reserve Program  
 CTA—Conservation Technical Assistance  
 CY—Current Year

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**D**

DATA—Digital Accountability and  
 Transparency Act of 2014  
 DC—Disallowed Costs  
 DHS—U.S. Department of Homeland Security

DM—Departmental Manager  
 DM&R—Deferred Maintenance & Repairs  
 DNP—Do Not Pay

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**E**

E&T—Employment and Training  
 ECP—Emergency Conservation Program  
 EECLP—Energy Efficiency and Conservation  
 Loan Program  
 EEI—Energy Efficiency Improvement  
 EEO—Equal Employment Opportunity  
 EFG—ezFedGrants  
 eFMS—Electronic Funds Management System  
 EFRP—Emergency Forest Restoration  
 ELC—Entity Level Control

EP—Electric Program  
 EPA—Environmental Protection Agency  
 EPD—Easement Programs Division  
 EQIP—Environmental Quality Incentives  
 Program  
 ERM—Enterprise Risk Management  
 ERP—Enterprise Resource Planning  
 ERS—Economic Research Service  
 EWPP—Emergency Watershed Protection  
 Program

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**F**

FAPIS—Federal Awardee Performance and  
 Integrity Information System  
 FAS—Foreign Agricultural Service  
 FBWT—Fund Balance with Treasury  
 FCIC—Federal Crop Insurance Corporation  
 FDA—Food and Drug Administration  
 FDCH—Family Day Care Homes  
 FEB—Federal Executive Board  
 FECA—Federal Employee Compensation Act  
 FFAS—Farm and Foreign Agricultural Services  
 FFATA—Federal Funding Accountability and  
 Transparency Act  
 FFB—Federal Financing Bank

FFMIA—Federal Financial Management  
 Improvement Act  
 FFMS—Federal Financial Management System  
 FISMA—Federal Information Security  
 Management Act  
 FM—Financial Management  
 FMD—Financial Management Division  
 FMFIA—Federal Managers’ Financial  
 Integrity Act  
 FMMI—Financial Management  
 Modernization Initiative  
 FMS—Financial Management Services  
 FNS—Food and Nutrition Service

FS—Forest Service	FSRIP— Farm Security and Rural Investment Act Programs
FSA—Farm Service Agency	FSRS—Federal Funding Accountability and Transparency Act sub award Reporting System
FSDW—Financial Statement Data Warehouse	FSSP—Federal Shared Service Provider
FSFL—Farm and Sugar Storage Facilities	FTBU—Funds To Be Put to Better Use
FSH—Forest Service Handbook	FY—Fiscal Year
FSIS—Food Safety and Inspection Service	
FNCS—Food, Nutrition and Consumer Services	
FSM—Forest Service Manual	

**G**

G&A—Grants and Agreements	GP—General Provision
GAO—Government Accountability Office	GPRA—Government Performance and Results Act of 1993
GIPSA—Grain Inspection, Packers and Stockyards Administration	GRC—Governance Risk and Compliance
GMS—Global Market Strategy	GSA—General Services Administration
GONE—Grant Oversight and New Efficiency Act	

**H**

HANA—High Performance Analytic Appliance	HSPD—Homeland Security Presidential Directive
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**I**

IAS—Integrated Acquisition System	IPERIA—Improper Payments Elimination and Recovery Improvement Act of 2012
IDD—Interface Design Document	IPIA—Improper Payments Information Act of 2002
IPERA—Improper Payments Elimination and Recovery Act of 2010	IT—Information Technology

**L**

L&WCF—Land and Water Conservation Fund	LIV—Livestock Indemnity Program
LDP—Loan Deficiency Payment	LFP—Livestock Forage Disaster Program
LEIE—List of Excluded Individuals/Entities	

**M**

MDD—Management Decision Date	MOU—Memorandum of Understanding
MFH—Multi-Family Housing	MRP—Marketing and Regulatory Programs
ME—Management Evaluation	MWRO—Midwest Regional Office

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**N**

NAD—National Appeals Division	NIFA—National Institute of Food and Agriculture
NAL—National Agricultural Library	NRCS—Natural Resources Conservation Service
NAP—Noninsured Assistance Program	NRE—Natural Resources and Environment
NAP—Noninsured Crop Disaster Assistance Program	NRHP—National Register of Historic Places
NASS—National Agricultural Statistics Service	NSLP—National School Lunch Program
NFC—National Finance Center	NTE—Not-to-Exceed
NFS—National Forest System	

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**O**

OAO—Office of Advocacy and Outreach	OGC— Office of the General Counsel
OCFO—Office of the Chief Financial Officer	OHSEC—Office of Homeland Security and Emergency Coordination
OCIO—Office of the Chief Information Officer	OIG—Office of Inspector General
ODJFS—Ohio Department of Job and Family Services	OMB—Office of Management and Budget
OFIT—Office of Financial Innovation and Transformation	OPPM—Office of Procurement and Property Management

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**P**

PAR—Performance and Accountability Report	PP&E—Property, Plant, and Equipment
PHA—Priority Heritage Assets	PTIGs—Process Technology Improvement Grants
PIV—Personal Identity Verification	PY—Previous Year
POA&Ms—Plan of Action Milestones	

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**Q**

QC—Quality Control

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**R**

RAP—Rental Assistance Program	REE—Research, Education, and Economics
RBS—Rural Business and Cooperative Service	RHIF—Rural Housing Insurance Fund
RC&D—Resource Conservation and Development	RHS—Rural Housing Service
RCO—Regional Compliance Office	RMA—Risk Management Agency
RD—Rural Development	RME—Risk Management Education
REAP—Rural Energy for America Program	RUS—Rural Utilities Service

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**S**

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SA—State Agency	SNAP—Supplemental Nutrition Assistance Program
SAM—System for Award Management	SOP—Standard Operating Procedure
SAP—Systems, Applications, and Products	SPA—Special Program Area
SBP—School Breakfast Program	STARS—Store Tracking and Redemption System
SBR—Statement of Budgetary Resources	STO—State Office
SDA—Socially Disadvantaged Farmers	SURE—Supplemental Revenue Assistance Payments
SFA—School Food Authority	
SFFAS—Statement of Federal Financial Accounting Standards	

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**T**

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TARGET—Technology Accessible Resources Give Employment	TDD—Telecommunication Device for the Deaf
TB—Technical Bulletin	TFAA—Trade and Agricultural Affairs
	TPMC—Tucson Plant Materials Center

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**U**

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UDOs—Undelivered Orders	USSGL—U.S. Standard General Ledger
USAID—U.S. Agency for International Development	USSM—Unified Shared Services Management
USDA—U.S. Department of Agriculture	UTN—Universal Telecommunications Network

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**W**

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WEP—Water and Environmental Program	WIC—Special Supplemental Program for Women, Infants, and Children
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